Financial Stability Report

First Half 2015

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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Preface

Section 3° of the Central Bank charter 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, April 13, 2015

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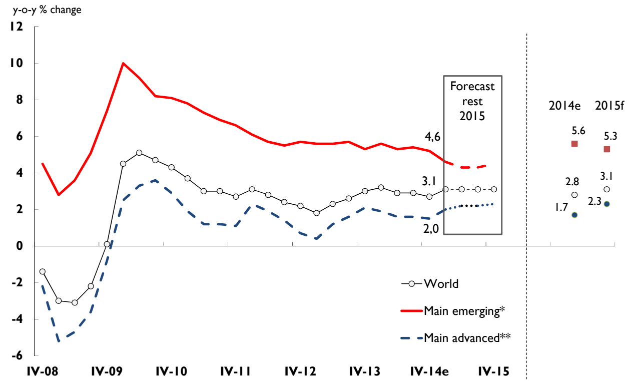
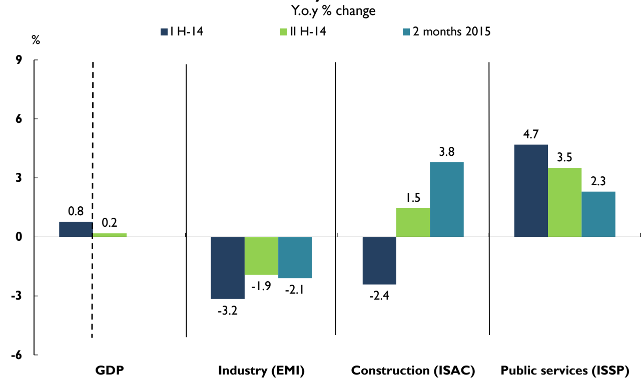
Central Bank Outlook

Chart 1
Global Economic Growth



*Brazil, Russia, India and China **USA, Japan, Germany, France, Italy, UK and Canada
Source: FocusEconomics
e: Estimated f: forecast

Chart 2
Activity Indicators
Y.o.y % change



Source: INDEC

In recent months, the global economy continued facing structural weaknesses that limited the reactivation of aggregate demand and, consequently, of growth as well. In the second half of 2014, the world economic activity and international trading transactions continued to be on the rise, even though at an expansion pace below that observed before 2008. Despite a sizable level of heterogeneity, the activity rate of the leading developed economies rebounded slightly, while developing economies have shown a lower momentum giving rise to a broad diversity in terms of the monetary, financial, fiscal and exchange rate policies being implemented —in the latter case, with significant depreciations in their currencies. Added to this, there were also increasing tensions in some specific countries (such as Greece, Russia, Ukraine and Turkey), as well as a higher financial volatility related to the impact of the drop of international commodity prices (mainly, crude oil) and the increasing expectations of higher interest rates in the United States, the counterpart of which is a widespread appreciation of the US dollar.

As a result, growth forecasts for 2015 were revised downward for both developed and emerging economies. Thus, the world economy would expand 3.1% this year, standing slightly above the pace seen in 2014. The timing and dimension of the contractionary bias to be adopted by the US monetary policy relative to other advanced economies will continue to be a key issue during the rest of the current year. In the same sense, the volatility of commodity prices, the sources of tension in several countries and the evolution of emerging countries' indebtedness in the capital markets (see Box 1) will be some of the main factors to be monitored closely, given their implications for the conditions of aggregate financial stability and their potential impact on the momentum of global economic activity.

Within this still uncertain international context, the expansion pace of the economic activity at domestic level went down in year-on-year (y.o.y.) terms in the second half of 2014, as a result of which GDP expanded 0.5% on average in 2014 against the figure recorded in 2013. This evolution was mainly due to both the weakness of external demand —especially from Brazil— and the lower domestic spending. The industrial activity was hardest hit by this context, even though the contraction was offset by an increase in agricultural production and the financial sector. The remaining segments related to service provision continued to be on the rise, even though with some deceleration on the margin. These trends would have continued in early 2015.

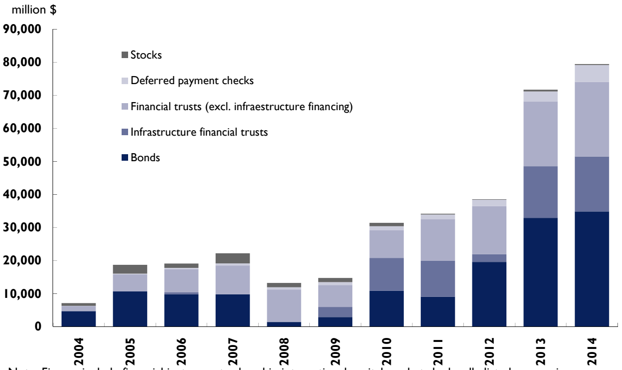
The rate of increase of the different domestic price indexes moderated throughout the second half of 2014 and in early 2015. A reduced pace of increase in the prices of the households' consumption basket should be especially underlined; this trend was favored by the price agreements promoted by the National Government, the lower prices of international commodities, the reduced exchange rate volatility and the credit stimulus measures implemented by the BCRA with a view to widening the supply of goods & services, in a context of a more moderate growth of the economic activity. It is worth mentioning that the lower exchange rate volatility was the result of a coordinated management of financial policy instruments which allowed for fending off negative expectations so as to close the year with a stabilized financial outlook. Even more, last July, the Argentine Central Bank signed a new swap agreement for domestic currencies with the Central Bank of the People's Republic of China for an amount equivalent to US$11 billion and for a 3-year term, with a view to improving the financial conditions required to promote economic development and trade.

Generally speaking, in 2014, the prices of the Argentine financial instruments showed a positive performance, despite the changing behavior observed throughout the year, resulting from both domestic and international factors, which include, for example, the litigation against the holdouts in the New York courts that still continues. The favorable evolution persisted in early 2015. Financing through capital markets has also been on the rise in 2014 (see Boxes 2 and 3).

The intermediation activity of the ensemble of financial entities operating in the domestic market continued to grow in nominal terms in recent months, even though at a more moderate pace if compared to previous years. Total bank loans to companies and households recorded a nominal increase of 20.2% y.o.y. by the end of 2014, mainly boosted by credit lines in pesos. It should be noted that at year-end closing, within the framework of the official measures implemented to foster financing under more favorable terms, banks' intermediation activity resumed part of its momentum.

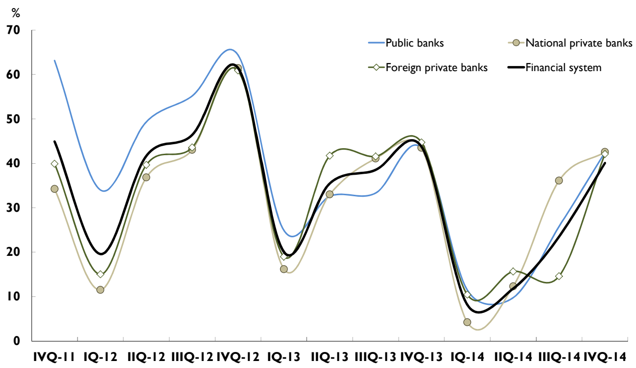
Loans provided to companies showed a nominal rise of 18.8% y.o.y. in 2014, while bank loans to families went up 22.2% y.o.y in the same period. In particular, in the last quarter of 2014, the growth pace of credit

Chart 3
Private Sector Financing through Capital Markets Instruments



Note: Figures include financial instruments placed in international capital markets by locally listed companies.
Source: BCRA based on CNV and BCBA.

Chart 4
Credit in Pesos to Private Sector by Group of Financial Institutions
Quarterly annualized variation (%)

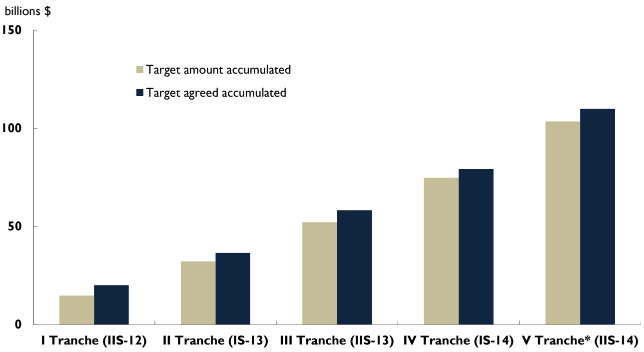


Source: BCRA

Chart 5

Line of Credit for Productive Investment

Target amount and agreed accumulated

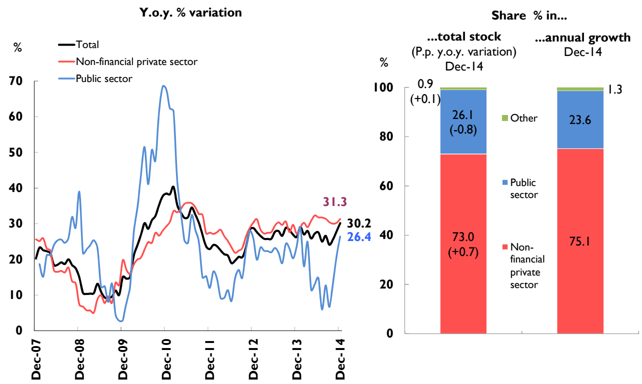


* The figures for the Section V are provisional. Latest information available.
Source: BCRA

Chart 6

Total Deposits of Financial System

Includes deposits in pesos and foreign currency



Source: BCRA

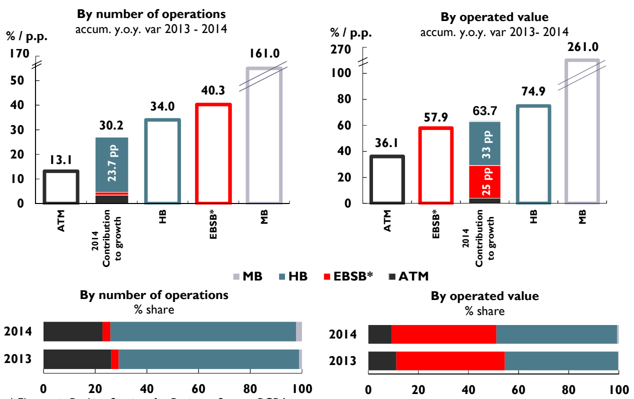
lines to households accelerated, mainly as a result of the implementation of several governmental policies, such as the regulation of interest rates for personal and pledged-backed loans to natural persons, as well as the Plan for the Purchase of National Vehicles (PRO.CRE.AUTO) and the AHORA 12 Program (a plan to facilitate the purchase of goods and services with credit card in 12 installments with 0% interest rate).

The Central Bank of Argentina continues promoting the granting of loans by banks for productive purposes, mainly through the Credit Line for Productive Investment (LCIP). With the help of this tool, from its launch in the second half of 2012 to late 2014, loans were granted for a gross amount of over $110 billion, thus exceeding the target amounts set for the first five tranches as a whole. Given the good performance exhibited by LCIP –in terms of providing medium and long-term financing for productive purposes, especially to companies facing more difficulties to access credits, such as the micro, small and medium-sized enterprises (MiPyMEs)—, by the end of 2014, the BCRA implemented a new tranche, covering the first half of 2015 (see Box 4). In this new stage, the total amount to be allocated would stand at around $37.4 billion, up 34% against the figure established for the second half of 2014. The benchmark interest rate goes down to 19% (down 0.5 p.p. against the effective rate of the second half of 2014), and it is fixed at least during the first three years. Unlike previous tranches, a special mechanism has been introduced in this stage to prioritize financing to smaller companies (in terms of relative size) among MiPyMEs and to promote credit regionalization, favoring the availability of financial resources in the regions with the least economic development.

Total deposits from the private sector went up 31.3% y.o.y by the end of 2014, up more than 4 p.p. against the nominal change recorded in 2013. As a result, along the year, these deposits continued to be the most relevant source of resources of the ensemble of financial entities, accounting for 55.2% of total funding (liabilities plus net worth) in December 2014, slightly above the value recorded one year ago. The positive performance of private sector deposits along the year was mainly due to a series of measures driven by the BCRA to foster the use of bank saving instruments. Specially, in October 2014, the BCRA established a minimum value for the interest rates paid on time deposits corresponding to natural persons, provided total deposits by each natural person with the banking institution do not exceed the coverage by the deposit guarantee scheme, which went up from $120,000 to

Chart 7

Instant Transfers by Channel

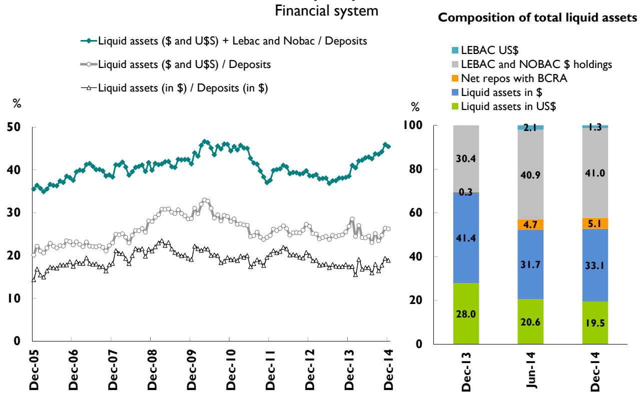


* Electronic Banking Services for Business. Source: BCRA

Chart 8

Liquidity

Financial system



Source: BCRA

$350,000 per holder. In addition, in early 2015, the maximum margin to be received by financial entities underwriting LEBACs in dollars was adjusted, with a view to encourage banks to seek deposits with this same denomination.

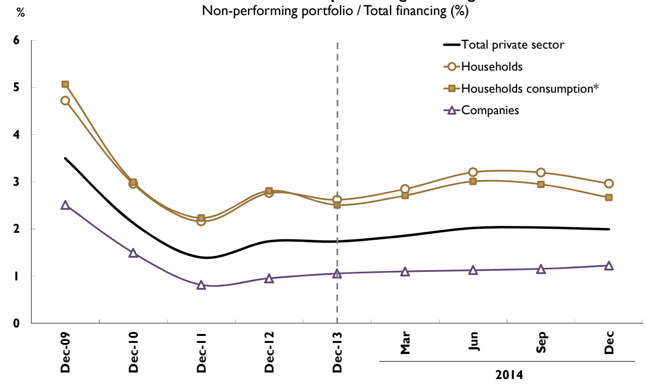
In order to boost the use of alternative payment methods to cash, the BCRA has recently increased the daily limit of electronic transfers at no cost to $50,000 and extended their free-of-charge nature to transfers made through bank cashiers (with the same maximum amount). In addition, transfers in dollars were included in the same cost scheme.

During the second half of 2014 and in early 2015, the financial system showed an improvement in the map of risks inherent in its activity. Within a framework of consolidation of solvency indicators, relatively favorable changes were observed in terms of credit liquidity and foreign currency mismatch risks. Thus, despite a context characterized by a reduced momentum in the economic activity, the position of the financial system in terms of credit risk did not experience significant changes in the second half of 2014. In this period, the gross exposure of the ensemble of entities to the private sector showed a slight reduction and the portfolio delinquency rate remained stable, standing at low levels. In addition, non-performing loans in the aggregate balance sheet of banks have been more than covered by accounting loan loss provisions. It is worth mentioning that both companies and households have recorded moderate indebtedness levels with a limited financial burden, which has contributed to a low materialization of credit risk along the year.

When the liquidity risk is analyzed from a systemic perspective, it is evident that coverage indicators of the group of financial entities increased throughout 2014 on the basis of higher holdings of LEBACs, in a context where there were few changes in exposure ratios. On the one hand, in 2014, the weight of short-term liabilities went down in total aggregate funding and, on the other, the concentration of deposits did not change significantly. In January 2015, the BCRA introduced, among the technical ratios for larger banks, the Liquidity Coverage Ratio (LCR), thus fulfilling the commitments undertaken as a G20 member (see Box 5). These banks will need to have a certain amount of top quality and freely available assets in order to be able to face short-term shocks. Regarding the effective application of this measure, a gradual fulfillment scheme until 2019 has been established.

Chart 9

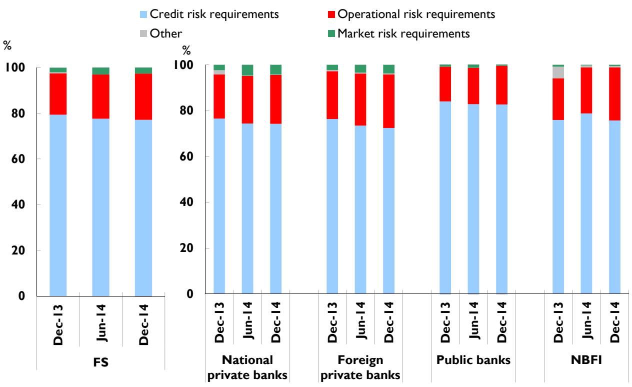
Private Sector Non-performing Financing
Non-performing portfolio / Total financing (%)



*Note: includes personal and credit cards.
Source: BCRA

Chart 10

Capital Requirements by Group of Banks
Share in regulatory requirements



Note: Requierements are ajusted by exemptions and the efects of the Com. "A" 5396. Source: BCRA

During 2014 —mainly in the first months of the year—, the exposure to foreign currency risk by the ensemble of banks went down significantly. This resulted from the measures implemented by the BCRA to lessen the entities' currency mismatch, following a macroprudential supervision approach. In addition, on the basis of the comprehensive surveillance measures adopted in the last quarter of the year and of the improvements in the performance of time deposits for small savers, there was a remarkable drop in exchange rate volatility, thus contributing to maintaining a limited currency risk for the sector.

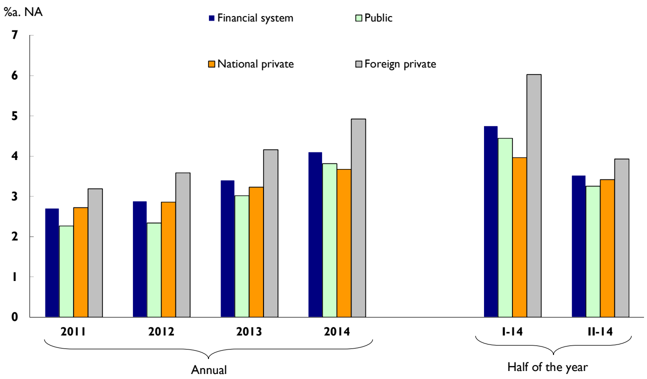
In 2014, the amount corresponding to operational risk events reported by financial entities went up. This increase was mainly attributed to business lines associated to the execution, management and completion of processes and to external fraud. Along the year, the minimum capital requirement for operational risk gained relevance among capital requirements. The gradual fulfillment schedule established for this regulatory obligation is fully effective since March 2015.

The risk that market fluctuations may have on banks' balance sheets continued to be little relevant within the stock of risks of this sector. The exposure to such risk continued to be low, with mark-to-market sovereign bonds and LEBACs accounting for only 6.8% of the banks netted assets by the end of 2014. As from this reduced levels, the regulatory requirement for market risk went up in 2014 for financial institutions, mainly due to the increase of the value at risk of domestic bonds in pesos with a shorter relative term.

Starting from moderate levels, in the second half of last year, the exposure to interest rate risk assumed by banks went up. The duration of the portfolio of assets net of liabilities in domestic currency of the banking book went up since mid-2014 mainly due to the higher sensitivity of the portfolio of assets vis-à-vis changes in the interest rates. Since 2013, the approach to the interest rate risk faced by entities is part of the supervisory review and evaluation process (Pillar II) at domestic level.

Throughout 2014, the financial system continued to show high solvency levels. This sector's leverage went down along the year, standing below the values seen in other economies of the region and also in developed economies. The regulatory capital compliance stood at 14.7% of total risk-weighted assets in December, above the level recorded in the same month of 2013, mainly due to the profits accrued during the period. The ensemble of financial entities has shown an excess

Chart 11
Profitability by Group of Banks
As % of netted assets



Source: BCRA

capital compliance equivalent to 90% of the total regulatory requirement —capital position— by the end of 2014.

In line with the decisions adopted by the G20 leaders and with the commitments undertaken within the Basel Committee on Banking Supervision (BCBS), a redesign of the banking regulatory framework continued to be boosted in 2014 at domestic level, seeking to strengthen the financial system. Adopting a macroprudential perspective, an additional capital requirement was established for a set of banks considered domestic systemically important banks (D-SIBs), defined according to a criterion that includes factors proposed by the BCBS, as well as factors inherent in our economy (see Box 5).

In 2014, the BCRA made progress in the design of a new solvency requirement for the entities, the standard "Leverage Ratio" established by the BCBS, the fulfillment of which has been scheduled for January 2018. It has been determined that banks must provide the BCRA with information on their capital and exposures —existing both in and off the balance sheet— on a quarterly basis as from September 2014 onwards, so as to calculate their leverage level. On the other hand, publishing requirements of this information on leverage have been established as from the first quarter of 2015.

Facing the closing of the first half of the year and the beginning of the second half, the financial system is expected to keep, in general terms, the positive balance between the set of exposures to intrinsic risks and the liquidity and solvency coverage margins, while it gradually recovers its intermediation activity levels. In particular, the performance of loans to companies and households would improve gradually within a context of lower financial volatility and economic activity rebound, as a result of the impact of the official active policies, which include those implemented by the BCRA, such as the Credit Line for Productive Investment, the limits to lending interest rates on the loans to households and the stimulus to saving in the financial system (minimum interest rates for time deposits in pesos from natural persons and re-launching of LEBACs in dollars that the institutions may underwrite as long as they receive time deposits in the same denomination). This context will be strengthened by the different initiatives driven by the BCRA and aimed at protecting the users of financial services, including the recently-approved methodology that defines technical and economic criteria to solve requests of increases in charges and commissions for financial products and services.

I. International Context

Summary

During the second half of 2014, the global economic activity and international trade transactions went up, though they continued showing expansion rates that were below the rates prevailing before the deepening of the 2008 international financial crisis. These performances suggest that global economy is facing structural weaknesses that put a ceiling to the reactivation of aggregate demand.

Heterogeneity prevailed in terms of the performance of advanced and emerging countries. While the ensemble of the main advanced economies recovered some boost –though at different levels–, the expansion pace of developing economies slowed down. The less dynamic economic evolution of leading emerging countries recorded once again a wide diversity in terms of monetary, exchange, financial and fiscal policies. Developing countries' currencies depreciated remarkably, a trend usually associated with higher inflationary pressures. The tensions in specific countries, such as Greece, Russia, Ukraine and Turkey added up to this already complex outlook.

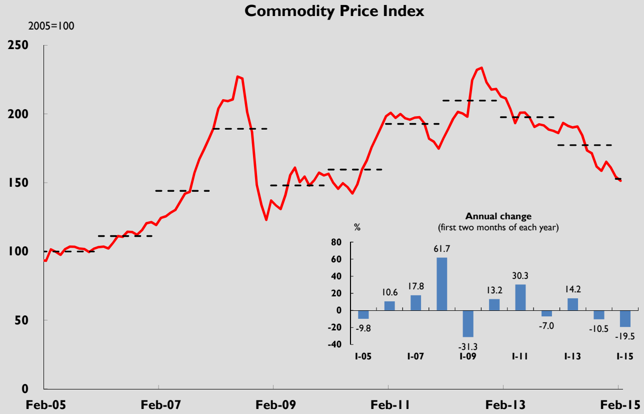
These developments continued in early 2015 within a context of higher financial volatility due to the impact of the fall of commodity international prices (especially oil) and expectations of higher real interest rates in the United States, which related to the widespread appreciation of the dollar.

Consequently, the current international context is covered by a halo of uncertainty due to expectations about less-expansionary monetary policies in the United States, and excessively loose conditions in the euro zone and in Japan. Growth forecasts for 2015 were revised downwards for both the main advanced and emerging economies. Anyway, the global economy will expand 3.1% this year, slightly above the pace of 2014.

Financial markets closed 2014 with dissimilar results (more favorable among advanced countries and with a negative bias among emerging economies) while the expected volatility tended to go up in recent months. This volatile environment extended until early 2015, but as from February, improvements were noticeable. Consequently, during the first quarter, the result was largely positive, though there were some exceptions. In turn, emerging currencies continued depreciating against the US dollar.

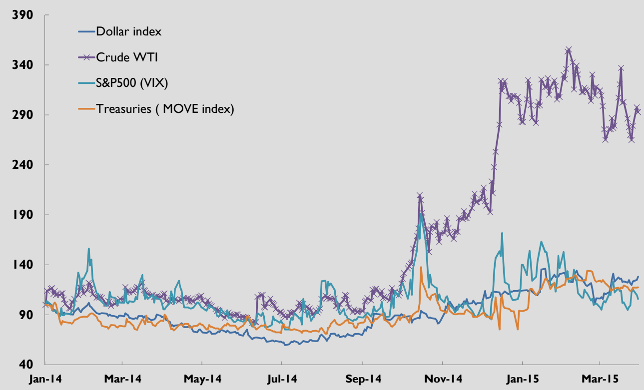
Forward-looking, attention will continue to be focused on the opportunity and dimension of the contractionary bias adopted by the US monetary policy against other advanced economies, due to the implications on the financial markets' volatility and on the momentum of global economic activity. Meanwhile, the evolution of public and private indebtedness –especially foreign obligations of emerging countries' private companies– and of asset prices will continue being monitored. Finally, the moderation of large economies' activity pace, the volatility of commodity prices and political-sourced tensions in several countries are considered potential uncertainty factors at a global level.

Chart I.1
Commodity Price Index



Source: BCRA

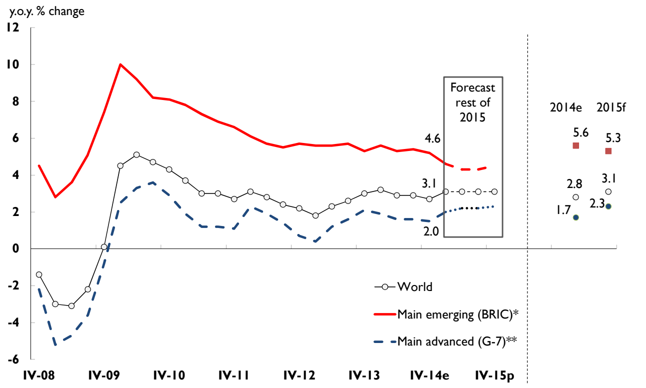
Chart I.2
Expected Volatilities by Asset



Source: Bloomberg

Chart I.3

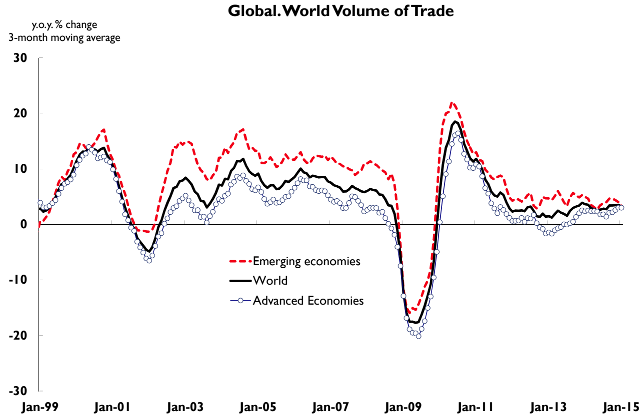
Global Economic Growth



*Brazil, Russia, India and China **USA, Japan, Germany, France, Italy, UK and Canada
Source: FocusEconomics
e: Estimated f: Forecasted

Chart I.4

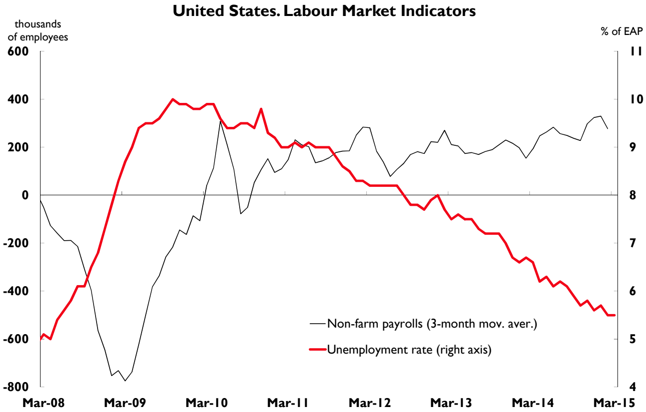
Global. World Volume of Trade



Source: Netherlands Bureau for Economic Policy Analysis

Chart I.5

United States. Labour Market Indicators



Source: Bloomberg

International Context

Global activity is still experiencing a slow growth pace. Additionally, from mid 2014, the evolution of advanced and emerging economies recorded a stronger contrast. In this sense, developed countries gained momentum, though with a marked internal heterogeneity within this group of countries, since the United States opted for some measures while Europe and Japan opted for others. In turn, developing countries exhibited a significant deceleration of their expansion pace, in part affected by a weak foreign demand (see Chart I.3).

International trade volumes evolved in line with the global economic activity (see Chart I.4), with a historically low –though stable– performance that also mirrors a higher trade activity by advanced countries, and lower activity by developing countries.

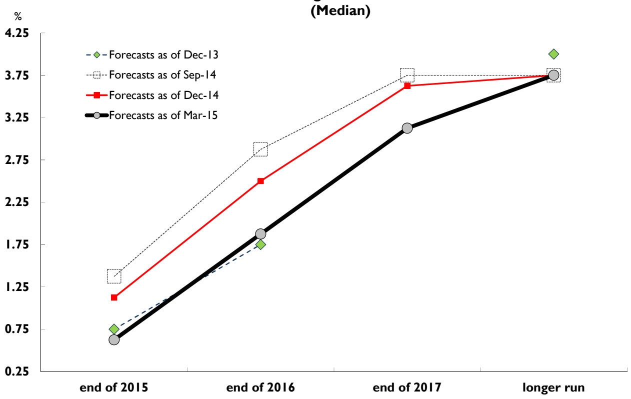
The ensemble of developed countries would have recorded an economic activity rise of 2.0% in the first quarter of the year, thus proving some improvement. Considering the forecast for the remaining months of 2015, this group of countries is expected to grow 2.3% along the year, up 0.6 percentage points (p.p.) against the 2014 expansion.

In the United States, the economic activity has consolidated its growth pace and the labor market has also recorded relevant improvements towards its normalization (see Chart I.5). Aggregate demand was one of the main reasons behind the investment and consumption growth (in a context of sizable improvements in households' net-worth, access to bank loans and a sound creation of jobs). Within this context where, in addition, inflation is contained, in October 2014, the Federal Reserve (FED) concluded its asset purchase program and started to show signs regarding its will to begin a cycle of increases in the short-term interest rates in 2015, a cycle that would unilaterally condition the evolution of emerging economies. Even though the forecasts of the members of the FED's Federal Open Market Committee (FOMC) as regards the levels of the interest rates in 2015 and subsequent years have been raised gradually, during the last meeting (in March 2015), forecasts were markedly revised downwards (see Chart I.6). Likewise, in the financial markets, the expectations about the gradual increase of the Fed Funds rates evidenced an oscillating performance in 2014 and the first months of the current year.

In the Euro Zone, the weak economic performance inhibited a significant improvement in a still deteriorated

Chart I.6

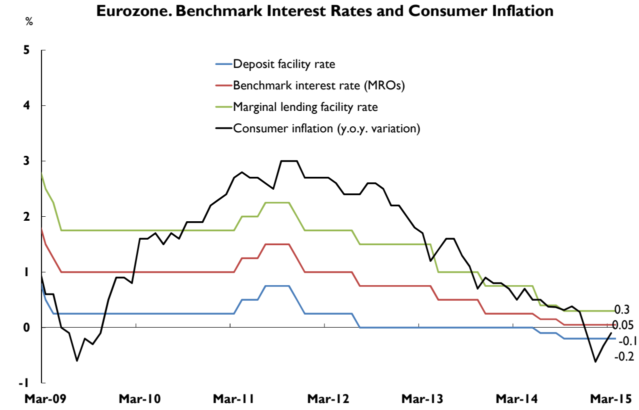
Fed Funds Target - FOMC Forecasts (Median)



Source: Federal Reserve

Chart I.7

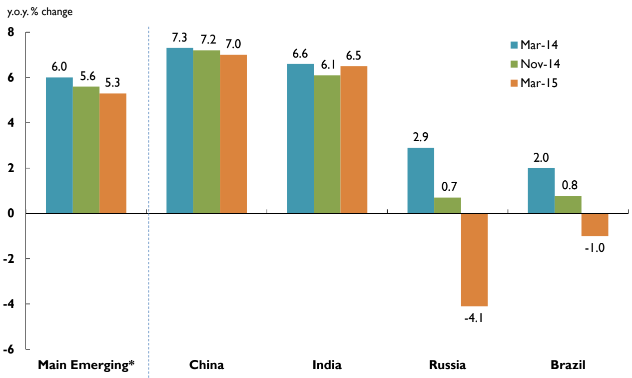
Eurozone. Benchmark Interest Rates and Consumer Inflation



Source: European Central Bank

Chart I.8

Main Emerging Countries. Evolution of 2015 Growth Forecasts



Source: FocusEconomics and Central Bank of Brazil

*BRIC

labor market while deflationary pressures gained ground —also affected by the sudden drop in the international price of oil— in spite of the depreciation of the currency (see Chart I.7). Within this framework, the authorities of the European Central Bank (ECB), after taking the benchmark interest rate to historically minimum levels, continued adopting extraordinary monetary and financial stimulus measures. In June, the monetary authority announced actions addressed to widen liquidity in the financial system (private assets purchase programs) and to revitalize directly bank loans (the implementation of special long-term liquidity lines associated to the expansion of the net financing to the private sector). The last months of 2014 were characterized by a rise of expectations regarding a deepening of the ECB's accommodating monetary policy through an extended program of asset purchases, with the acquisition of sovereign bonds. Finally, this decision was announced in January to become effective in the first weeks of March. This led to policy responses in other economies of the region[1].

In turn, in Japan, the stagnation of the economic activity —impacted by the increase of taxes on consumption— and the deflationary pressures led the Central Bank to deepen once again its non-conventional expansionary monetary measures (in line with the stipulated increases of the monetary base) and to postpone the second tranche of increases of taxes on consumption so as to prevent an adverse effect on the economic growth.

The ensemble of the main emerging economies would have grown around 4.6% in the first quarter of the year and, after successive downward revisions, an expansion of 5.3% is expected for 2015, down 0.3 p.p. against the change of 2014 (see Chart I.8). Despite a widespread moderation —with a remarkable expansion in India—, heterogeneity prevailed in the performances and economic policy responses among developing countries. This already complex situation was also accompanied by some crises or political tensions, such as those observed in Greece, Russia, Ukraine and Turkey.

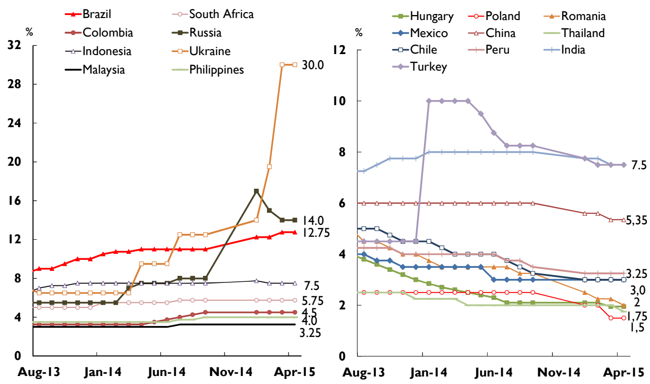
Within a context of a widespread appreciation of the US dollar, the emerging economies that are more dependent on foreign capital flows kept their benchmark interest rates above the levels of the previous year. The purpose of these measures was to reduce the pressures on the values of their currencies[2] and/or on domestic prices. Russia was an exception, since it slightly reduced its

[1] For instance, Switzerland abandoned the lower limit with which the Swiss franc was being traded against the euro, and reduced its monetary policy interest rates to a range between -1.25% and 0.25%. Sweden is another example because it has also established benchmark interest rates with a negative sign and launched a sovereign bond purchase program. See Box "Recent Phases of the Global Monetary Policy", Macroeconomic and Monetary Policy Report, February 2015.

[2] Recently, Mexico has expanded its intervention in the foreign exchange market after increasing its auctions of foreign currencies.

Chart I.9

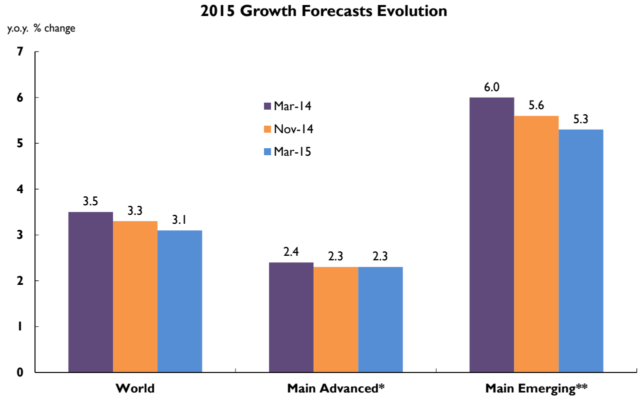
Selected Emerging Economies. Reference Interest Rate



Source: Datastream

Chart I.10

2015 Growth Forecasts Evolution

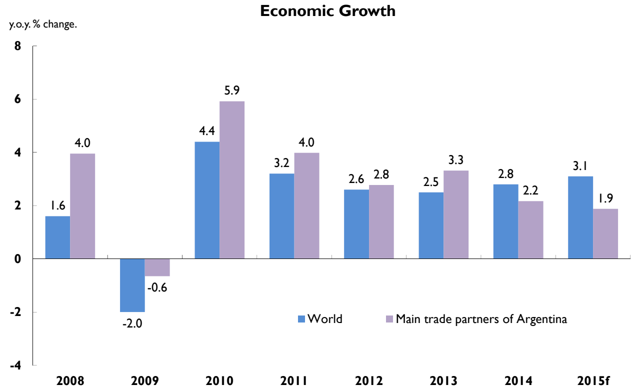


Source: FocusEconomics

*G-7 **Brazil, Russia, India and China

Chart I.11

Economic Growth



*Weighted by their share in Argentine exports, which together represent 80% of total
Source: BCRA from FocusEconomics and IMF data

f: Forecasted

benchmark interest rate after a strong rise. At the other end, we find other developing countries that implemented new cuts to the benchmark interest rates — taking advantage of the larger space generated by lesser inflationary pressures following the drop of oil price— so as to foster economic activity in their countries (see Chart I.9).

During the second half of 2014, a more volatile financial scenario became evident, which was mainly related to lower commodity prices (particularly oil[3]) and the outlook of higher real interest rates in the United States; the other side of this coin was a widespread appreciation of the dollar. A heightened uncertainty tended to prevail in early 2015 and, in this context, global growth forecasts, especially for the main emerging countries, were revised downwards once again in line with recent events. World economy would expand 3.1% during the current year, standing slightly above the 2014 change of 2.8% (see Chart I.10).

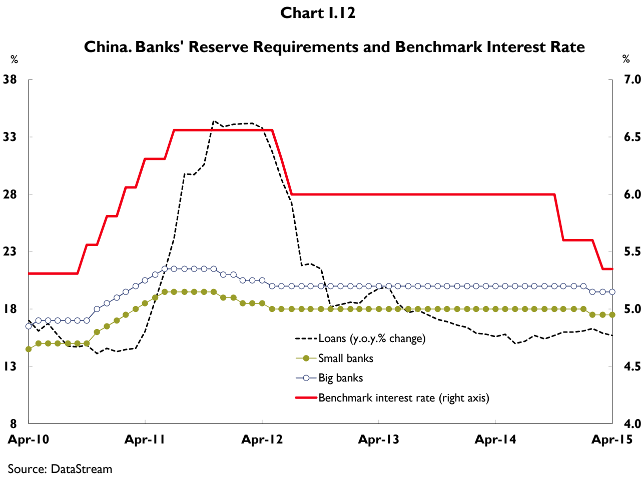
As a result, the current international context — characterized by different temporary monetary policy paths among the main developed countries— exhibits a scenario of uncertainty in terms of the global economic outlook. Thus, short-term capital flows continued focusing, basically, on advanced countries and, especially, on the United States, fostering a relative significant appreciation of the dollar, a trend that would deepen at least during the rest of 2015.

The growth rate of Argentina's main trading partners continued to stand below the global average, and especially remarkable was the moderation in the expansion pace of this ensemble of countries (see Chart I.11).

Brazil is undergoing a period of economic stagnation and deterioration of its terms of trade and, as was the case in most of the leading emerging countries, it suffered a sudden depreciation of its currency, which led to an inflation exceeding the upper target value set by the Central Bank of Brazil. As a result, the monetary authority continued increasing the benchmark interest rate. Moreover, the government announced several public finance adjustment measures. In addition to a more adverse foreign financing context, Brazil has also experienced domestic risks related to the uncertainty about both water and electricity supply.

Meanwhile, the economic growth pace of China continued to moderate more than expected and closed 2014 recording a 7.4% increase of its GDP, below the

[3] For more information see Box 1, Macroeconomic and Monetary Policy Report (IMPM) – February 2015.



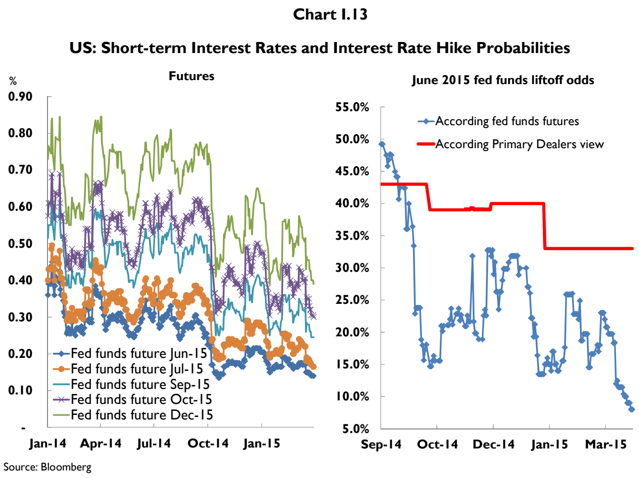
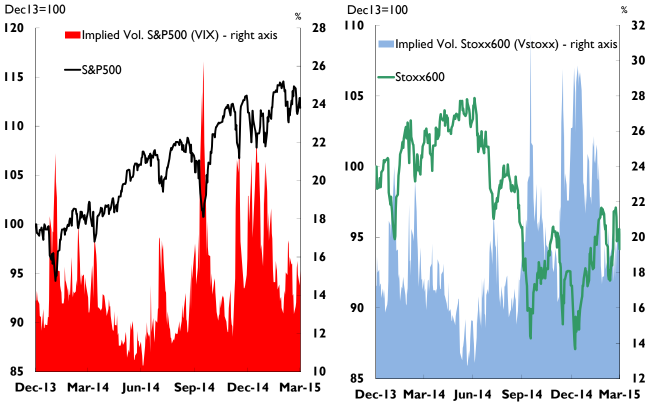


figure recorded in 2013 (7.7%). This trend would have continued during the first months of 2015, mainly affected by the measures adopted by the government —which set a economic expansion target of 7% for the current year— so as to contain the vulnerability of the financial system and promote a more efficient use of resources. The economic policy guidance to foster domestic demand has also contributed to the abovementioned context. The efforts made to contain credit contributed to eliminating pressures on the real estate market —which, in turn, impacted negatively on sub-national public finance, given the high dependence on the income deriving from the sale of land—, thus limiting an outlook of investment expansion. It is worth pointing out that, from an international perspective, the still accelerated economic growth resulted from the government measures to boost economic activity, including the reductions to the benchmark interest rate and to banks' minimum cash requirements[4] implemented in recent months (see Chart I.12).

The main reasons behind the drop in international commodity prices include (1) the abundant agricultural, energy and mining global supply; (2) the fragile performance of global economic activity, particularly in China against the forecasts of early 2014; and (3) the perspectives of a tight monetary policy by the US Federal Reserve, among other factors. These downward pressures were intensified by the movements of the speculative agents in financial markets[5]. Within this context, the Commodity Price Index (IPMP) —prepared by Argentina's Central Bank and reflecting the evolution of the international prices of the most relevant commodities for Argentine exports— continued exhibiting year-on-year drops (-19.5% y.o.y. in the first two months of 2015). Nevertheless, these prices are still high if measured in historical terms (see Chart I.1). With a view to the future, the prices of the main grains are expected to remain at levels similar to, or slightly higher than, the minimum values they recorded recently, also depending on the evolution of crops in the leading producing regions worldwide. In turn, the performance of industrial commodities will be impacted by the evolution of the economic activity in the leading purchasing economies (especially China). Besides, energy commodity prices could be affected by the geopolitical tensions in several countries (Russia, Ukraine, Syria, Palestine and Libya).

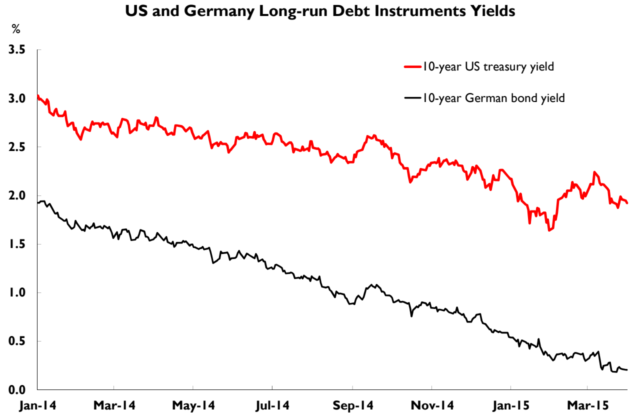
[4] Chinese authorities implemented a series of targeted fiscal and credit stimuli, including the support to public infrastructure construction and household projects, tax exemptions for SMEs, boosting of infrastructure works and modification of banks' reserve requirements to direct more loans to regional economies and the rural sector.
[5] For more details, see Macroeconomic and Monetary Policy Report (IMPM) – February 2015.

Chart I.14
US and European Stock Markets



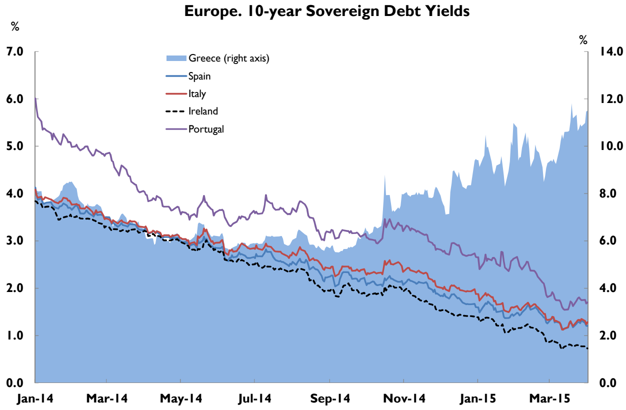
Source: Bloomberg

Chart I.15
US and Germany Long-run Debt Instruments Yields



Source: Bloomberg

Chart I.16
Europe. 10-year Sovereign Debt Yields



Source: Bloomberg

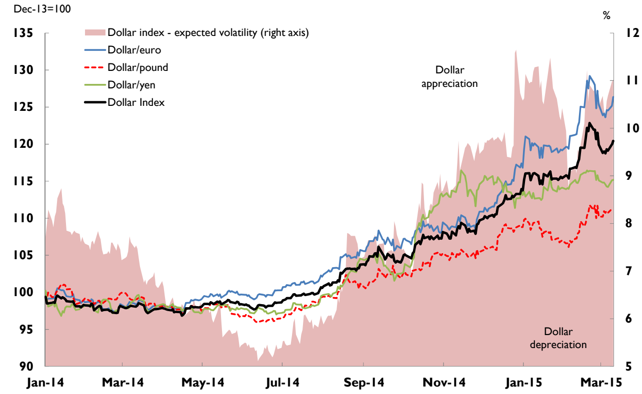
International financial markets closed 2014 with dissimilar results and an increasing expected volatility (see Chart I.2). This performance was impacted by the abovementioned factors, among which the evolution of the expectations as regards the measures of the FED (with special emphasis on short-term interest rates, see Chart I.13) and the bias in terms of the monetary policy of other developed countries stood out. Another remarkable factor was the significant drop of the price of oil (and other commodities) as from the second half of 2014. In turn, as regards emerging countries, there was an increasing concern about different sources of tension and rising doubts about the evolution of large economies, such as China. Since late 2014 and in early 2015, special attention has been paid to countries like Greece (which requested European authorities and the IMF an extension of the financial aid package) and Brazil, in the case of Latin America.

Within this framework, the stock market indexes of the main developed countries closed 2014 with positive results measured in domestic currency. In the United States, the S&P500 index accumulated an annual rise of over 11% even though, throughout the year, it experienced periods of high expected volatility and significant drops in prices, among which the situation between September-October and December-onwards stood out (see Chart I.14). On the other hand, the EuroStoxx 600 measured in euros went up over 4% in 2014, though in dollars it went down 8%. During the first quarter of 2015, the S&P500 accumulated a mild gain of 0.4%. In a context characterized by the purchase of bonds by the ECB and increasing uncertainty regarding the situation in Greece, the EuroStoxx600 recorded a more marked positive trend (16% in euros; 2.8% in dollars). The expected volatility, both in the US and Europe, stood at relatively high levels in January 2015, but it has moderated its pace as from February.

Long-term sovereign debt yield of the main advanced countries recorded remarkable drops during 2014. In this sense, the yields of US and German 10-year instruments lost 90 basis points (bp) and 140 bp, respectively, during the year (see Chart I.15). In Europe, this trend was accompanied by the yields of debt instruments of most countries of the region undergoing a more vulnerable situation (see Chart I.16), taking into account the expectations regarding the possibility of announcing a quantitative easing program by the ECB (finally announced in January 2015)[6]. During the first quarter of 2015, the yields of long-term Treasuries oscillated without a definite trend and accumulated a cut of 25 bp.

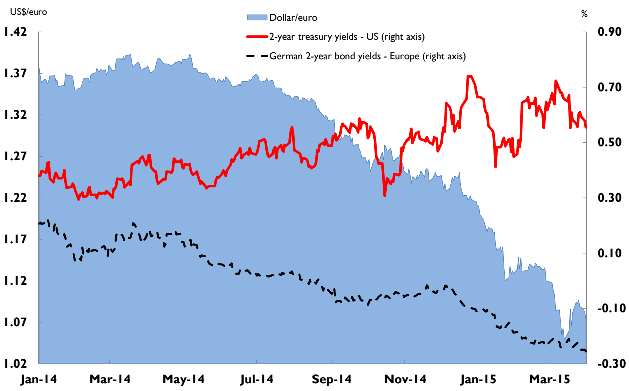
[6] The exception was Greece's debt, whose yields widened in 2014, a trend that was even more marked by early 2015.

Chart I.17
Main Currencies Evolution and Expected Volatility



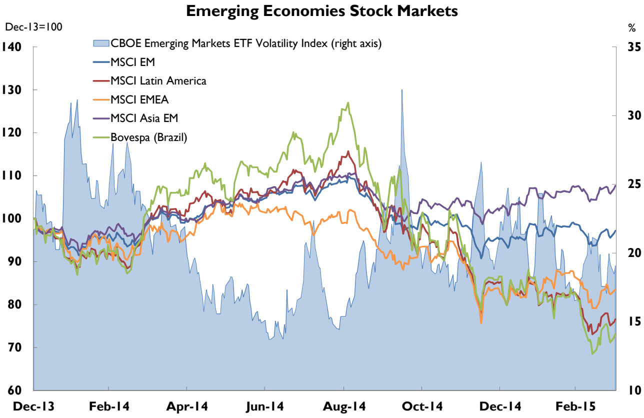
Source: Bloomberg

Chart I.18
Dollar / Euro and Short-term Interest Rate



Source: Bloomberg

Chart I.19
Emerging Economies Stock Markets



Source: Bloomberg

In turn, Germany's long-term debt yields kept a clear downward trend with cuts of over 35 bp in the quarter.

The US dollar appreciated markedly in 2014, mainly in the second half of the year, due to the divergent expectations about the monetary policy biases in the different countries (see Chart I.17). According to the dollar index, against most widely used currencies, the dollar appreciated 13% during the year[7]. In terms of specific currencies, the dollar appreciated against euro over 12% in 2014 (see Chart I.18). Meanwhile, last year, it expanded 14% and 6% against the yen and the British pound, respectively. So far in 2015, the dollar appreciated an additional 11% against the euro and was traded at USD/€1.05, a level not seen since late 2003. On the other hand, it is worth mentioning that during the first quarter of the current year, the dollar appreciated 5% against the British pound and less than 0.5% against the yen.

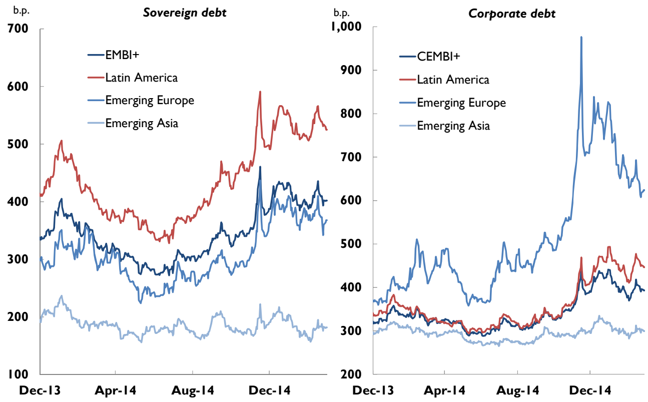
With reference to emerging economies' assets and according to the Morgan Stanley Capital International (MSCI) Emerging Markets Index, stock prices closed 2014 with a negative balance of over 4% in aggregate terms and measured in dollars. This performance, which mainly results from the depreciation of emerging currencies, was particularly related to the unfavorable performance during the last quarter of 2014 in a context of an increasing expected volatility and fall of commodity prices. In regional terms, 2014 witnessed a dissimilar evolution with contractions over 17% for EMEA[8] (a region hit by the conflicts between Russia and Ukraine), followed by Latin America (with a drop of around 15%), while stocks of emerging Asia companies managed to end with gains of 2.5%.

The negative performance of the aggregate MSCI EM reversed during the first quarter of 2015, accumulating an improvement of almost 2% while the expected volatility for the main components of the index tended to contract (see Chart I.19). So far in 2015, the sub-index for emerging Asia accumulated a rise over 5% followed by EMEA (1.3%). On the opposite front, the sub-index for Latin America records a drop of 10% in dollars within a context where the Bovespa index contracted more than 15% in dollars[9].

In terms of the bond market, in 2014 the spread among emerging sovereign debt instruments and US Treasuries widened over 50 bp (measured by EMBI+), even though

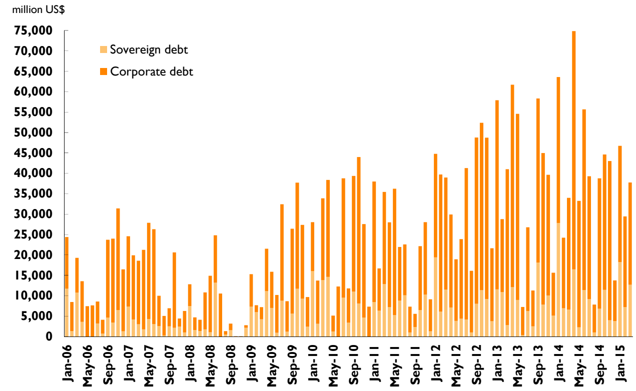
[7] Index that averages the US dollar parity exchange rate against a basket of currencies, with which the United States keeps fluent trade (Euro, British Pound, Yen, Swiss Franc, Canadian dollar and Swedish Krona).
[8] Emerging Europe, Middle East and Africa.
[9] Petrobras' shares have lost 20% in dollars so far in 2015 (after contracting over 45% in 2014).

Chart I.20
Emerging Economies. Risk Perception



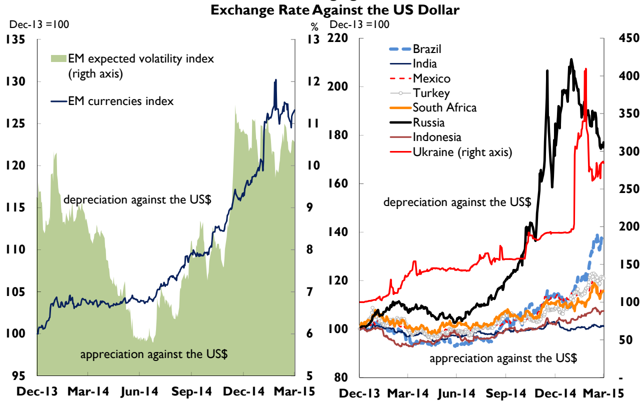
Source: Bloomberg

Chart I.21
EM Debt Issuance in International Markets



Source: BCRA based on Bloomberg.

Chart I.22
Selected Emerging Economies.
Exchange Rate Against the US Dollar



Source: Bloomberg

they still stand at historically low levels. In turn, regionally speaking, Latin America's debt spreads widened the most (around 80 bp). As regards the yield differentials of emerging corporate debt, a deterioration of over 70 bp for the aggregate was observed in 2014. The widening of over 360 bp of the emerging Europe corporate debt stood out due to the tensions between Russia and Ukraine. During the first quarter of 2015, sovereign spreads exhibited a changing performance, accumulating, in the case of EMBI+, an additional widening of 15 bp to a level of over 400 bp (see Chart I.20). In the case of emerging corporate debt, the increase of spreads in 2015 was marginal.

Within this context, in 2014, emerging economies' agents obtained gross financing through debt instruments in international markets for a record-high amount for the third consecutive year (see Chart I.21). This was due to a rise in issues for both sovereign and corporate debt instruments (see Box 1). In the case of sovereign bond transactions, EMEA continued exhibiting the highest share over the annual debt flow, followed by Latin American governments, and to a lesser extent, emerging Asia. Already in 2015, the issues of sovereign and corporate debt instruments exhibited year-on-year drops around 5-10%. The main investment banks expect a drop in both sovereign and corporate debt transactions for the remaining months of 2015, even though the gross amounts of new financing would continue to stand at historically high levels.

As regards the flows to investment funds specialized in emerging economies' assets, in 2014, net outflows (both in funds investing in equities and in fixed income) accumulated, as a result of the significant outflows at the beginning and end of the year (between April and September net inflows were recorded). During the first quarter of the current year, the flows to funds specializing in emerging assets (stocks and bonds) continued to be negative, though a pause was observed in February when inflows were observed. So far this year, the unwinding of positions was more marked for funds investing in emerging economies' equities than for funds investing in bonds.

In 2014, the drops in financial asset prices of emerging economies were accompanied by a depreciation of their currencies against the dollar, which was more marked during the second half of the year, in line with the decline of commodity prices. Emerging economies' currencies averaged a depreciation of 17% against the dollar in 2014. Regionally speaking, EMEA's currencies suffered the sharpest depreciations (over 26%) due to

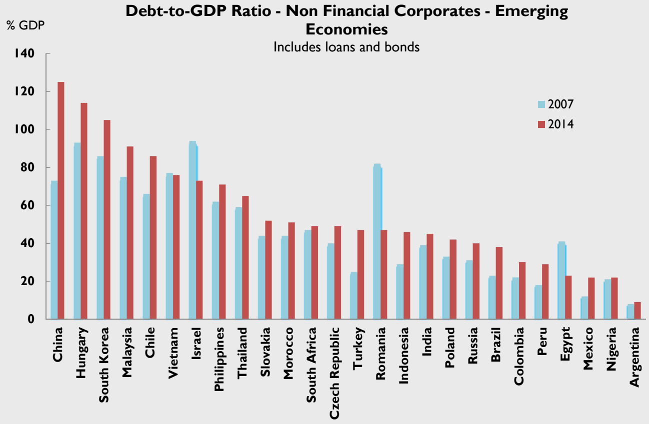
Box 1 / Corporate Debt Issues of Emerging Economies in Capital Markets and Leverage

In recent years, a higher leverage is largely observed among companies in emerging economies. Part of this phenomenon is due to a boom of debt instrument issues in international markets, taking advantage of the favorable context recorded, mainly, by virtue of the unconventional monetary policy measures implemented by developed countries' central banks. Even though, in perspective, the sustainability of debt issued by emerging countries has substantially improved in the last decades, the most recent increase in company financing in foreign currency, to a large extent in dollars, gives rise to some caution because of the risks entailed as to financial stability, taking into account factors such as the appreciation of US currency, the impact of lower prices of commodities on exporting companies and the future impact of monetary policies normalization in developed economies

Chart B.1.1

Debt-to-GDP Ratio - Non Financial Corporates - Emerging Economies

Includes loans and bonds



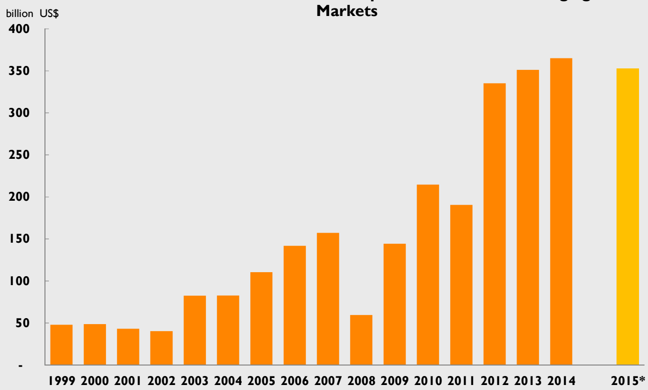
Source: BCRA based on McKinsey Global Institute.

In a context of a still relatively high economic growth pace among emerging countries, in the last years, the aggregate corporate sector of such countries has shown a trend towards a higher leverage. There was a widespread increase in the total debt (including bonds and loans) to GDP ratio for companies (see chart B.1.1), though with some exceptions, while significant differences are recorded in ratios of corporate sectors in different regions. Besides, it must be borne in mind that, in perspective, the position as regards sustainability of debt for the group of emerging countries improved markedly until the onset of the 2008-2009 financial crises, whereas the levels of leverage are still relatively low with respect to those recorded in developed economies.

The higher leverage recorded in recent years is partly explained by the momentum observed in issues of debt bonds in international markets, taking advantage of the favorable conditions after the peak of the latest global financial crisis (2008-2009). This is consistent with a context marked by the implementation of several quantitative easing programs by central banks from some developed economies, which encouraged a highly liquid scenario in global terms and historically low yields for long-term debt instruments of developed economies. In turn, with investors seeking higher returns, the debt spreads of companies from emerging economies stood at reduced levels in secondary markets.

Chart B.1.2

Gross Issuance of International Corporate Bonds from Emerging Markets



(*) Average of projections made by different investment banks.
Source: BCRA based on Bloomberg and investment banks reports.

Thus, as from 2010, new historical records were broken in the amounts of gross bond issues by companies from emerging economies in international markets. Based on data from Bloomberg[10] (and including companies of both financial and non-financial sectors), it stands out that in the last three years (2012-2014), on average, an annual amount of US$350 billion was issued in such markets (see chart B.1.2), exceeding to a large extent the average of the previous three years (under US$200 billion) and the value recorded during the three years prior to the international crisis (under US$150 billion, on average, per year). In turn, different investment banks expect that such momentum will continue in 2015, and for this year they foresee an amount of issues slightly below the value recorded in 2014[11].

[10] Data taken from Bloomberg include both issues by companies from emerging countries in international markets and transactions carried by their affiliates abroad.
[11] In the first quarter of 2015, companies from emerging economies issued almost US$ 76 billion in debt instruments in international markets, with a 6% year-on-year reduction.

In terms of the composition of these debt issues (see Table B.1.1), in 2014, more than half the annual flow corresponded to companies from Emerging Asia (which have been increasing their weight in the total, to the detriment of the share of EMEA[12] and Latin American emerging countries). As regards sectors, in 2014, transactions were led by the financial sector (representing almost 40% of the total amount, even though this weight has lost ground in recent years), followed by the oil & gas sector (accounting for 16%) and, with a lesser weight, the telecommunications and real estate sectors. It is highlighted that, in the last 5 years, more than 80% of annual amounts of corporate debt of emerging economies issued in international markets was denominated in dollars, whereas the debt in euros posted a weight around 10%. For transactions in dollars, the average term of new funding has stood within a range of 9 to 10 years. Finally, in terms of type of coupon arranged, in 2010-2014 the annual weight of fixed-rate transactions was within an 85-95% range of issued amounts (85% in 2014).

Table B.1.1

Issuance of EM Corporate Bonds in International Markets

Characteristics of the Gross Flow of Debt Issuance per Year

	2010	2011	2012	2013	2014
Regional breakdown - issuers (%)	*100*	*100*	*100*	*100*	*100*
EM Asia	36	36	41	42	53
EMEA	32	32	34	32	21
Latin America	32	32	25	26	26
Sector breakdown (%)	*100*	*100*	*100*	*100*	*100*
Finance	50	45	46	32	39
Oil & gas and related companies	9	15	14	20	16
Telecommunications	7	5	4	7	8
Real estate	5	4	5	7	7
Basic materials	10	6	6	6	5
Utilities	5	8	6	6	6
Other	14	18	20	22	18
Breakdown by currency of issuance (%)	*100*	*100*	*100*	*100*	*100*
US Dollar	88	84	87	83	83
Euro	8	11	8	12	12
Other	4	6	5	6	5
Maturity - weighted average (issuance in US$) - years	9.0	9.5	9.9	9.3	10.2
% of total with fixed rate	94	85	92	88	85

Source: BCRA based on Bloomberg.

This boom of issues in hard currencies has given rise to some caution, taking into account the different risks entailed for financial stability, beyond the risk related to a higher leverage[13]. For example, dollar appreciation scenarios generate a heavier debt burden for companies receiving funds in hard currencies but having no income in foreign currency (and not having hedged this exposure in financial markets) or companies evidencing a reduction in their foreign currency income (such as companies exporting commodities in the current context[14]). Other potential risks occur upon increases in short- and long-term interest rates in international markets, creating a heavier debt burden for companies with a high weight of instruments issued in international markets at a variable rate, in the first case, or an increase in the risk of refinancing upon maturity, in the second. In turn, greater pressure on the corporate sector could affect the economic growth and/or the situation of the financial sector (if deterioration of the financial position of large companies results in a reduction of their deposits in banks or in longer delay in the repayment of loans taken from such banks).

This means that risks will depend, in each case, on the characteristics of each company's balance sheet and funding structure, and the composition by sectors and countries. In that sense, in the specific case of Latin America, some authors find evidence that, even though there has been some increase in corporate leverage and some deterioration in the ability to comply with debt service, there is no excessive burden of debt[15]. Besides, it is highlighted that the boom of issues in international markets after 2010 would have been tied not only to covering long-term funding needs (in general related to investment processes) but also to refinancing preexisting debt under more favorable conditions and taking advantage of the opportunity to create liquidity reserves[16].

In the case of Brazil (the Latin American country that issued the largest corporate debt amount abroad in 2014, followed by Mexico), an analysis recently published by the Brazilian Central Bank[17] states that, although after the global financial crisis, companies' indebtedness rose both through new funding in domestic markets and by the issue of bonds in international markets, the indebtedness ratio is still low in GDP terms if compared to that of other countries. In addition, the analysis points

[12] Emerging Europe, the Middle East and Africa.

[13] See, for example, "Risks related to EME corporate balance sheets: the role of leverage and currency mismatch" (Michael Chui, Ingo Ferner, Vladyslav Sushko) in BIS Quarterly Review, September 2014, or IMF Global Financial Stability Review, April 2014.

[14] For example, at the BIS ("Global liquidity: selected indicators", published in February 2015), it is stated that the increase of debt of oil companies in general (not only from emerging economies) would have influenced the recent dynamics of oil price, to the extent that high leverage might force these companies to maintain high production or to increase their forward sales, so as to be able to afford the debt service.

[15] "Corporate financing trends and balance sheet risks in Latin America: taking stock of the bon(d)anza" (Fabiano Rodrigues Bastos, Herman Kamil and Bennett Sutton), IMF, 2015. This paper reviews the situation of Brazil, Chile, Colombia, Mexico and Peru. It takes into consideration variables such as the debt to capital ratio and the debt to income ratio.

[16] Other authors state, for emerging countries in general, the likelihood that funds obtained are being used for speculative purposes, for example, for carry trade transactions (see, BIS Quarterly Review, September 2014).

[17] "*Evolução do Endividamento das Empresas não Financeiras após a Crise Internacional de 2008*", in *Relatório de Estabilidade Financiera,* September 2014.

out the effect of financing at longer terms and lower interest rates. Besides, the existing debt in foreign currency would involve a minimum percentage of companies (even though of a large size), whereas among such companies, almost half of them are exporters or have sought to hedge through financial instruments any risks posed by the existence of liabilities in foreign currency. In turn, almost one third of this group holds assets abroad or their parent company is settled abroad[18].

To sum up, upon any possible change in the international context, attention continues to be paid, in different spheres of analysis, to monitoring the evolution of debt issued by companies from emerging economies, especially regarding debt in foreign currency. In such respect, a new research agenda is being planned at international level aimed at solving any difficulties related to limitations on existing information[19] so as to expand the understanding on the risk map derived from this situation and on the existence of vulnerability niches. In more general terms, monitoring the evolution of debt also includes debt composition. As long as a higher funding through bonds occurs to the detriment of traditional financial intermediation, this would have consequences on the risk taken by different sectors (and the understanding and management of such risks), the influence of the financial markets conditions on the corporate sector and the possibility that regulators may prevent an excessive leverage.

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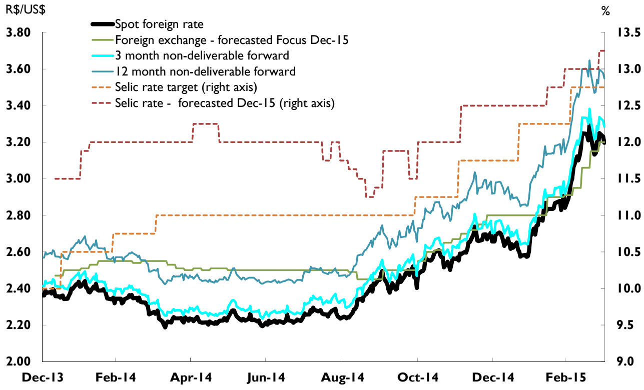
[18] Thus, whereas the total of debt in foreign currency of Brazilian companies accounts for 17% of GDP, out of this total, the debt of companies having no natural hedge (exporters) or through financial markets, nor assets abroad or a parent company abroad, accounts for only 2.9% of GDP.

[19] For example, as regards the manner in which companies manage the exchange rate risk.

Chart I.23
Brazil: Foreign Exchange and Interest Rate



Source: Bloomberg

the conflicts between Russia and Ukraine (see Chart I.22). As regards Latin American currencies, they went down 19% on average last year, and the Brazilian real stood out by depreciating 12.5% vis-à-vis the perspectives of a slower growth pace, the volatility inherent in every presidential election process and the doubts over the fiscal situation. So far in 2015, the aggregate of emerging countries' currencies depreciated another 8% against the dollar, and 7% in the specific case of Latin American currencies. The Brazilian real deepened its current path by depreciating 20% against the dollar by early 2015 (see Chart I.23), to a level close to R/US3.3, a scenario not observed since 2004. It is worth mentioning that the Central Bank of Brazil decided, by the end of March, to conclude the program of auctions of foreign exchange swap and foreign currency repo transactions implemented since 2013. Nevertheless, the institution would continue performing transactions if necessary[20].

Forward-looking, the measures to be adopted by the FED would continue to be relevant, and investors will continue to focus on the time when the cycle of short-term interest rate increases will start and on their pace, which might impact on the global economic momentum. In this sense, the communicational aspects related to the decisions to be made by the FED will be especially relevant. Another strong factor to be taken into account is the macroeconomic performance in Europe —particularly in some vulnerable economies of the Euro Zone, like Greece— and in Japan due to the implementation of the extraordinary stimulus policies that have been already announced (and the impact of the divergent policies on the currency markets, in relation to the United States). The third factor to take into account is the evolution of commodity prices after the drops recorded by late 2014 and in early 2015. Finally, as regards emerging countries, some sources of geopolitical risk still prevail (in Ukraine and Russia, and the Middle East, among others), while the evolution of Brazil gains special importance in the region.

[20] Nevertheless, current swaps will be renewed. Repo auctions may be carried out depending on market conditions.

II. Local Context

Summary

The expansion rate of the economic activity declined in year-on-year (y.o.y.) terms in the second half of 2014, as a result of which GDP grew 0.5% on average in 2014 against the figure recorded in 2013 (see Chart II.1). This was largely due to the persistent weakness of the external demand —mainly from Brazil— and to a reduction in domestic spending. Among good-producing sectors, the industrial activity was hardest hit by this context, even though the contraction was offset by an increase in agricultural production and the financial sector. The remaining segments related to service provision continued to be on the rise, even though at a slower pace. In general, these trends would have continued in early 2015. In this context, the unemployment rate stood at 6.9% of the labor force (PEA) in the last quarter of 2014, up 0.5 p.p. against the level recorded one year ago.

With reference to trade, the exports of goods continued to deepen their declining trend by the end of 2014 and in early 2015, imports followed suit, even though they fell even deeper than exports. Consequently, the trade result improved relative to the same period of 2013, underpinning the current account balance.

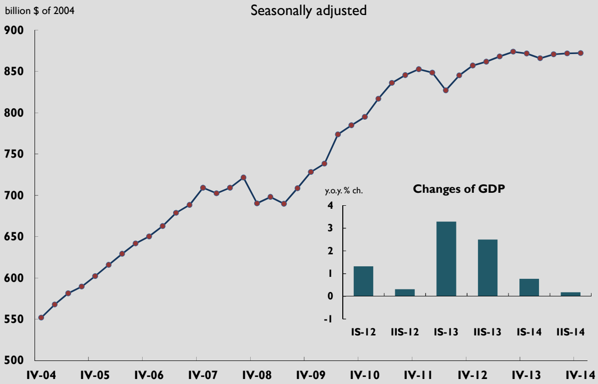
The rates of increase of the different price indexes moderated in the second half of 2014 and in early 2015. A reduced pace of increase in the prices of the households' consumption basket should be especially underlined, favored by the price agreements promoted by the National Government, the decrease in international commodity prices, the reduced exchange rate volatility and the credit stimulus measures implemented by the BCRA with a view to widening the supply of goods & services, in a context of a more moderate growth of the economic activity.

It is worth mentioning that the lower exchange rate volatility was the result of a coordinated management of financial policy instruments which allowed for fending off negative expectations so as to close the year with a stabilized financial outlook. This was largely achieved by the implementation of a comprehensive surveillance policy, coordinated with other public entities which made the foreign exchange market more transparent and contributed to a significant drop in the exchange rate of the marginal markets. Besides, in July, the Argentine Central Bank signed a new swap agreement for domestic currencies with the Central Bank of the People's Republic of China for an amount equivalent to US$11 billion and for a 3-year term, with a view to improving the financial conditions required to promote economic development and trade.

International reserves ended 2014 at US$31.44 billion, up US$2.16 billion in the second half of the year. The factors that largely explain this increase include, among others, the purchase of foreign currency by the Central Bank, the implementation of the three tranches of the domestic currency swap agreement with the Central Bank of the People's Republic of China as well as the increase recorded, particularly in December, of current accounts in foreign currency of the entities with the Central Bank, as a result of the rise in the number of deposits in dollars.

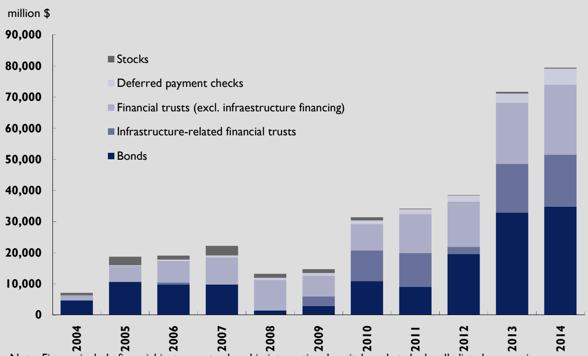
In 2014, the prices of the Argentine financial instruments had a largely positive performance, an evolution that still prevailed at the beginning of 2015. This result occurred despite the changing behavior observed throughout the year, resulting from both domestic and international factors, which include, for example, the litigation against the holdouts in the New York courts still in progress. Financing through capital markets has also been on the rise in 2014 and in early 2015.

Chart II.1
Gross Domestic Product
Seasonally adjusted



Source: INDEC

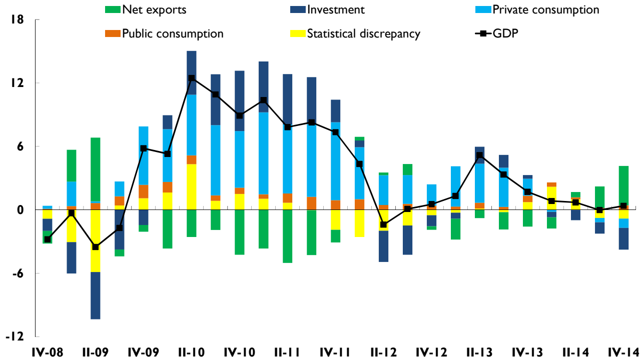
Chart II.2
Private Sector Financing through Capital Markets Instruments



Note: Figures include financial instruments placed in international capital markets by locally listed companies.
Source: BCRA based on CNV and BCBA

II.1 Macroeconomic Context

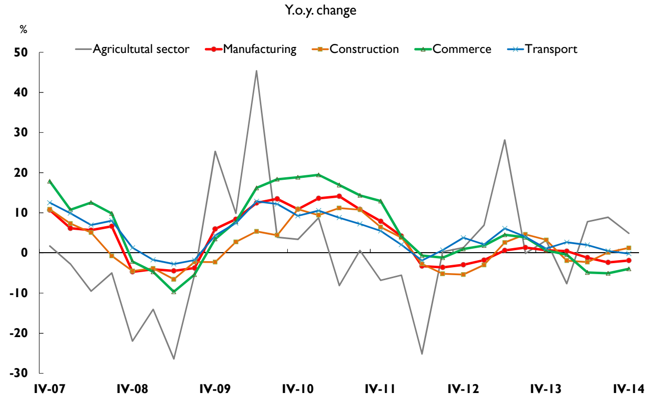
Chart II.3
Contribution to GDP Growth by Demand Components
Percentage points of the y.o.y. % change



Source: INDEC

The growth pace of the production of goods and services slowed down in year-on-year terms (y.o.y.) in the second half of 2014 and, on average, stood 0.5% above its levels of 2013. This contraction of the economic activity against the figures recorded the year before was mainly due to both the performance of external demand and the domestic spending (see Chart II.3). Relative to GDP, the gross fixed capital formation went from 21.3% in the fourth quarter of 2013 down to 19.2% a year later, basically due to the sharp decrease of spending on transportation equipment, both imported and of national origin. From the standpoint of supply, the sectors recording the highest contraction were industry and trade which, on a joint basis, resulted in a decrease of 1 percentage point (p.p.) in GDP year-on-year change during 2014 (see Chart II.4).

Chart II.4
GDP. Main Sectors Offer
Y.o.y. change



Source: INDEC

A similar trend in supply is shown by the partial indicators available, at the beginning of the current year. Regarding the production of goods, the Monthly Industrial Indicator (EMI) reveals that manufacturing went down 2.1% y.o.y. in the first two-month period, in line with the evolution of the second half of 2014, while the Summarized Construction Activity Indicator (ISAC) showed a 3.8% y.o.y. growth on average between January and February 2015 against the figure recorded in the second half of 2014, due in part to a low basis for comparison. In turn, the expansion pace of services —according to the Synthetic Indicator of Public Services (ISSP)— decelerated to 2.3% y.o.y. in the first two months of the current year, once again as a result of the performance of trade and transportation. After adjusting seasonal effects, the demand for services is standing at levels similar to those of last October (see Chart II.5).

The labor market mirrored the moderation observed in the economic activity during the second half of 2014. According to the Permanent Household Survey (EPH) corresponding to the fourth quarter of last year, the unemployment rate stood at 6.9% of the labor force (PEA)[21], up 0.5 p.p. against the same period of 2013. This increase occurred within a context of a 0.6 p.p. y.o.y. drop in the employment rate, to 42.1% of the population, accompanied by a contraction in labor share (-0.4 p.p. y.o.y. to 45.2% of the population).

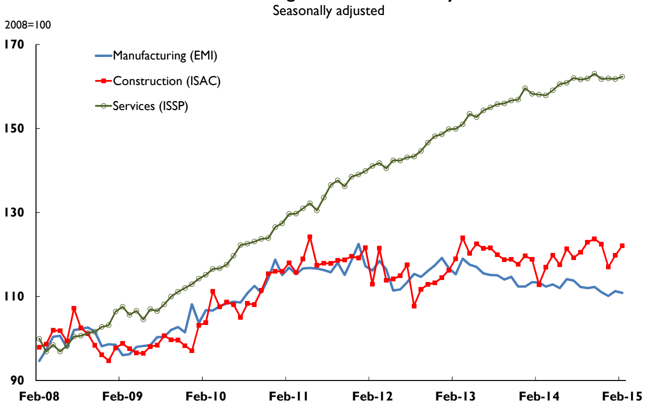
With reference to foreign trade, exports fell even deeper to 13.8% y.o.y. from July to December 2014, and 21.3% y.o.y. in the first two months of 2015, mainly due to the reduction in the volumes shipped. Even though this was a widespread phenomenon, it largely resulted from the

[21] On the basis of the 31 agglomerations surveyed.

Chart II.5

The Leading Indicators of Activity

Seasonally adjusted

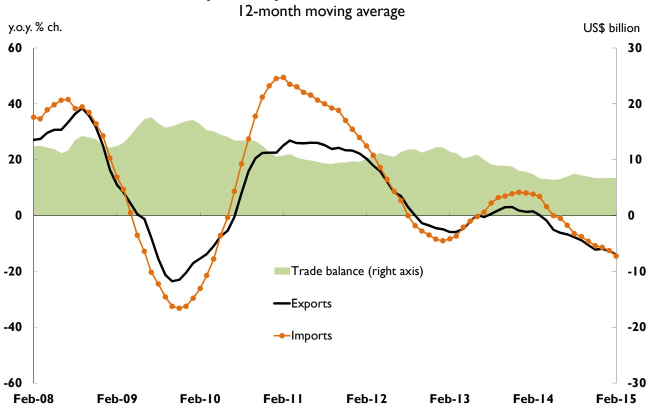


Source: INDEC

Chart II.6

Exports, Imports and Trade Balance

12-month moving average



Source: INDEC

contraction in the sales of industrial manufactures, particularly transportation material intended for Brazil, followed by a reduction in the sale of soybean byproducts, which impacted strongly on the evolution of agricultural manufactured products. Unlike what happened in the first half of 2014, external purchases fell more sharply than external sales, due to a reduction in the volumes purchased. All import uses declined in year-on-year terms with the exception of capital goods. The joint performance of exports and imports resulted in an accumulated trade surplus of US$3 billion in the second half of 2014 and of US$126 million in the first two months of the current year, in both cases, standing above the figures recorded in the same period of the year before, while 2014 closed with a surplus of US$6.69 billion (-US$1.32 billion against 2013) (see Chart II.6).

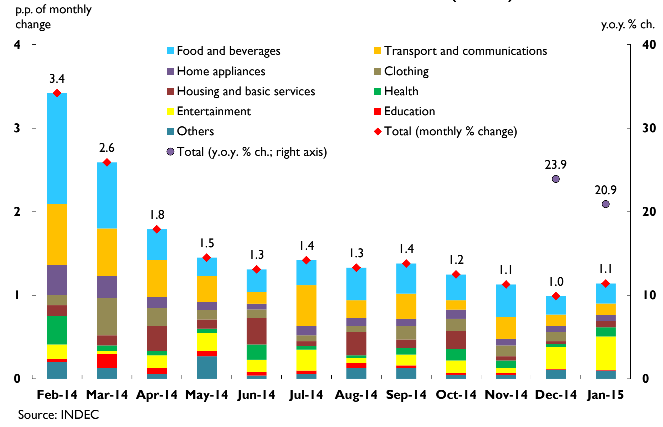
Price indexes showed some deceleration in the second half of 2014 and in early 2015. The Implict Price Index (IPI) of GDP showed a 27.2% y.o.y. change in the fourth quarter of 2014, after going up 30.1% y.o.y. in the third quarter. In turn, according to the National Urban Consumer Price Index (IPCNu –National Urban CPI–), wholesale prices posted a 7.7% hike in the second half of 2014, after recording a 15% increase in the first six months of the year. The main reason behind this behavior was the "*Precios Cuidados*" Plan, the lower international prices of commodities and the public policies aimed at boosting bank loans with a view to widening the supply of goods and services. In turn, the monetary policy and a lower exchange rate volatility were also relevant, within a context of a more moderate growth of the economic activity (see Chart II.7). Anyway, the IPCNu ended 2014 with a 23.9% y.o.y. rise, which slowed down to 18% y.o.y. in February 2015.

As regards wages, according to the Wage Index prepared by INDEC, a faster increase pace was observed in the general level, reaching 34.6% y.o.y. in the second half of 2014, against a rise of 30.9% y.o.y. on average in the first half. The formal labor segment posted a wage adjustment of 33% y.o.y. in the second half, standing above the 29.7% y.o.y. recorded in the first half, in line with the increase in the Minimum Wage. In turn, the minimum social security benefit that had grown 27.3% y.o.y. by June, went up to 30.5% y.o.y. in December. The information available for 2015 confirmed the trend towards recovery in the nominal income of households.

The Central Bank continued implementing credit stimulus policies for productive purposes. The fourth tranche of the Credit Line for Productive Investment (LCIP) ended in June 2014. Due to its positive impact on credit, a new quota of the LCIP was established for the second half of

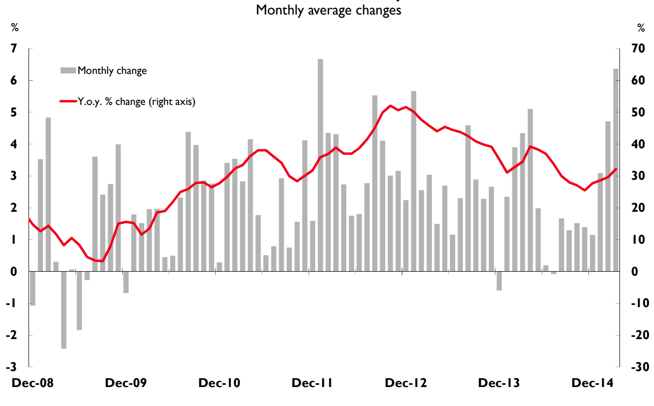
Chart II.7

National Urban Consumer Price Index (IPCNu)



Source: INDEC

Chart II.8
Private Sector Time Deposits
Monthly average changes



Source: BCRA

the year (see Box 4). Added to this, in June last year, the Plan for the Purchase of National Vehicles (PRO.CRE.AUTO), devoted to promoting the sale of vehicles produced in the country by means of a credit line of Banco de la Nación Argentina that provides financing for the purchase of new national vehicles, was set in motion. By the end of December 2014, this program had already granted loans for around $2.8 billion, with an estimated total of 27,500 transactions completed. Likewise, as from September 2014, a new program was launched, "AHORA 12", for the purchase of goods and services in 12 installments at a 0% interest rate, with the purpose of fostering consumption, trade, employment and national production.

II.2 Monetary Context

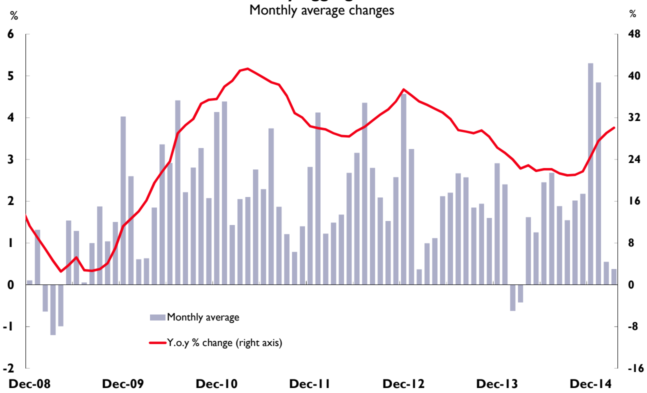
With a view to encouraging savings instruments in domestic currency, last October, the Central Bank determined a minimum floor for interest rates paid on time deposits made by natural persons[22]. The minimum interest rates were established as a proportion of the LEBACs predetermined cutoff rates of a term closer to 90 days[23]. In turn, and in order to widen the protection given to savers, the amount corresponding to the coverage by the deposit guarantee scheme was raised from $120,000 to $350,000[24] per holder.

Within this framework of higher returns, time deposits in pesos from the private sector gained a significant momentum along the year (see Chart II.8). This increase in deposits was part of a context where retail deposits accounted for almost 70% of the rise observed in the last two-month period of 2014. Thus, the segment under $1 million ended the year with a growth rate of 32% y.o.y., exceeding the expansion pace of time deposits over $1 million (24% y.o.y.). This positive evolution also prevailed in the first two months of 2015, to such an extent that, in March, the year-on-year increase of deposits of lower amounts stood at around 38%.

Likewise, monetary aggregates accelerated in the last two months of 2014, after keeping a stable expansion pace along most of 2014, fostered by the abovementioned increasing momentum of time deposits and also by the performance of the means of payment. The broadest aggregate in pesos (M3[25]) posted in December a year-on-year change of 24.4%, while private M3[26] recorded in the last twelve months a 26.3% growth rate, up 2.2 p.p. and 1

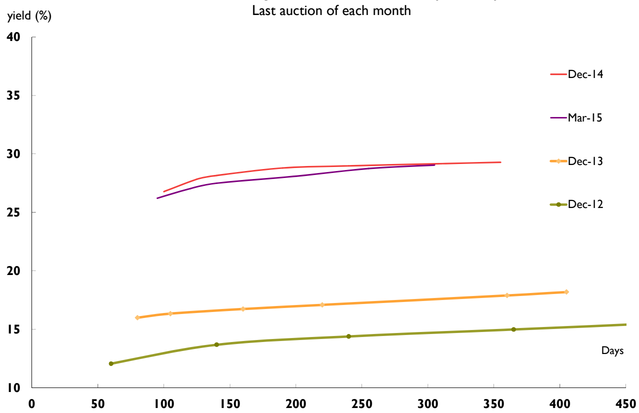
[22] See Communication "A" 5640.
[23] In order to determine the benchmark interest rate, the simple average of the cutoff rates corresponding to the month immediately prior to the month when the deposits are made is taken into consideration.
[24] See Communication "A" 5641 and Communication "A" 5651.
[25] It includes cash held by the public, settlement checks and the deposits in pesos from the non-financial private and public sectors.
[26] It includes cash held by the public, settlement checks and the deposits in pesos from the non-financial private sector.

Chart II.9
Monetary Aggregates - M3
Monthly average changes



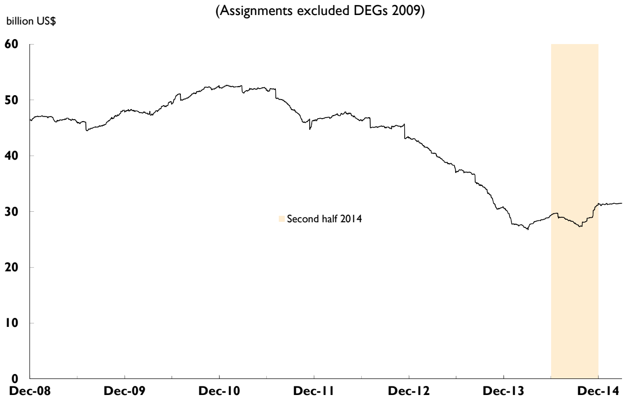
Note: M3 includes cash held by public, settlement checks in pesos and the total amount of deposits in pesos. Source: BCRA

Chart II.10
BCRA Primary Market Yield Curves (LEBAC)
Last auction of each month



Source: BCRA

Chart II.11
BCRA International Reserves
(Assignments excluded DEGs 2009)



Source: BCRA

p.p. against the levels recorded six months before, respectively (see Chart II.9).

In December, the average balance of the monetary base posted an increase of 21% ($76.8 billion) against the average recorded in June. The increase was mainly driven by the performance of both cash held by the public and bank reserves (made up by the cash held by financial entities and the current account balances of the financial institutions with the BCRA). As a result, by the end of December, the monetary base posted a year-on-year change rate of 22.5%, which turned out to be the lowest since early 2010.

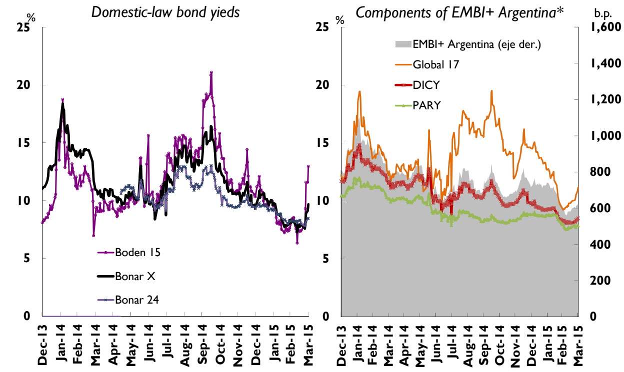
However, in the second month of 2015, an acceleration was observed of the monetary base year-on-year change, mainly due to the basis for comparison. In fact, the February 2014 monetary base had recorded an extraordinarily low level, caused by both the performance of the cash held by the public (which, within a context of foreign exchange uncertainty had started a slightly declining trend) and the performance of the current account of the entities with the BCRA (which, given the increased flexibility provided by the December-February quarterly Minimum Cash Position, had recorded a lower compliance during February).

In turn, as from January 2015, within a context of foreign exchange stability and sizable liquidity levels in the financial system, the BCRA decided to promote slight declines in the short-term interest rates of the LEBACs that it auctions on a weekly basis (see Chart II.10). In addition, in February, the monetary authority adjusted the margin collected by the financial entities that underwrite LEBACs in dollars and decided to raise the minimum interest rates to be collected by depositors for their time deposits in foreign currency, with the aim of keeping savings in dollars within the financial system[27]. To this effect, the BCRA started to offer LEBACs in dollars in two segments. In the "V" segment, the financial institutions may underwrite LEBACS for the time deposits in dollars they have received from the private sector (including renewals). In this segment, the maximum spread between the interest rate paid to the depositor and the interest rate underwritten by the financial entity is 0.8 p.p. on a yearly basis. In the other segment, called "N", only the institutions that have recorded an increase in the balance of time deposits (net of the reduction in the balance of sight deposits from the private sector) are entitled to underwrite LEBACS and, in this case, the spread is higher (1.3 p.p.).

[27] See Communication "A" 5711.

Chart II.12

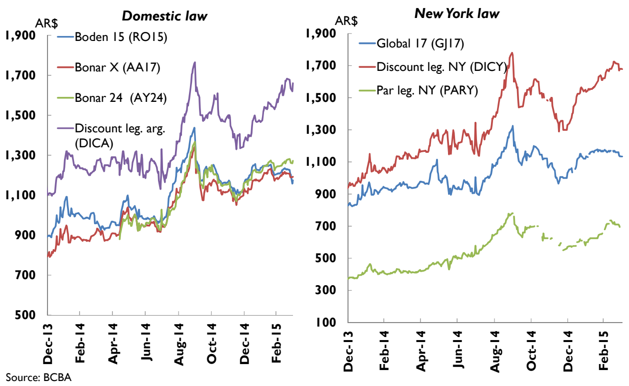
Sovereign Bond Yields in Foreign Markets and Risk Spreads



(*) New York-law bonds. Excludes Discount issued in 2010.
Source: Bloomberg and Reuters

Chart II.13

Dollar-denominated Sovereign Bond Prices in the Local Markets



Source: BCBA

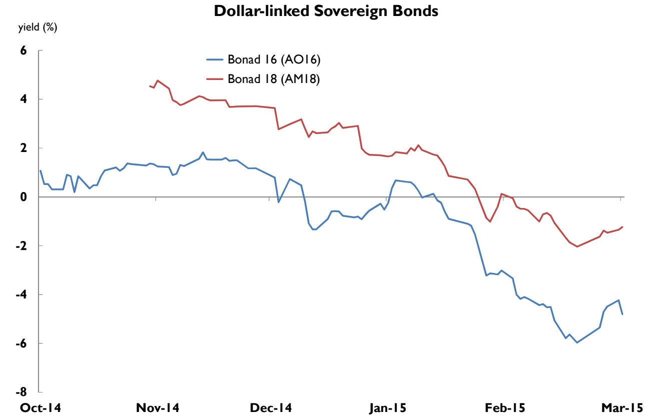
In September, the limit of the net global position (PGN) in foreign currency of the financial institutions was reduced once again, down to 20% of their own liquid resources or the adjusted stockholders' equity (RPC), whichever is lower. This contributed, together with the reduction imposed in February 2014, to increasing the supply of foreign currency in the exchange market. Added to this, in July, the BCRA signed a new swap agreement for domestic currencies with the Central Bank of the People's Republic of China for an amount equivalent to US$11 billion and for a 3-year term, with a view to improving the financial conditions required to promote economic development and trade between both countries.

In this context, the international reserves ended the year standing at US$31.44 billion, which represented an increase of US$2.16 billion in this half year (see Chart II.11). The main reasons behind this increase were the purchase of foreign currency by the Central Bank and the implementation of three tranches of the swap agreement for domestic currencies with the Central Bank of the People's Republic of China. In addition, the growth of the international reserves was also boosted by the increase recorded, especially in December, in the current accounts in foreign currency of the financial entities with the BCRA, as a result of the rise of dollar-denominated deposits, as well as the financial income from some productive sectors (such as the income from the telephone companies due to the subscription of 3G and 4G technology).

II.3 Capital Markets

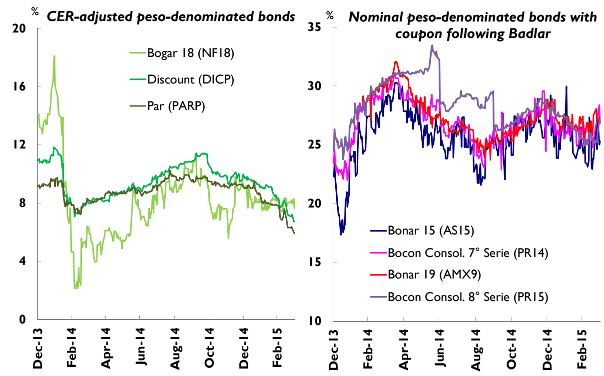
The prices of the main Argentine financial assets largely ended 2014 with some degree of expansion, despite their changing behavior throughout the year. This performance resulted from several factors, including both the impact of the context that characterized the external markets and also some mixed components related to Argentina. The latter include the agreement with the Paris Club, the compensation to Repsol for the expropriation of their YPF shareholding, and the launching of the new National Urban Consumer Price Index (IPCNu), in addition to the evolution of the litigation against the holdouts before the New York courts. In the first months of 2015, the prices of the Argentine financial assets continued to show a positive trend. In terms of financing through capital markets, an increase in the aggregate amounts was observed along 2014, a result that is mainly explained by sizable specific transactions of private debt and financial trusts related to infrastructure and housing. So far in 2015, the issued amount is posting a slight year-on-year expansion.

Chart II.14
Dollar-linked Sovereign Bonds



Source: BCBA

Chart II.15
Sovereign Peso-denominated Bond Yields



Source: IAMC and BCBA

In September 2014, Law No. 26984 on Sovereign Payment and Public Debt Restructuring was enacted in order to to create legal instruments to allow for the collection of the services corresponding to 100% of the bonds issued under the framework of the 2005-2010 sovereign debt restructurings in order to protect the bondholders that agreed to such restructuring processes[28]. Later on, in February 2015, in a case filed against the Bank of New York (BONY) by holders of Argentine bonds in euros corresponding to the restructured Argentine debt, a British court ruled that, considering that such bonds and the trust agreement signed in 2005 and amended in 2010 between the Republic of Argentina and BONY, in the subject matter of such bonds, are governed by the English law, then the funds paid by the Republic of Argentina and kept in the account of the trust agent are ruled by such legislation, the same as the obligations of the trust agent arising from such contract. More recently, Judge Griesa rejected a request by Citibank to pay the services of the bonds in US dollars issued under Argentine law. The Republic of Argentina notified its decision to appeal such resolution.

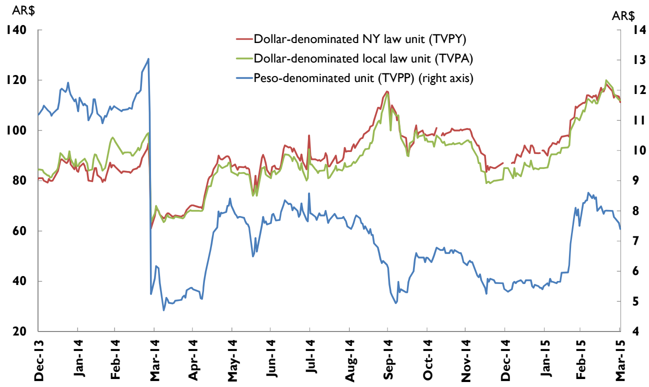
Despite the ups and downs of the litigation against the vulture funds, an increase was observed largely in the price of sovereign bonds in dollars by the end of 2014, for both bonds under domestic law and bonds under foreign law (even though slight drops were observed in some cases). Within a context of decreasing returns on the US Treasuries and with lower yields required by investors to position on Argentine sovereign bonds in dollars under New York law, in 2014 the Argentine EMBI+ spread narrowed around 90 bp. In the first three months of 2015, the prices of dollar-denominated instruments under foreign law recorded widespread improvements in the foreign markets (with an expansion of over 10%), which translated into an additional narrowing of the EMBI+ spread down to a level close to 630 bp (see Chart II.12). In the case of dollar-denominated instruments under local law (for a shorter term), mixed changes in prices were observed in the first quarter of the year.

In the domestic marketplace, dollar-denominated bonds with prices expressed in pesos for the most representative transactions ended 2014 with an expansion of up to 45% for the most liquid instruments, such as Boden 15 and Bonar X, even though a changing evolution was observed along the year (see Chart II.13). Thus, although prices went up steadily until mid-October (with more marked increases from August to September), this trend reversed later on, within a context of reduced exchange rate volatility. However, the upward trend regained ground by the end of 2014 and in early 2015, accumulating an

[28] For more details on the abovementioned law and the previous evolution of the litigation with the holdouts, see Financial Stability Report, Second Half of 2014.

Chart II.16

GDP-linked Securities Prices

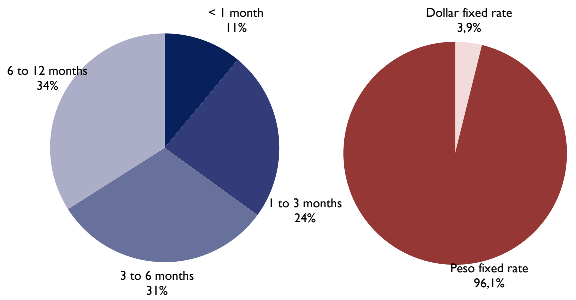


Source: BCBA

Chart II.17

BCRA Instruments - Stock Composition

Outstanding stock by currency and maturity, data as of Apr-15



Source: BCRA

expansion of almost 1.5% for Boden 15, 5% for Bonar X, and almost 10% for Bonar 24[29] so far this year.

Regarding the bonds of the National Government denominated in dollars and payable in pesos (dollar-linked) issued in the last quarter of 2014, Bonad 16 and Bonad 18, their prices went up 11% and 15% (measured in pesos in the domestic marketplace). This resulted in a contraction of their yield, which started to show a negative sign (see Chart II.14).

In turn, the prices of sovereign bonds in pesos subject to CER recorded a positive result in 2014 (with yearly drops in their yields), largely driven by the effect of the new price index taken as a basis for calculation (National Urban Consumer Price Index - IPC-NU -National Urban CPI-) announced in February. This effect was partially eroded by a less favorable trend in terms of prices until the last months of the year, when prices started to show a rising bias. Improvements continued to prevail in early 2015; in this respect, long-term bonds (Discount and Par) went up almost 50% on average, and their yields narrowed nearly 300 bp (see Chart II.15). On the contrary, in the case of bonds in nominal pesos, their yields widened around 450 bp on average in 2014, in line with the Private Bank BADLAR, which is taken as the basis for the calculation of coupons. In 2015, they started to narrow, with an average decline of 150 bp in their yields.

The prices of GDP-linked units experienced a high volatility in the domestic marketplace and ended 2014 with dissimilar results. The instruments in dollars recorded improvements in their prices (expressed in pesos), while the instruments in pesos posted a decrease of over 50%. So far in 2015, the units have posted marked rises in their prices; the instruments in dollars went up 30% on average, and instruments in pesos rose almost 40% (see Chart II.16).

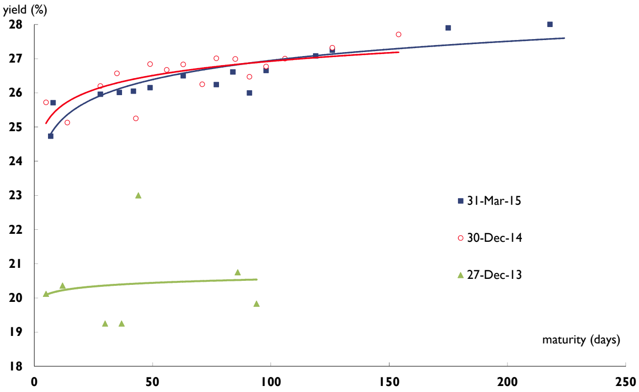
Regarding the BCRA instruments, the outstanding stock of bills in pesos continued to grow in 2014 and in early 2015. By the end of March this year, the stock of bills in pesos stood at $310.7 billion[30]. In terms of total deposits, the stock of bills in pesos reached a level close to 32%, but it is still standing below its historical maximum values. With respect to the segment in dollars, the stock of bills was standing at US$1.42 billion by the end of the first quarter of 2015, accounting for 3.9% of all outstanding BCRA instruments measured in pesos (see Chart II.17).

[29] Instrument issued upon the agreement with Repsol and later on for the transaction on liabilities management and bidding made by the National Government in December 2014. In the latter case, the early cancellation of Boden 15 was offered (which totaled an Original Nominal Value of US$185.5 million) as well as the swap of Boden 15 for Bonar 2024 (with bids that amounted to an original Nominal Value of US$376.7 million, which were accepted in full). The underwriting of Bonar 2024 was completed for US$285.6 million (the total of bids).

[30] In early November, the last outstanding instrument at variable rate reached its maturity date.

Chart II.18

Lebacs Secondary Market Yield Curves

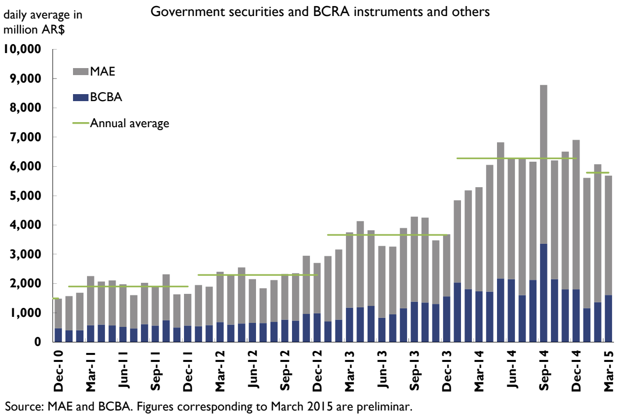


Source: BCRA based on MAE

Chart II.19

Fixed Income Instruments - Traded Volume

Government securities and BCRA instruments and others



Source: MAE and BCBA. Figures corresponding to March 2015 are preliminar.

The growth pace in the stock of BCRA instruments in pesos was accompanied by a rise of discount rates in the primary market in 2014. Along the length of the curve of bills, yields went up more than 1,100 bp during the year. However, in early 2015, the BCRA started to reduce the interest rates. Thus, by the end of March, the interest rates of the bills issued at a predetermined rate stood at 26.22% and 27.04%, respectively, while the interest rate of the instrument awarded with a longer term, around 301 days, was 29.05%. In turn, the average term weighted by amount of the auctions in pesos continued to shorten, from 360 days in December 2013 to 250 days by the end of last year, while in late March 2015, it was standing close to a 180-day residual term.

In the secondary market, and in line with the performance observed in auctions, the yields required on the bills have widened around 500 bp in 2014, while in 2015 they started to narrow. The reductions in the first quarter of 2015 were more marked for instruments with a term up to 90 days, while the terms transacted were longer (see Chart II.18).

Regarding the volume of transactions made in the secondary markets of fixed income instruments at domestic level[31], the daily average volume along 2014 reached around $6.3 billion, posting a year-on-year growth of 70% (see Chart II.19). Around 60% of the volume traded corresponded to sovereign bonds of the National Government and other instruments (with a high share of dollar-denominated bonds, such as Boden 15, Bonar X and Boden 24, in that order of relevance), while BCRA bills accounted for almost all the remaining amount. So far in 2015, the daily volume of fixed income instruments has stood at $5.8 billion on average.

Likewise, in the stock market, the Merval index accumulated profits for 59% in domestic currency throughout 2014[32], after an 89% increase the year before. This performance was also characterized by a changing evolution throughout the year, with outstanding increases up to late September (and new historical peaks in domestic currency and high volumes traded) and a declining trend as from late October. However, at the beginning of 2015, the upward trend started to gain ground once again, with the Merval index accumulating a 26% rise in the first quarter of the year (see Chart II.20).

It is worth mentioning that in 2014 the increases in the share price of companies related to electricity, gas distribution, banks and real estate activity stood out, with an expansion between 100% and 150%. This trend

[31] Based on amounts of the Buenos Aires Stock Exchange (BCBA) and the Electronic Over-the-Counter Market (MAE). It includes National Government sovereign bonds, LEBACs and NOBACs, provincial securities, corporate bonds, and others.
[32] 21% if measured in dollars using the wholesale exchange rate. On the other hand, the M.AR Index (which only considers companies of national capital) went up 83% in domestic currency in 2014, while in early 2015, it was growing more strongly than the Merval Index.

continued to prevail in the first months of 2015, with profits between 30%-65% in such sectors. In the opposite direction, shares related to the oil & gas segment continued to exhibit the worst performance in relative terms, largely affected by the drop in oil price[33].

Last year, the volume of shares traded reached a daily amount of $160 million, more than doubling the value recorded in 2013. In turn, so far in 2015, the volume traded has reached $168 million per day.

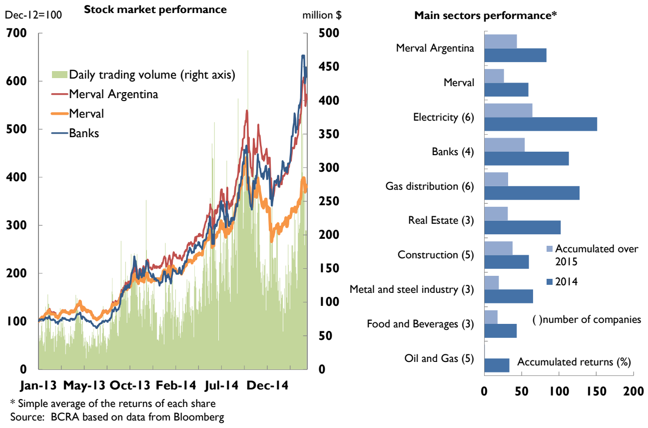
The gross financing flow to the private sector and for infrastructure and housing works through capital market instruments amounted to around $79.5 billion in 2014, up 11% against the figure recorded in 2013 (see Chart II.2). This nominal improvement was largely explained by specific transactions of a remarkable size. More recently, in the first quarter of 2015, aggregate amounts posted a 2% y.o.y. increase[34].

Lending through financial trusts amounted to $39.2 billion in 2014 (up 11% against 2013), out of which over $16.6 billion corresponded to three series related to infrastructure and housing[35] (up 6% against the volume of the year before). Securitizations of personal loans and credit card coupons accounted for around 2/3 of the total funding through financial trusts in 2014. From January to March 2015, the volume contracted, with less than $3.9 billion issued (including an infrastructure and housing transaction for $83 million), against $7.7 billion in the first quarter of 2014 (with $2.6 billion related to infrastructure and housing). In terms of the financing cost, the cutoff rate of the most-creditworthy representative instruments in credit securitization and with first-class trustors followed the evolution of the Private Bank BADLAR throughout 2014 until the last four-month period (see Chart II.21). Later on, an increase was observed in the cutoff rate, within a context of a declining trend for the Private Bank BADLAR, which resulted in a spread between them that was the maximum in the last 5 years. In the first two months of 2015, such spread narrowed because of an opposite trend between both rates (a downward trend for the trusts cutoff rate and an upward trend for the Private Bank BADLAR), and then it started to widen once again in March.

In turn, the issues of corporate bonds accumulated an amount close to $35 billion last year (recording a 6% nominal increase against the values of 2013). This volume

Chart II.20

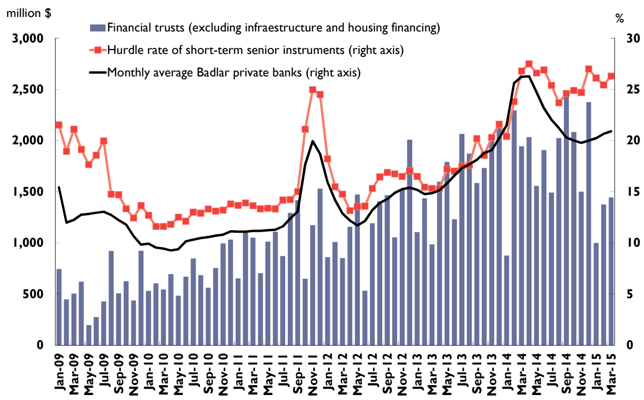
Local Stock Market



* Simple average of the returns of each share
Source: BCRA based on data from Bloomberg

Chart II.21

Financial Trusts Placed and Cost of Financing

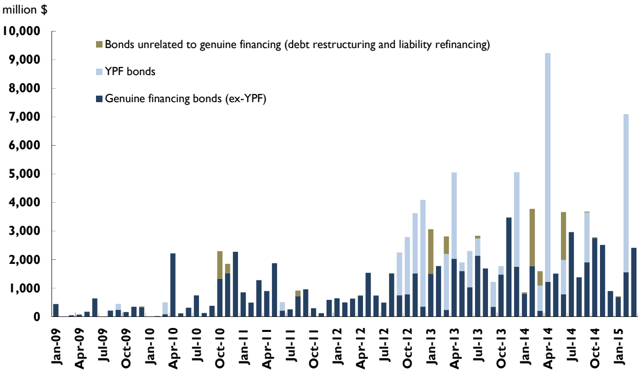


Source: BCRA based on CNV and BCBA.

[33] In particular, the sharp drop in the price of Petrobras Brazil shares stands out.
[34] Without taking into account the issues of trust funds for infrastructure and housing, the financing amount was $62.9 billion in 2014, against $56.1 billion in 2013. In the first quarter of 2015, the amount was $15.1 billion against $12.2 billion in the January-March period of 2014.
[35] This amount resulted from a new issue made in December, for a total of $14 billion (not fully paid in), corresponding to the Bicentennial Credit for Housing Program (PRO.CRE.AR), which promotes the allocation of mortgages for the construction, enlargement, completion and repair of housing units, and also mortgages to purchase new units built under urban development projects. The National Treasury made an initial contribution to make up the equity of the PRO.CRE.AR. trust fund and guarantees all further debt issues of such fund. In turn, the trust issues debt instruments and participation certificates.

Chart II.22

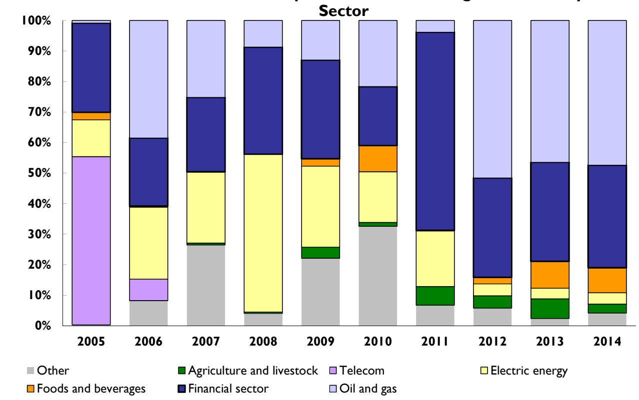
Corporate Bonds Financing



Note: Figures include financial instruments placed in international capital markets by locally listed companies.
Source: BCRA based on BCBA, CNV and IAMC.

Chart II.23

Gross Annual Flow of Corporate Bonds Financing: Breakdown by Sector



Source: BCRA based on BCBA, IAMC and CNV

includes specific issues for sizable amounts, related to YPF transactions (one of them abroad, for US$1 billion), and to refinancing of other firms' liabilities (see Chart II.22). Excluding YPF issues (around $11.8 billion in 2014) and liabilities management transactions (for almost $4.3 billion in the same year), the annual volume recorded a drop of almost 2% in 2014. Between January and March 2015, there were corporate bond issues for over $10.2 billion[36], including two international transactions by YPF and others of the same company in the domestic market for an amount equivalent to over $5.5 billion. From January to March 2014, $6.23 billion had been issued (with YPF transactions for $880 million, added to $2.55 billion for other companies' liabilities management transactions).

Regarding corporate bond issuers, the oil sector accounted for almost one half of the total volume along 2014 (see Chart II.23), while issues by the financial sector accounted for nearly one third of the amount (see Box 2). However, in terms of volume, the transactions made by banks and financial companies tended to prevail. In turn, in 2015, the oil sector transactions already accounted for almost three-fourths of the volume traded in this first quarter (also due to YPF issues), while the financial sector transactions accounted for 18% of the total.

In 2014, issues in pesos prevailed in the case of corporate bonds (60% of the total amount issued along the year). Dollar-denominated transactions accounted for a little over one third, on the basis of YPF transaction in the international market and of other companies' liabilities management transactions. On the other hand, the number of dollar-linked transactions dropped in 2014 and their weight on the total flow contracted from 20% in 2013 to 6% in 2014. In 2015, most of the transactions were made in pesos but, as a result of the size of the two issues in dollars by YPF, they accounted for 43% of the amount in the first quarter.

In 2014, the average term weighted by amount of the transactions in pesos stood at 23 months[37], with limited fluctuations along the year (except for mid-year when the term stood below 20 months). So far in 2015, even though the average term shortened in January and February, in March it rebounded, as a result of which the weighted average continued to stand at 23 months. With respect to the cost of financing of transactions in pesos, an increase has been observed so far this year following the trend started in the last months of 2014, and within a context of a gradual rise in the Private Bank BADLAR. In turn, in recent weeks, some companies have issued instruments under a mixed rate structure (a first tranche up to 12 months at a fixed rate, and a second tranche at the Private Bank BADLAR plus a margin).

[36] There was a liabilities refinancing transaction (which does not entail genuine financing) for an amount equivalent to around $22 million.
[37] Excluding YPF transactions (due to their size and special characteristics).

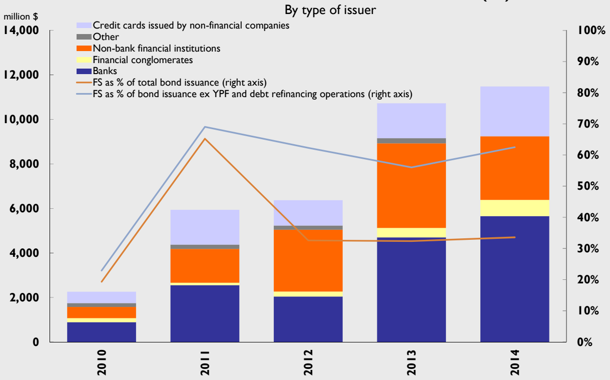
Box 2 / Issues of Corporate Bonds of the Financial Sector

The flow of issues of debt instruments from the financial sector in the capital markets during 2014 exceeded slightly the flow recorded during 2013 and maintained the characteristics observed in recent years. Most of this funding was in pesos, with a prevalence of variable rate instruments, with Private Bank BADLAR as the benchmark rate, and with average terms around 20 months. In early 2015, instead, issues started to be made for shorter terms and with an increasing weight of fixed rate structures, in addition to instruments under a combined interest rate scheme, by virtue of the annual slowdown in amounts issued. In perspective, it stands out that the weight of corporate bonds as funding source has exhibited a slightly positive trend for the financial system aggregate in recent years, even though their contribution is not significant yet (except for non-banking financial institutions)

Chart B.2.1

Gross Flow of Bond Issuance - Financial Sector (FS)

By type of issuer



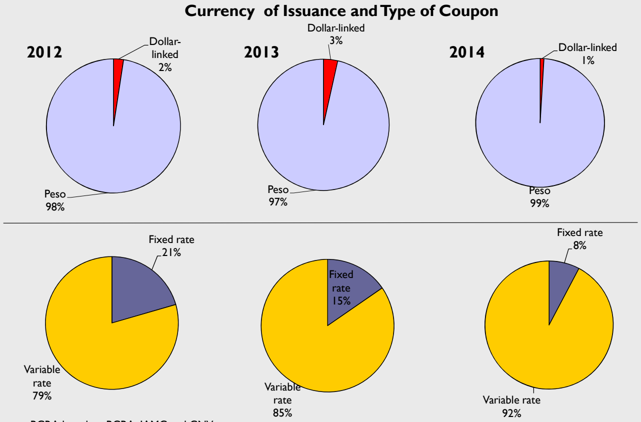
Source: BCRA based on BCBA, IAMC and CNV.

The financial sector in a broad sense –including banks and non-banks financial institutions (NBFIs) regulated by the BCRA, financial groups, credit card closed systems and other[38]— continued to be one of the main issuers of corporate bonds in 2014, following the oil and gas sector[39]. During the year, the financial sector obtained funds for more than $11.7 billion, which entails a 10% nominal increase with respect to 2013 in the flow of issues, with a growth rate not as marked as the rate shown in the previous year (see chart B.2.1). This increase in the debt gross flow for the sector during 2014 was led by banks' transactions (the main issuers in this segment, which account for almost half of the funds obtained by the sector during the year) and credit card closed systems, whereas the transactions of NBFIs posted a contraction in amounts obtained through corporate bonds[40]. More recently, in the first quarter of 2015, the financial sector issued new debt for almost $1.9 billion, below the amount close to $2.2 billion issued in the same period of 2014.

In line with what was observed in previous years, in 2014 almost all debt issues of the financial sector continued to be made in domestic currency (see chart B.2.2), with a marginal weight of transactions denominated in dollars but payable in pesos (dollar-linked transactions). This sector has not issued debt in dollars since the first half of 2011[41]. In the first quarter of 2015, all transactions were denominated in pesos.

Chart B.2.2

Gross Flow of Debt Issuance - Financial Sector
Currency of Issuance and Type of Coupon



Source: BCRA based on BCBA, IAMC and CNV

In 2014, the weighted average term for transactions in pesos stood around 20 months, with no significant changes with respect to 2013. Even though this average was representative for banks, in the case of financial groups, the average term was longer (25 months), whereas for NBFIs and credit card closed systems, the average was from 18 to 19 months. However, in 2015, the term tended to shorten for the financial sector aggregate, falling to around 15 months in the weighted average during the first quarter (see chart B.2.3).

[38] Leasing companies, credit cooperatives, money exchanges, etc.

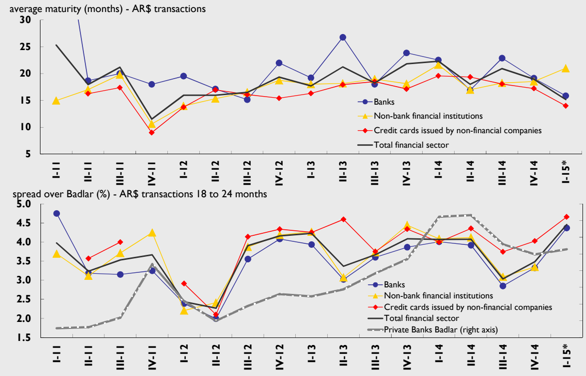
[39] In each of the last three years, the financial sector explained around one third of the total flow of issues of corporate bonds by Argentine companies.

[40] In case of NBFIs issuing debt in the capital markets, most of them are financial entities related to motor vehicle companies, although some of them engage in lending for consumption.

[41] Transactions in dollars became infrequent following the 2008-2009 international financial crisis. Prior to such crisis, their weight over flows of annual issues was quite significant.

Chart B.2.3

Financial Sector - Maturity and Cost of Bond Issuance



Source: BCRA based on BCBA, IAMC and CNV.

Most of the amounts issued by the financial sector in 2014 were issued at variable rate, with a decreasing weight for fixed-rate transactions (8%), in general related to shorter terms of issue. This trend posted a change in early 2015 when, in a context of shorter terms of issue, the weight of instruments issued at a fixed rate rose to more than half the amounts obtained in the January-March period, whereas 17% resulted to be explained by combined rate structures (with an initial fixed rate and a second period at a variable rate).

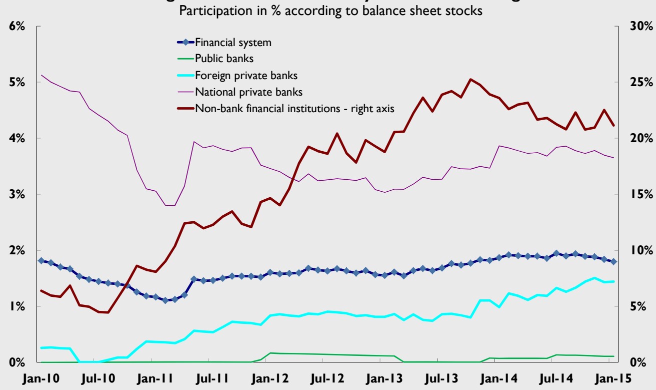
As regards the funding cost, for the most representative structures (issued in pesos, for terms from 18 to 24 months at a variable rate), in 2014, the issue spreads were changing, but posting a less marked variation than Private Bank BADLAR. Thus, the funding cost exhibited an increase in the first quarter of 2014, a minor positive trend in the second, and a downward bias, less and less marked in the next two quarters, and started to go slightly upward in recent months[42]. Therefore, whereas the Private Bank BADLAR went from an average close to 17% in 2013 to an average close to 22.5% in 2014, the average cost for issues of the financial sector at a variable rate with terms from 18 to 24 months, went from an average close to 21% up to an average over 26%. In turn, it is highlighted that –as a weighted average and for this rage of benchmark terms— in 2014, banks issued with a spread around 350bp over BADLAR[43], a level somehow lower than that obtained by the other subgroups that are part of this sector. The most significant difference is observed with credit card closed loop systems, that on average and for representative terms, issued instruments with a spread of 400 bp above Private Bank BADLAR in 2014.

It is estimated that, by the end of 2014, the stock of debt instruments (corporate bonds and subordinated debt) issued by the financial sector amounted to almost $29 billion, with an annual growth close to 5%. Out of this total, about two thirds would correspond to banks and 16% to NBFI, with a weight similar to that of credit card close systems. On the other hand, just over 60% of the total stock is estimated to be denominated in pesos, whereas over one third is estimated to be denominated in foreign currency (the weight of dollar-linked instruments over the total stock is marginal).

Chart B.2.4

Weight of Bonds in Financial System Total Funding*

Participation in % according to balance sheet stocks



* Total funding = Netted Asset.
Source: BCRA

In case of institutions regulated by the BCRA (banks and NBFIs), corporate bonds constitute a funding alternative with longer terms than the traditional deposit basis. In perspective, in spite of the fact that the weight of ONs and subordinated debt over the total funding of banks has slightly increased in the last two years (see chart B.2.4), it still stands at low levels; among this type of entities, the greater weight is seen for national private institutions (4%). In the case of NBFIs, the weight of ONs over the total funding is more significant (within a 20-25% range in recent months), after the relevant growth recorded from mid-2010 to the end of 2013, even though afterwards it tended to fall.

[42] In this case, the cost of funding is calculated by overlapping the spreads at the time of issue to the BADLAR values observed.
[43] Even though throughout 2014 in the above-mentioned terms (18 to 24 months) there were bank transactions with spread over Private Bank BADLAR within a 200-500 bp range, considering transactions of institutions with different credit ratings.

The volume of deferred payment checks, main financing instrument through the capital markets by small and medium-sized enterprises (SMEs) (see Box 3), grew nearly 70% in 2014 to $5.12 billion, even though a lower monthly volume started to be observed as from October 2014, a trend that continued to prevail in the first months of 2015, mainly due to seasonal factors.

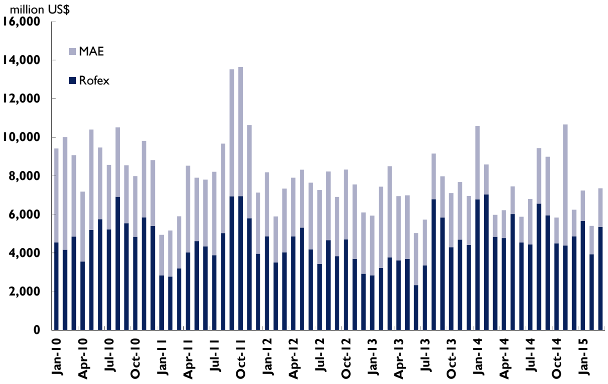
Financing through subscription of shares was limited in 2014, with less than $320 million in three transactions. However, all of them involved new funding (one of them was an Initial Public Offering – IPO), unlike what happened in 2013 (when there was a transaction related to restructuring and issuance of new shares for a total amount of around $550 million). So far in 2015, no new shares were issued.

Likewise, the amount traded in exchange rate derivatives went up 8% in 2014, mainly due to a high volume in some specific months (see Chart II.24). This evolution would be partly related to regulatory changes introduced into the net global position in foreign currency of financial entities[44]. In early 2015, a year-on-year drop has been observed, even though with a volume close to that of late 2014. The implicit rates in the dollar futures trading contracts went down in recent months.

Looking into the future, the prices of the Argentine assets are expected to keep the positive bias seen in early 2015. However, the performance of these instruments would continue to be impacted by several factors, such as the possibility of a change in the appetite for risk assets in international financial markets (within a challenging context for emerging countries' assets) and the evolution of the litigation against the holdouts, among other reasons.

Chart II.24

Dollar Future Contracts Trading Volume



Source: ROFEX, MAE and BCRA

[44] Communication "A" 5536 and 5627.

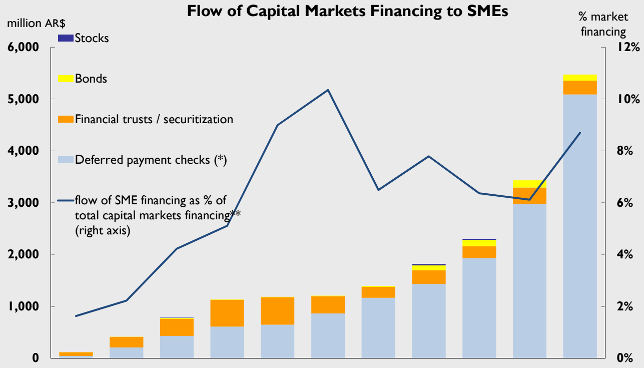
Box 3 / Funding available to Small and Medium-Sized Enterprises (SMEs) through Capital Markets

Financing to small and medium-sized enterprises (SMEs) through the domestic capital markets continued to grow in 2014. This momentum was mainly due to the evolution of the trading of deferred payment checks, at the same time that other instruments for longer terms, such as corporate bonds and financial trusts, recorded a decreasing flow along the year. In 2014, less than 10% of financing through capital markets was intended for SMEs, and this means that there is a sizable potential for growth as a supplementary source to funding through banks

Small and medium-sized enterprises may access the domestic capital markets through a series of instruments with different characteristics, including, among the main alternatives, the deferred payment checks (CPD), the financial trusts (FF), the corporate bonds (ON) and the shares of stock. In 2014, the financing flow to SMEs through these instruments amounted to nearly $5.5 billion, with a year-on-year increase close to 60%.

Chart B.3.1

Flow of Capital Markets Financing to SMEs

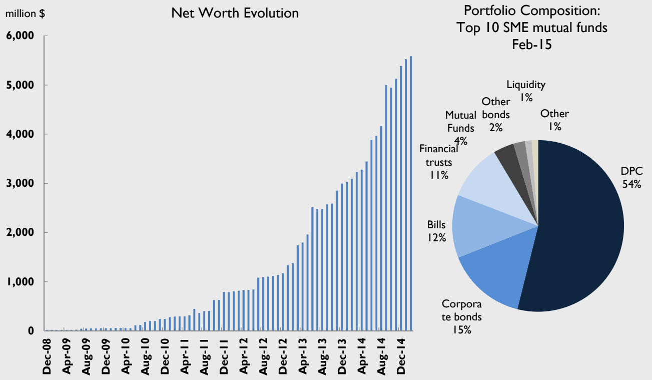


(*) Include guaranteed and sponsored checks (the later can be related to SMEs or to larger firms).
(**) Without considering transactions of financial trusts related to infraestructure and housing in the total.
Source: BCRA based on IAMC, BCBA and CNV

The amounts obtained through the markets gained momentum in the last two years, recording growth rates that have almost doubled the rates of the two previous years (see chart B.3.1). The main factors behind this performance include the extension in 2013 of the parameters for a company to be considered a micro, small and medium-sized enterprise (MIPyME)[45] and the increasing positioning of institutional investors (such as the Sustainability Guarantee Fund -FGS- and the insurance companies[46]) in instruments of this segment through the mutual investments funds (FCIs) specializing in SMEs. The stock of these FCIs amounted to nearly $5.4 billion by the end of 2014, up almost 80% along the year[47] (see chart B.3.2). On the other hand, it should be taken into account that by the end of 2012, the new Capital Markets Act (Law No. 26831) was enacted and enforced, and one of its objectives was to promote SMEs access to capital markets[48].

Chart B.3.2

SME Mutual Funds - Net Worth and Portfolio Composition



Source: BCRA based on CAFCI

In terms of instruments, the momentum of funding to SMEs through the capital markets in recent years is mainly linked to the evolution of CPDs, a segment that in 2010 already explained more than 80% of the yearly flow, and which in 2014 accounted for 93% of total lending. The total traded amount of deferred payment checks increased over 70% in 2014, if compared to the flows of SME FFs and ONs (with more infrequent transactions), which dropped 17% and 15%, respectively. Lastly, no transactions of share issues in the SME sector have been recorded since 2013.

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[45] These parameters had already been widened in 2010. For more information about the factors that have contributed to explaining the growth pace of SMEs instruments in 2003-2012, see the Box "Funding Available to SMEs through Domestic Capital Markets" in Financial Stability Report, First Half 2013.

[46] In 2013, the floor for investment in productive projects for insurance companies (Circular Letter 37163 of the National Insurance Superintendence) became effective. The authorized productive investments include SME and SME FCI instruments.

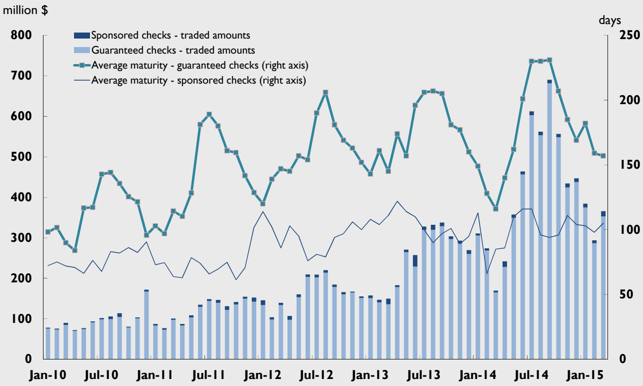
[47] Over half of the portfolio of these mutual investment funds (FCIs) is invested in deferred payment checks (CPD), and the weight of corporate bonds (ON) and financial trusts (FF) on a joint basis reaches almost one fourth of the total. Part of the portfolio of these FCIs includes liquid investments not related to financing to SMEs. According to the latest presentation of the FGS before the Congressional Two-House Committee, the Sustainability Guarantee Fund held 43% of these FCIs' equity.

[48] For more information on the abovementioned act, see the Box "New Law and Regulation on Capital Markets", in Financial Stability Report, Second Half 2013.

In 2014, SMEs received funding for almost $5.1 billion through the trading of CPDs, an operation denominated in pesos and for a maximum term of one year. The bulk of the volumes continued to be explained by checks guaranteed by a Reciprocal Guarantee Company (SGR), while sponsored checks[49] continued to account for only a marginal proportion (see chart B.3.3). It is worth mentioning that, in 2014, the guaranteed checks segment recorded a 56% increase in the weighted average amount of each transaction (up to over $72,000) and that the monthly average term reached new peaks, even exceeding seven months and a half in the July-September period, although it tended to contract later on[50]. With reference to the financing cost, even though at the beginning of the year the discount rate of guaranteed checks was in line with the evolution of the Private Bank BADLAR (which recorded an increasing trend in the first two-month period but then tended to go down), as from August, CPDs rate started to exhibit an upward bias, even though the BADLAR stood at around 20% (see chart B.3.4). Within this changing context, the average discount rate for guaranteed checks went from 18.6% in 2013 up to 24.1% in 2014.

Chart B.3.3

Deferred Payment Checks Trading: Amounts and Maturity



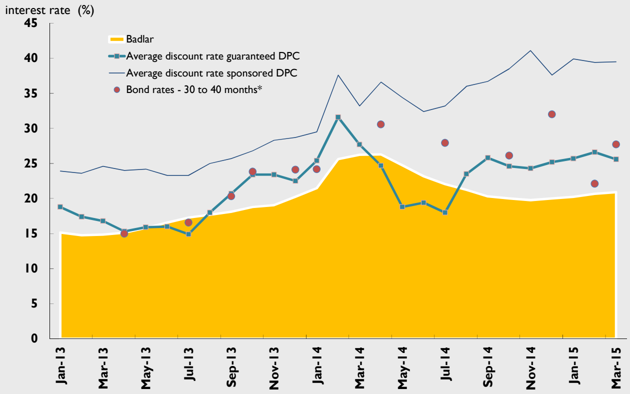
Source: IAMC

More recently, in the first quarter of 2015, CPDs trading declined 27% against the last quarter of 2014 (even though it grew 38% in year-on-year terms), an evolution that would be partly due to seasonal factors[51]. This occurred in a context of shorter trading terms and increasing discount rates in the case of guaranteed checks.

Regarding financial trusts, in 2014 SME FFs for over $266 million were issued. There were six transactions, three collective and three individual transactions, and almost all of them, as usual, were related to the farming sector. With respect to the characteristics of the issues, 55% of the amount obtained through this type of instruments was in pesos and the rest was denominated in dollars but payable in pesos. In this segment, a remarkable heterogeneity was observed in amounts (for example, the individual transactions were in a range of $10-100 million) and terms (for all transactions, the term went from less than one year to 6.5 years).

Chart B.3.4

Financing Cost: DPC (Discount) and SME Bonds (Yield)



(*) Transactions with variable rate are reported adding the spread to the last Badlar known at the moment of the operation.
Source: BCRA based on IAMC, BCBA and CNV.

In 2014, there were SME corporate bond transactions in the primary market for a total amount of $117 million. The instruments of companies operating in the financial services segment accounted for 42% of the yearly amount, followed by textile companies (21%) and by transactions of a lesser weight made in other sectors (agriculture and livestock, health care and the construction business, among others). Regarding the characteristics of the transactions, in 2014 all of them were made in pesos[52], with an average amount of almost $10 million per transaction (slightly below the level of 2013). The weighted average term of the issue was 37 months in 2014, shorter in almost 3 months than transactions in pesos in 2013. Regarding the financing cost, the transactions at a variable rate with terms between 30 and 40 months were made with a spread over the Private Bank BADLAR of 675 bp on weighted average (with a range between 410 and 1,200 bp).

The promissory note is another instrument available to these companies, which became a negotiable instrument after enactment of the new Capital Markets Act. The marketable promissory note, with terms longer than CPDs (up to five years) and the possibility of being guaranteed by a SGR, was formally launched by the end

[49] Issued directly by the company drawing the check.
[50] Throughout the year, the average weighted term for guaranteed checks was close to six months and a half, against six months in 2013.
[51] In the previous five years, on average, the funding volume through this instrument during the first quarter of the year went down over 10% if compared to that of the three previous months (and just within one year it recorded a positive change).
[52] In 2013, there was only one transaction denominated in dollars and payable in pesos. Dollar-linked transactions had a remarkable weight in the 2008-2010 period.

of 2013, when the National Securities Commission (CNV) approved its trading and the Merval authorized its implementation, even though its use has been very limited. In this respect, it has been recently announced that a bill will be sent to Congress to facilitate the use of this instrument.

In 2014, lending to SMEs accounted for less than 10% of the total financing obtained through capital markets. Even though such percentage is still low, its evolution is positive if compared to the figures observed at the beginning of the last decade (2%). In this sense, these instruments have a sizable potential for growth (as a complement to bank lending to larger companies), in particular those that offer access to longer-term funds and for sizable amounts[53].

[53] For more information see the Box “Funding Available to SMEs through Domestic Capital Markets” in Financial Stability Report, First Half 2013.

III. Debtors Performance

Summary

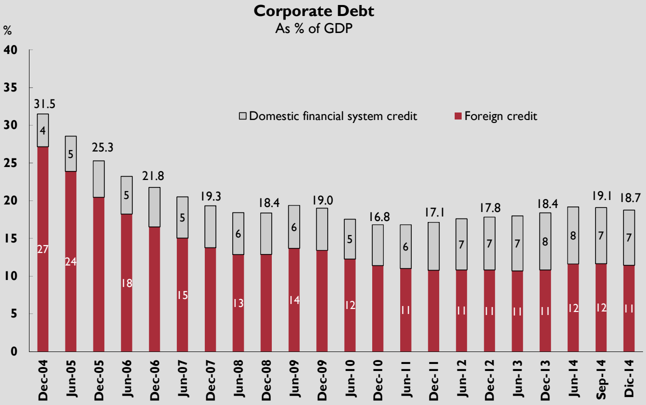
The activity of the corporate sector posted a dissimilar performance throughout 2014, showing some growth in services —at a slower pace than in previous periods— and a certain stability in the production of goods; in this segment, the negative performance of the automotive sector and related industries, such as rubber and plastics, was offset by the growth in other industrial segments, the construction business and the agricultural sector. These trends would have been maintained, in general, at the beginning of 2015. This occurred in a context of a slight increase in the level of estimated sectoral indebtedness, which, by the end of 2014, totaled 18.7% of GDP. So far this year, a certain contraction was observed in debt owed to the domestic financial system in terms of GDP, with a slight increase of the level of external indebtedness measured in domestic currency as a result of the evolution of the peso-dollar exchange rate throughout the year.

Indebtedness ratios of the different segments of the corporate sector posted no relevant changes during this period, and they stood at low levels if compared to international ratios. Thus, in general, the financial position of companies continues to be relatively stable, and this reduces potential challenges that may be posed by the performance of sectoral levels of activity. In this respect, a contribution was also made by public policies, since they allow companies to obtain lending under favorable interest rate and term conditions (including among them the Credit Line for Productive Investment –LCIP– of the BCRA) and, at the same time, they seek to influence demand (the "Ahora 12" Program, to purchase in up to 12 fixed monthly installments at 0% interest, and SUBEneficio, contemplating passenger transportation benefits, among others).

The estimated level of indebtedness of the aggregate of households showed a gradual decline in recent months in terms of the wage mass, in a context of sustained growth of their nominal income. The debt of households stood at 20% of the wage mass —net of contributions— by the end of 2014, with a year-on-year (y.o.y.) decrease of 2 percentage points (p.p). In turn, the financial burden of households still stands at moderate levels (12.7% of wage mass), and it contributes to sustaining the payment ability of this sector.

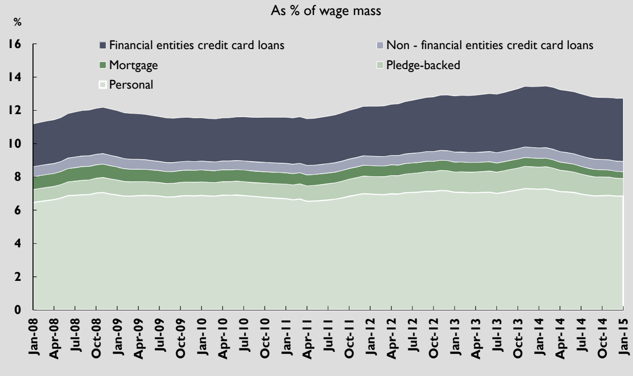
Taking into consideration the evolution of income and expenses of the Non-Financial Public Sector (NFPS), the primary and financial results in the aggregate of the last 12 months up to January 2015 represented approximately -0.9% and -2.7% of GDP, respectively. The national public debt (NPD) held by private creditors, in particular debt denominated in foreign currency, measured in terms of GDP, still stands at relatively low levels.

Chart III.1
Corporate Debt
As % of GDP



Note: 4-quarter moving average financing is considered in the numerator and 4-quarter moving average GDP is considered in the denominator. Data subject to subsequent changes.
Source: BCRA and INDEC

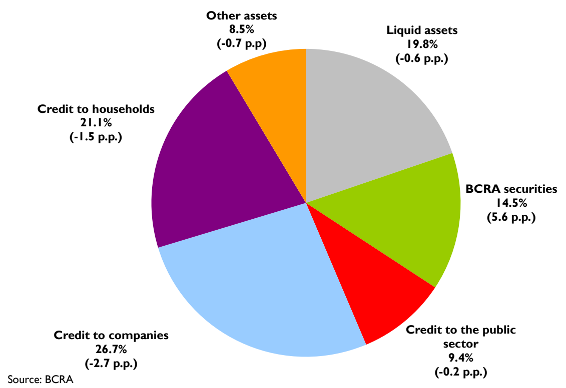
Chart III.2
Household Debt Service Ratio
As % of wage mass



Note: Considering the estimated monthly payments by loans (capital and interest), in term of the estimated monthly wage mass.
Source: BCRA

III.1 Financial System Debtors

Chart III.3
Financial System Asset Portfolio
As % of netted assets to December 2014 - (p.p. change respect to december 2013)

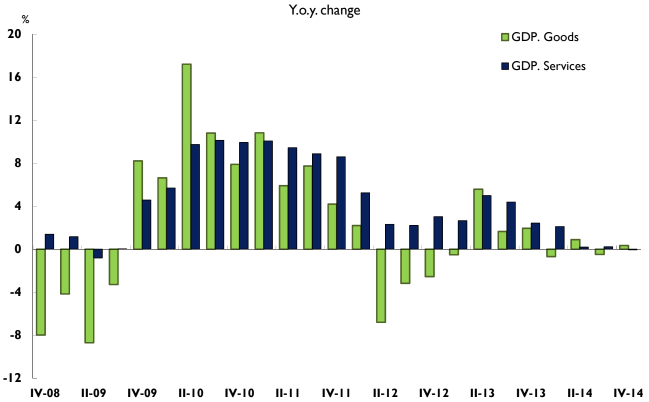


Source: BCRA

In a context of moderate growth of the activity of domestic financial intermediation, throughout 2014 a decrease was observed in the weighting of lending to companies (-2.7 p.p. down to 26.7%) and to households (-1.5 p.p. down to 21.1%) in bank assets[54] (see Chart III.3). The share of lending to the public sector posted a decrease in this period as well (-0.2 p.p. down to 9.4%). On the other hand, there was a higher weighting of more liquid assets (aggregate of liquid assets and securities of the BCRA) held by banks.

III.2 Corporate Sector

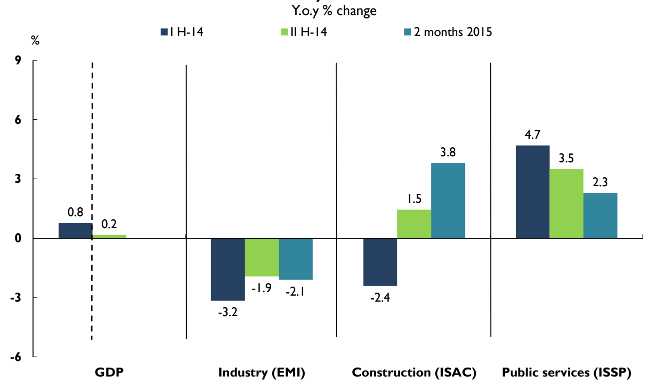
Chart III.4
GDP. Goods and Services
Y.o.y. change



Source: INDEC

During the second half of 2014, the level of economic activity went up slightly in year-on-year terms (y.o.y.); therefore, GDP at 2004 prices ended the year with a 0.5% increase if compared to 2013. This momentum was the result of the increase recorded in services, even though at a slower pace than in previous periods, and of a certain stability in the production of goods (see Chart III.4). Leading indicators show that this trend would have been maintained, in general terms, at the beginning of 2015 (see Chart III.5 and Chapter II).

Chart III.5
Activity Indicators
Y.o.y % change



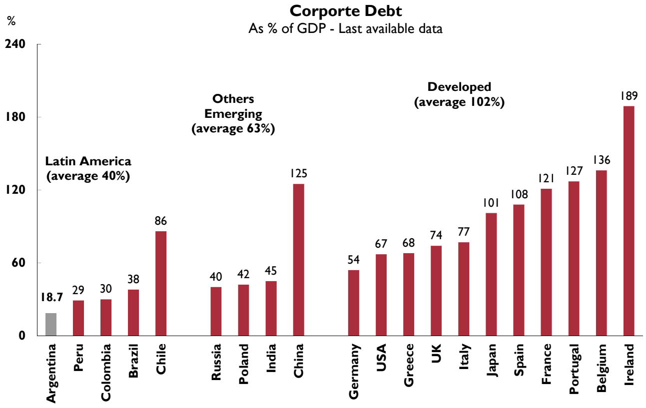
Source: INDEC

The estimated level of indebtedness, measured in terms of GDP, for the corporate sector totaled 18.7%[55] by the end of 2014. This indicator of the relative size of the sector indebtedness, even though it posted a slight increase during the year, still stands at relatively low levels, both in historical terms (see Chart III.1) and on an international comparison basis (see Chart III.6). In the aggregate of 2014, a slight decline was observed in indebtedness from the domestic financial system, and at the same time an increase was recorded in the level of foreign indebtedness measured in domestic currency as a result of the evolution of the peso-dollar exchange rate during the year[56].

A little over 60% of total aggregate indebtedness of the corporate sector is related to external lines of credit. Out of this total, commercial lines account for 62%[57], and among them, approximately 43% originated in companies of the same business group. In turn, almost half of the financial debt —with a higher relative share of primary sectors, especially those related to oil and

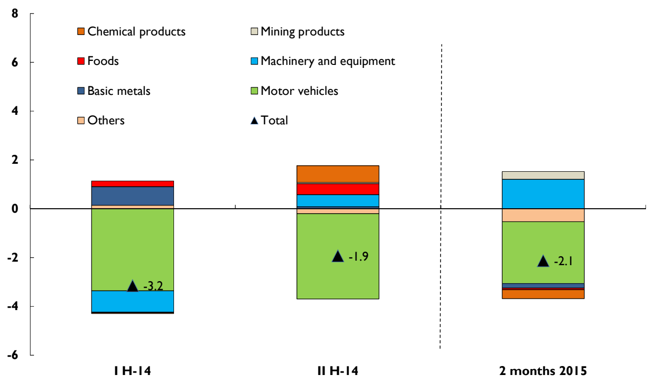
[54] Information obtained from the Debtors' Database (comprising both domestic and foreign currency). Lending to companies is defined as funds lent to legal persons and commercial lending to individuals. In turn, loans to households are any loans given to natural persons, except such funds are intended for commercial use.
[55] In this case, the numerator shows the moving average of four quarters of lending, and the denominator shows the moving average of four quarters of nominal GDP.
[56] It is worth considering that indebtedness of companies records a decline in 2014 if the amount in original currency is taken into consideration.
[57] A relatively higher share of industrial and utility companies.

Chart III.6
Corporte Debt
As % of GDP - Last available data



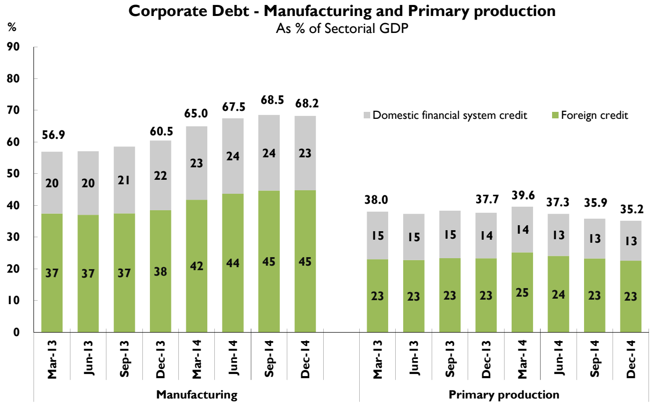
Note: Data to 2014. Source: McKinsey Global Institute (2015) and BCRA

Chart III.7
Industry. Sectorial Evolution
In percentage points - Contribution to y.o.y. change



Source: BCRA from INDEC data

Chart III.8
Corporate Debt - Manufacturing and Primary production
As % of Sectorial GDP



Note: 4-quarter moving average financing is considered in the numerator and 4-quarter moving average GDP is considered in the denominator. Data subject to subsequent changes.
Source: BCRA and INDEC

mining— is associated to transactions carried out with the same business group.

Throughout 2014, an increase was observed in the relative weighting of financial assets channeled through the financial system to companies related to primary production of goods, trade and the construction business (see Chart IV.10). Industry, the segment representing almost 37.4% of the total lending to companies by the end of 2014, reduced its share in the period, and the same situation was observed in the segment of services.

Even though a context of lesser growth of activity (income) in some of the productive sectors might impact on the margin on their financial position, the very low relative levels of indebtedness still prevailing must be weighted. In that regard, it is worth considering that the public policies in progress have contributed to reducing a potential impact on the financial burden of corporate debtors, in particular, after the implementation of the Credit Line for Productive Investment (LCIP) which channels credits for production purposes under very favorable conditions (see Chapter IV and Box 4).

Productive Sectors

Industry

The level of manufacturing activity declined —according to the Monthly Industrial Indicator (EMI)— 1.9% y.o.y. during the second half of 2014, mainly due to the performance of the automotive sector and related industries, such as rubber and plastics. The activity in the oil refining and textile industries also posted an unfavorable performance. Data available for early 2015 evidence a 2.1% y.o.y. contraction of this sector, in line with the evolution of previous months. The sector comprising the automotive and related industries (rubber and plastics), the production of chemical products and publishing and printing were the main items behind this performance during this year, whereas the production levels of the metal-mechanical industry, non-metallic minerals and oil refining recorded an increase (see Chart III.7).

The level of use of the installed capacity (UCI) of the industrial sector as a whole stood at 72.2% during the second half of 2014 and fell 1.5 percentage points (p.p.) if compared to the same period of last year. So far in 2015, the UCI reduced the year-on-year decline to 1.2 p.p.

Against this backdrop, the indebtedness ratio of the manufacturing sector recorded an increasing trend

Table III.1

Grain Production - Major Crops

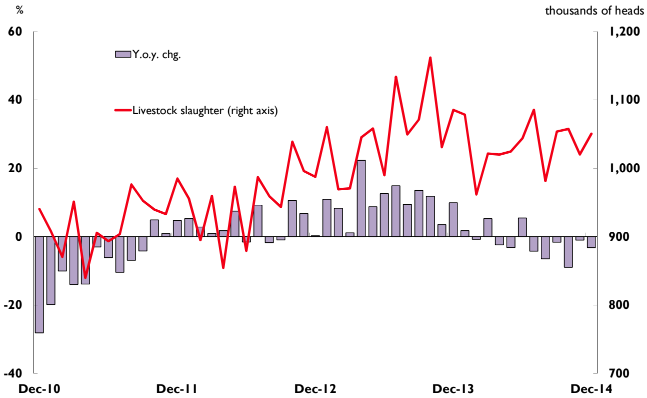
	2013/14 thousands tns (e)	2014/15 thousands tns (f)	% Change 2014/15 vs. 2013/14	Diff. in thousands tns 2014/15 vs. 2013/14
Cereals	**52,648**	**52,114**	**-1.0**	**-534**
Corn	33,000	30,000	-9.1	-3,000
Wheat	9,200	13,900	51.1	4,700
Others	10,448	8,214	-21.4	-2,234
Oilseeds	**56,695**	**62,286**	**9.9**	**5,590**
Soybean	53,400	58,000	8.6	4,600
Others	3,295	4,286	30.1	990
Rest	**1,605**	**1,281**	**-20.2**	**-324**
Total	**110,948**	**115,680**	**4.3**	**4,732**

e: Estimated; f: Forecast

Source: MAGyP

Chart III.9

Livestock Slaughter

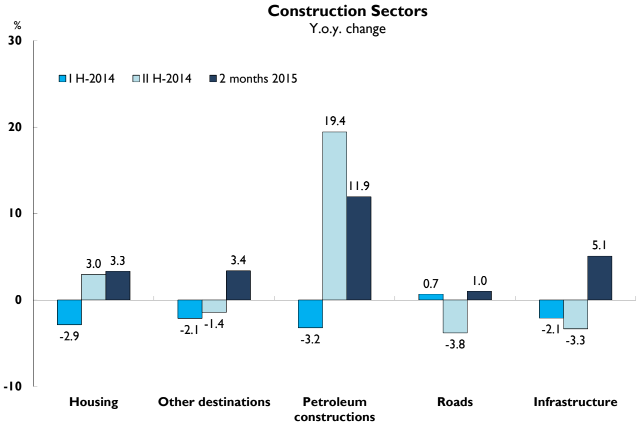


Source: BCRA from MAGyP data

Chart III.10

Construction Sectors

Y.o.y. change



Source: INDEC

throughout 2014, mainly resulting from the lesser sectoral activity and the effect of the evolution of the nominal peso-dollar exchange rate on the component of external funds. Thus, the level of estimated aggregate debt of the industrial sector exceeded 68% of GDP in the fourth quarter of 2014, almost 8 p.p. above the value recorded at the end of 2013 (see Chart III.8). The external financing continued to account for two thirds of the total, especially originating in lines related to the commercial activity —linked to imports and exports—, whereas the rest corresponded to financial loans or debt securities, among other instruments.

Primary production

The farming activity was favored by the higher agricultural production during the second half of 2014, whereas the cattle-breeding sector remained at low levels. The growth of agriculture was tied to works for the 2014/15 cycle; the production of this cycle would rise 4.3% relative to the previous cycle and would reach a new historical record of 115.7 million tons. This growth was mainly driven by the wheat harvest, which ended with 13.9 million tons (+51.1%), and a larger sowing of soybean, with an estimated harvest of 58 million tons (+8.6%) (see Table III.1). Thus, it is anticipated that agricultural activity would continue contributing to the expansion of this sector, based on the contribution to be made by works related to soybean harvest, which would break a new record.

The activity of the livestock sector went down, posting a 4.3% y.o.y. drop in bovine slaughtering between July and December (see Chart III.9). On the contrary, poultry slaughtering gained momentum during such period, with a 2.6% y.o.y. increase in the volumes obtained, up to 4.5% y.o.y. in January 2015. Meanwhile, milk production, as stated by the EMI, stood at low levels during the second half of 2014 and in early 2015.

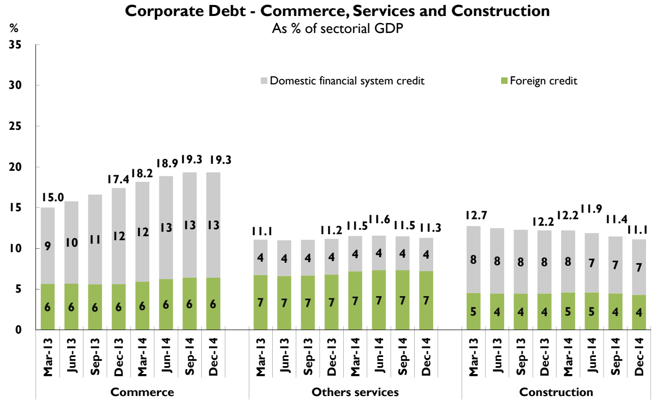
Other activities related to primary production posted a heterogeneous performance during the second half of 2014. In particular, according to the information from national accounts, the exploitation of mines and quarries went up 2% y.o.y. during the second half of last year, after a 1.6% y.o.y. rise during the first half. Meanwhile, oil production decreased 1.9% y.o.y. between July and December, even though such drop was reduced to 1.1% y.o.y. at the beginning of 2015.

Following an increase in early 2014, the estimated level of indebtedness of companies related to primary production fell throughout the year, reaching an approximate level of 35% of GDP (see Chart III.8). This

Chart III.11

Corporate Debt - Commerce, Services and Construction

As % of sectorial GDP

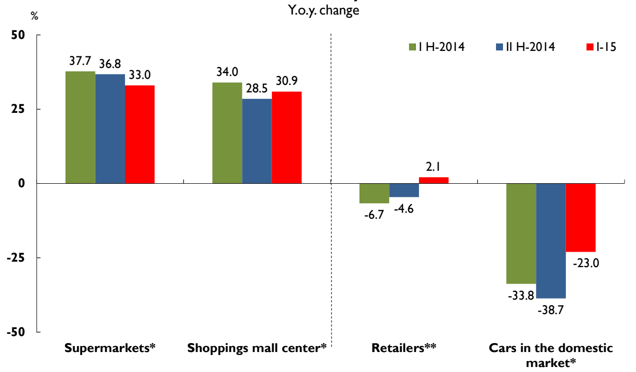


Note: 4-quarter moving average financing is considered in the numerator and 4-quarter moving average GDP is considered in the denominator. Data subject to subsequent changes.
Source: BCRA and INDEC

Chart III.12

Commercial Activity Indicators

Y.o.y. change

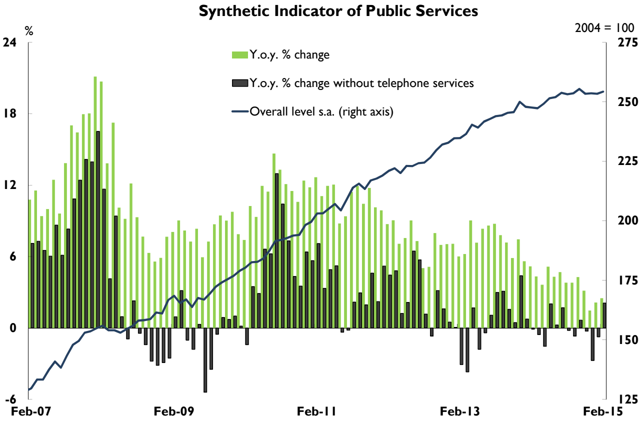


Source: INDEC, CAME and ADEFA

* I-15 data to february; **Relieved by CAME. More than 400 stores

Chart III.13

Synthetic Indicator of Public Services



Source: INDEC

trend was mainly originated in the relative growth of the activity of this sector, which stood above the evolution of liabilities to domestic financial entities and financing abroad. Foreign financing continues to account for approximately two thirds of total financing, mainly originated in the oil and mining sectors (which funds mainly consist of financial debt).

Construction Sector

The construction business gained momentum since July 2014, posting a 1.5% y.o.y. increase, according to the Summarized Construction Activity Indicator during the second half of 2014, and a 3.8% y.o.y. rise in the first two-month period of 2015. In the first months of the period under analysis, this sector was mainly boosted by works related to the private sector, with an increase in oil-related works and housing. However, more recently, construction works related to the public sector, such as road and infrastructure works, showed a rebound (see Chart III.10).

The ratio between indebtedness and the GDP of the sector gradually decreased throughout 2014, up to just above 11% (see Chart III.11). Thus, construction still stood among the productive sectors with lower relative indebtedness, with a relative low share of funds from abroad.

Commercial Sector

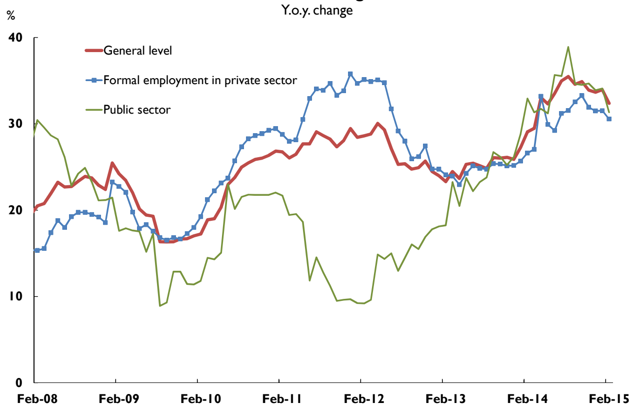
In the second half of 2014, the commercial activity fell if compared to figures recorded one year ago. This reduction was evidenced by the lesser volume of consumer goods purchased (-9.3% y.o.y.) from abroad, which declined in a similar amount at the beginning of 2015, and by the drop of both domestic and imported motor vehicles traded. Sales in retail shops surveyed by the Argentine Medium-Sized Business Confederation (CAME) evidenced a 4.6% y.o.y. decrease in the second half of 2014, with some recovery during the first quarter of 2015 (+2.1% y.o.y.). On the other hand, a 36.8% y.o.y. increase was posted in supermarkets' turnover, following a 37.7% y.o.y. growth during the first half of 2014, whereas nominal sales in shopping malls rose 28.5% y.o.y. in the second half of 2014 (vs. 34% y.o.y. in the first half) (see Chart III.12).

Commercial companies gradually increased their aggregate indebtedness ratio throughout the year, up to slightly over 19% (see Chart III.11). This evolution was driven by both the component of external financing (totaling one third of the total stock) and domestic

Chart III.14

Nominal Wage

Y.o.y. change

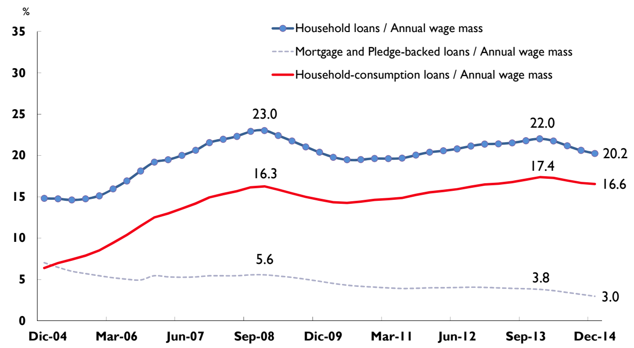


Source: INDEC

Chart III.15

Household Debt

As % of formal wage mass net of contributions

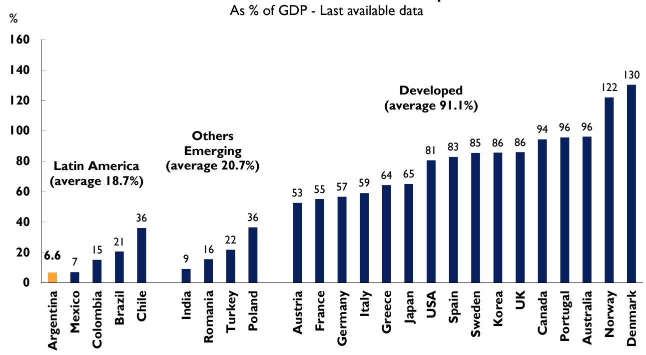


Note: Loans to households include financial system financing, financial trusts for comsumption loans asunderlyng assets (credit cards and personal loans), collateralized loans (mortgage and pledge-backed) and the stock of non-bank credit cards. Data subject to subsequent changes. Annual moving averages are taken both household debt and its wage mass. Source: BCRA from BCRA, INDEC and CNV data.

Chart III.16

Household Debt - International Comparison

As % of GDP - Last available data



Note 1 : Last available data for each country.
Note 2: In the case of Argentina, it includes bank debt, financial trusts for consumption loans as underlyng assets (credit cards and personal loans) and real collateral loans (mortgages and pledge-backed) and the stock of non-bank credit cards.
Source: IMF, McKinsey Global Institute (year 2015), Financial Stability Report and BCRA

financing, in a context of a lesser relative growth of the sectoral GDP.

Other Services

The supply of services kept on going up during the second half of 2014 and the beginning of 2015, even though posting a slower expansion pace than in previous periods. Even though financial intermediation recorded, once again, a remarkable increase, the contraction in the provision of trade services and the lesser momentum of transportation, related to the performance in the production of goods, impacted on the evolution of this sector as a whole (see Chart III.13).

Upon analyzing the consumption of services according to the Synthetic Indicator of Public Services, a reduced growth pace of telephone items is observed, even though the segment continued to lead the contribution to the year-on-year increase of the indicator. The other segments recorded a dissimilar performance, posting, on a joint basis, a -0.3% y.o.y. change between July and December, and a 0.6% y.o.y. change during January and February 2015. Cargo transportation contracted during the period under analysis, and a contraction was also recorded in the number of cars going past toll booths and in the consumption of electricity, gas and water as well. In turn, the number of users of transportation services went up, with an outstanding rise in the demand for domestic flights.

The sectoral indebtedness ratio stood virtually unchanged during 2014, at a level of 11.3% of GDP at the end of 2014 (see Chart III.11). Thus, this sector continues to be one of the productive activities with the lowest relative level of indebtedness of the economy as a whole.

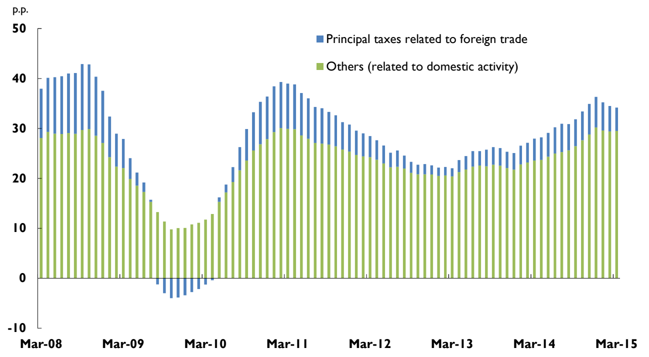
III.3 Households

Nominal income of households kept on rising based on a wage increase and on the continuity of the public policies aimed at supporting lower-income sectors, even though the labor market was affected by the performance of the economic activity.

According to data from the Household Permanent Survey (EPH) covering the fourth quarter of 2014, the unemployment rate[58] reached 6.9% of the labor force (PEA) and stood 0.5 p.p. above the figures recorded for the same period of 2014. Labor share contracted, and the employment rate followed suit. As regards the quality of employment, the underemployment rate went up 1.3 p.p.

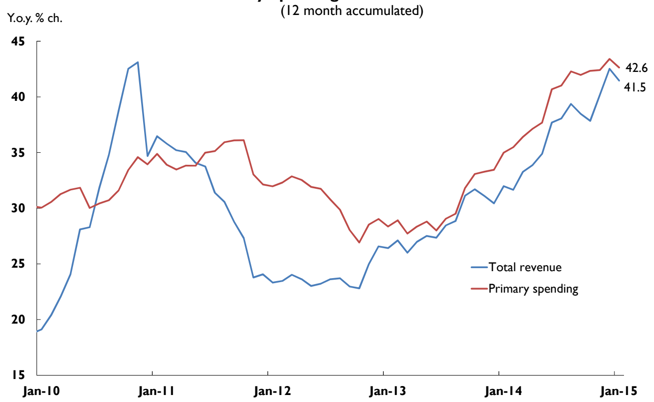
[58] Based on the 31 urban agglomerations surveyed.

Chart III.17
National Tax Revenue
Contribution to growth - Accumulated 12 months



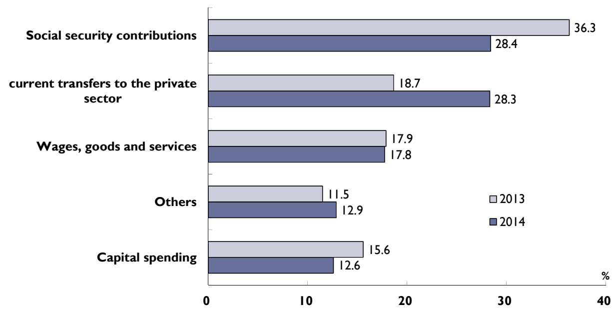
* VAT DGA, income DGA and export and import duties.
Source: BCRA from Treasury Secretariat data

Chart III.18
Revenue and Primary Spending of the Non-Financial Public Sector
(12 month accumulated)



Source: BCRA from Treasury Secretariat data

Chart III.19
Primary Spending of the Non-Financial Public Sector
Contribution to growth



*Excludes extrabudgetary Transfers to Provinces (federal tax revenue sharing, special laws and other automatic distribution resources)
Source: BCRA from Ministry of Economy and Public Finance data

in year-on-year terms, posting an increase in the number of underemployed jobseekers (+1 p.p. y.o.y.).

As regards labor market perspectives, surveys conducted to ask employers about the evolution of staffing demand in the short term anticipate a context of stability. The Labor Indicators Survey[59] showed that 87% of companies plan to keep their workers under formal employment during the first quarter of 2015, whereas 9% of companies assured that jobs will increase and only 4% estimated a reduction of job positions. In turn, according to private sources[60], the demand for labor would remain in place during early 2015 at the levels of the last quarter of 2014, stating a 3% net provision —resulting of the subtraction of the percentage estimating reductions from the percentage of surveyed companies expecting an increase of jobs.

With respect to wage income, according to the Wage Index of INDEC, there was an acceleration in the pace of average wage increases of the economy. Nominal wages grew 34.6% y.o.y. in the second half of 2014, following a 30.9% y.o.y. increase in the first half (see Chart III.14). In the first two-month period of 2015, on average, wages went up 33.2% y.o.y.

The National Government kept its income policy, with a new rise in Family Allowances —including the Universal Child Allowance for Social Protection— up to a maximum of 40%, effective as from June 2014. Besides, under the Social Security Mobility Act, retirement and pension payments were increased (+17.21% in September 2014 and +18.26% in March 2015), and the Minimum Wage was also raised: 22.2% in September 2014 and 7.2% in January 2015. In addition, an exemption was made regarding payment of income tax on the semi-annual complementary wage payable in December 2014 for workers whose gross monthly salary does not exceed $35,000, among other measures.

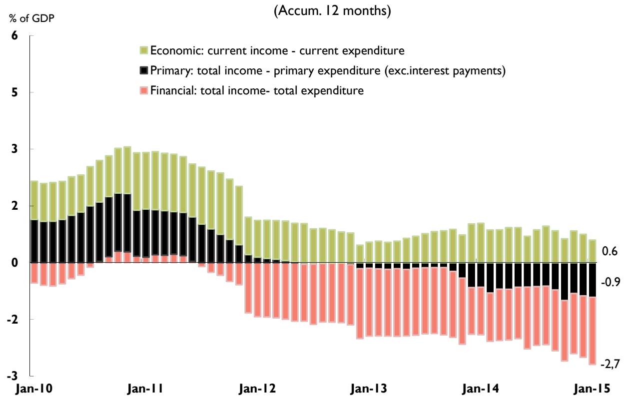
The growth recorded in nominal income of households throughout 2014, in a context of a relatively lower expansion of lending to this sector, was reflected in a decrease of aggregate indebtedness of households. Thus, the estimated sectoral debt of households totaled almost 20.2% of income as of December 2014, with a reduction of almost 2 p.p. in the aggregate for 2014, even though with a slight rise at the end of the year (see Chart III.15). The level of indebtedness of households as a percentage

[59] Prepared by the Ministry of Labor, Employment and Social Security on a sample of around 2,400 companies of the formal sector of all branches of activity, except for primary production, with 10 and more workers, conducted in eight urban centers of Argentina during the fourth quarter of 2014.
[60] Manpower: employment expectations survey conducted taking as a basis a representative sample of over 800 employers throughout Argentina, who were asked if they foresaw any changes in their companies at employment level during the quarter ending in March 2015, as compared to the immediately preceding quarter.

Chart III.20

Non-financial National Public Sector Balances

(Accum. 12 months)



Source: BCRA from Treasury Secretariat and INDEC data

Table III.2

National Treasury. Debt Securities Issued in the Local Market

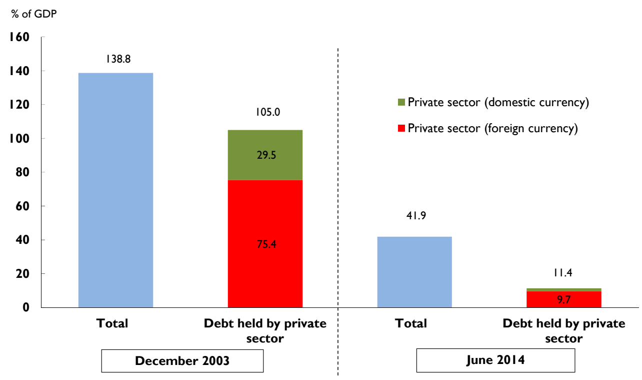
(2014 and 2015)

Date	Bond	Base currency	Suscription currency / payment	Coupon	Maturity date	Original face value; in mill.
Mar-14	Bonar 2017	Pesos	Pesos	Badlar + 200 b.p.	2017	5,540
Jun-14	Bonar 2017	Pesos	Pesos		2017	4,460
Sep-14	Bonar 2016	Pesos	Pesos		2016	10,000
					Total 2014:	**20,000**
Mar-15	Bonac mar-16	Pesos	Pesos	LEBAC in $ to 90 days	2016	3,909
Mar-15	Bonac sep-16	Pesos	Pesos		2016	1,091
					Total accum. 2015:	**5,000**
Oct-14	Bonad 2016	Dollar	Pesos	1.75	2016	983
Nov-14	Bonad 2018	Dollar	Pesos	2.4	2018	654
Dec-14	Bonar 2024	Dollar	Dollar	8.75	2024	286
					Total 2014:	**1,923**

Source: BCRA from Ministry of Economy and Public Finance

Chart III.21

National Public Debt*



*Excludes holdouts; **Estimated
Source: BCRA from Treasury Secretariat and INDEC data

of GDP was still standing below the values recorded in other economies (see Chart III.16).

The low levels of households' indebtedness contributed to maintaining a moderate level in the average burden of debt services of the households sector. Thus, the estimated ratio of financial burden of households in terms of the wage mass stood at 12.7% at the end of 2014[61] —mainly originating in the performance of consumption lines— (see Chart III.2), and it recorded a gradual reduction throughout the year. This situation contributed to providing households with sufficient soundness to cope with any possible changes in macroeconomic and financial conditions of the economy.

III.4 Public Sector

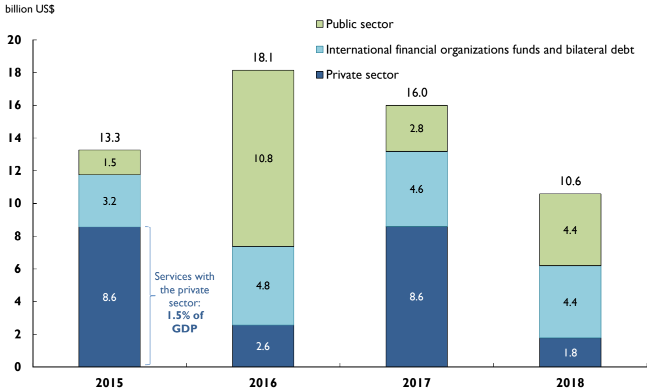
During the second half of 2014, the national tax collection kept a dynamic expansion pace (37% y.o.y.), posting a moderate performance in the first quarter of 2015 (up to 32% y.o.y.) related, to a large extent, to the lesser impact of the exchange rate change. Indeed, even though taxes related to foreign trade maintained a performance similar to that of 2014, measured in dollars, they recorded a certain deceleration when stated in domestic currency (see Chart III.17). Against this backdrop, total revenues of the Non-Financial National Public Sector (NFPS) rose 43% y.o.y. during last year, with an expansion pace similar to that shown in the first half of 2014 (in January 2015, it declined to 32% y.o.y.). The higher primary spending of the NFPS stood at high levels during the second half of 2014 (with an aggregate 43% y.o.y. rise in 2014), with changes similar to those of revenues, posting a 36% y.o.y. rise in January 2015 (see Chart III.18). Social security benefits continued to be the item contributing the most to the year-on-year increase of primary spending during 2014, followed by current transfers to the private sector[62] (see Chart III.19).

The higher spending on social security benefits (34% y.o.y. throughout 2014) was due to the increase of benefit amounts and the higher number of beneficiaries[63]. Meanwhile, the increase of transfers to the private sector (59% y.o.y.) was mainly explained by the rise in energy subsidies based on higher spending on fuel imports as a consequence of the exchange rate evolution. Higher spending was also driven, to a lesser extent, by the increase in coverage and amounts of

[61] The calculation takes into account estimated monthly services for loans (principal and interest), in terms of the estimated monthly wage mass. See Box 3 of the Financial Stability Report, Second Half 2014, for further detail on the methodology of this indicator.
[62] For further information, see the Macroeconomic and Monetary Policy Report, February 2015.
[63] In addition to the regulatory increases of social security benefit amounts in March and September each year, an impact resulted from the implementation of the second tranche of the Social Security Inclusion Plan (Law No. 26970), which might entail up to around 470,000 additional retirement and pension beneficiaries.

Chart III.22

Maturity Profile of the Public debt in Foreign Currency*



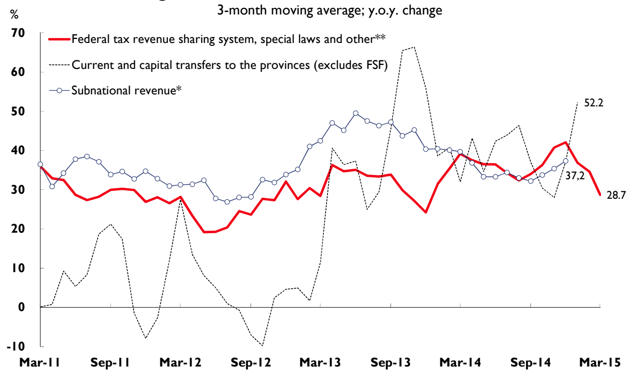
Source: Treasury Secretariat

*Not included a pay projection of the GDP-linked

Chart III.23

Sharing, Transfers to Provinces and Subnational Collection

3-month moving average; y.o.y. change



*Estimate based on available information.

**From Apr-09 provides for the distribution of resources Federal Solidarity Fund (Decree No. 206/2009).

Source: BCRA from Treasury Secretariat data

family allowances —including the Universal Child Allowance for Social Protection (AUH)—, the beginning of the Program to Support the Students of Argentina (PROG.R.ES.AR.) and the increase of transfers managed by the Argentine Institute of Social Services for Retirees and Pensioners (INSJyP —formerly known as PAMI—), among other concepts. It is worth mentioning that, for 2015, a significant moderation is anticipated of current transfers to the private sector, as a result of the sudden contraction of the international price of crude oil as from mid-2014, a deceleration that has already become evident in January 2015.

As a result of the evolution of income and expenses during 2014, the primary and financial results of the NFPS accounted for approximately -0.9% and -2.6% of GDP, respectively (see Chart III.20).

The National Treasury (NT) continued to mainly meet its funding needs through financial investments and loans from other public entities. In 2014, the net funding from Temporary Advances (AT) of the BCRA totaled $68.85 billion, whereas during the first quarter of 2015, it totaled $6.3 billion. Besides, during last year, the use of international reserves to pay debt services to private creditors (Argentine Debt Reduction Fund —FONDEA—) and debts owed to multilateral and bilateral debt organizations (FONDOI) amounted to around US$11 billion. The NT also obtained net funds from other agencies of the non-financial public sector and from Banco de la Nación Argentina.

In addition, during 2014, the National Government issued bonds in the domestic market for around $36 billion. More than half of funds were obtained from bonds in pesos. The rest corresponded to dollar-denominated instruments, and most of them were underwritten and will be paid in domestic currency (see Table III.2). In March 2015, two new bonds were issued in the domestic market, for 12 and 18 months, BONAC $ March 2016 and BONAC $ September 2016[64], for a total amount of $5 billion, on a joint basis. Regarding the liability management policy during the second half of 2014, a partial swap was made of BODEN US$ 2015, and an early cancellation option was offered for such instrument. As regards the situation of debt which failed to participate in the 2005 and 2010 Debt Swaps, Law No. 26984 was passed on Sovereign Payment and Public Debt Restructuring (for further detail, see Chapter II, Section 3).

[64] Both instruments are bullet bonds, and pay interest on a quarterly basis according to the evolution of the rate for LEBAC in pesos with a maturity close to 90 days.

Table III.3

Debt Placements in Dollar and Dollar-Linked of the Subnational Juridictions

Date	Jurisdiction	Currency	Amount in million (currency of origin)	Term (years)	Annual rate of return
Jan-14	CABA	*dollar-linked*	146.0	6.0	2.0%
May-14	CABA	*dollar-linked*	100.0	2.0	4.8%
May-14	Neuquén	*dollar-linked*	24.7	2.5	2.9%
Jun-14	CABA	*dollar-linked*	75.9	2.0	2.5%
Aug-14	CABA	*dollar-linked*	64.6	2.0	0.4%
Sep-14	CABA	*dollar-linked*	111.1	4.0	2.3%
Accum. 2014			**522.3**		
Jan-15	CABA	*dollar-linked*	36.9	1.8	4.8%
Feb-15	CABA	dólar	500.0	6.0	9.0%
Accum. 2015			**536.9**		

Source: BCRA from Provinces data.

The national public debt totaled US$198.86 billion as of June 2014 —latest information available—, accounting for 41.9% of GDP. The proportion of debt held by private creditors —considered riskier as regards refinancing— reached 11.4% of GDP in the same period, out of which only 9.7 p.p. of GDP corresponded to obligations denominated in foreign currency (see Chart III.21). As to maturities in foreing currency, it is estimated that in 2015 services aimed at private holders of public debt would represent a value equal to 1.5% of GDP (see Chart III.22).

In 2014, tax resources originating in subnational districts grew 36% y.o.y. Tax revenues transferred by the National Government —federal tax revenue sharing, special laws and other automatic and non-automatic distribution funds— rose 38% y.o.y. in the second half of 2014, and they decelerated during the first quarter of 2015 down to 29% y.o.y. (see Chart III.23).

As regards lending to the provinces, the implementation continued of the Federal Program of Debt Reduction of the Argentine Provinces, with a quarterly duration —according to bilateral agreements— of the grace period for payment of services related to debts owed by the participating provinces to the National Government. At the beginning of 2015, the extension of this program was established during the first quarter of the year[65].

In relation to debt issues by subnational districts, only the City of Buenos Aires and Neuquén issued bonds adjusted by the US dollar price (dollar-linked) during 2014 (see Table III.3). In addition, so far in 2015, the City of Buenos Aires obtained again funds in the capital markets, both in dollar-linked instruments and in dollar-denominated bonds.

[65] Resolution of the Ministry of Economy and Public Finance No. 22/2015.

IV. Financial Sector

Summary

Financial institutions' intermediation activity with the private sector grew moderately in 2014 and early 2015, in a context of limited exposure to risks. Total lending to companies and households —boosted by lines in pesos— increased 20.2% y.o.y. in nominal terms by the end of 2014, while deposits went up 30.9% y.o.y. over the same period. It is of interest to note that the sector's activity posted greater momentum in the last quarter of 2014.

Lending to companies decreased their y.o.y. growth pace in 2014, down to 18.8% y.o.y in nominal terms. In turn, loans to households ended the year going up 22.2% y.o.y. Particularly, these loans gained more momentum in the last quarter of 2014, climbing 47.9%a and exceeding the changes recorded in previous years. This performance was mainly explained by the effect resulting from government policies promoted in 2014 aimed at offering better lending conditions for households: the regulation of interest rates on personal loans and pledge-backed loans for natural persons; the implementation of the PRO.CRE.AUTO Program (a plan for the purchase of national vehicles) and the AHORA 12 Program (to facilitate the purchase of goods and services with a credit card in 12 installments at 0% interest rate), amongst others.

The BCRA continued promoting bank lending for productive purposes throughout the year. In this regard, the Credit Line for Productive Investment (LCIP) granted, from its implementation —in mid-2012— to late 2014, loans for a total amount that widely exceeded the targets set for the first five stages; such loans were mainly given to micro, small, and medium-sized enterprises.

Private sector total deposits rose 31.3% y.o.y. in nominal terms by the end of 2014, surpassing —by over 4 p.p.— the growth rate recorded a year before. In turn, public sector deposits gained momentum in the last months of 2014 and in early 2015, going up 26.4% y.o.y. in December. Consequently, total deposits of the private and public sector went up 30.6% y.o.y. in 2014, exhibiting the highest change on record in the past three years.

The financial system consolidated net worth expanded 38.4% in 2014, being mainly driven by profits obtained and, to a lesser extent, by new capital contributions. The leverage level of the ensemble of banks decreased in 2014: the system's netted assets accounted for 8.1 times the net worth recorded at the end of the year, down 0.4 y.o.y. These records remain low on a historical comparison basis and are lower than other figures observed in the region and in other emerging and developed economies, thereby evidencing the soundness of the sector.

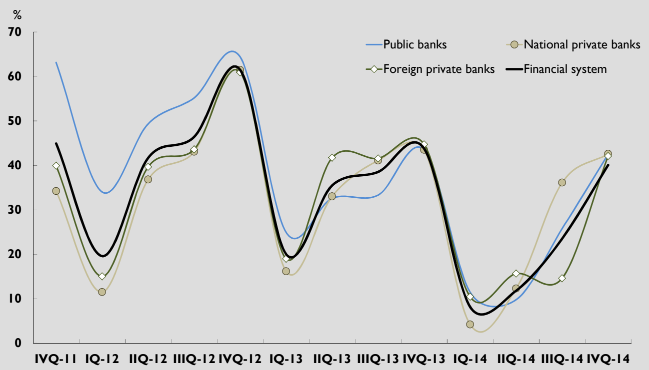
Solvency of the ensemble of banks increased throughout the year: financial system capital compliance stood at 14.7% of risk-weighted assets (RWA) in December 2014, up 1.1 p.p. against the same period of 2013; Tier 1 capital accounted for 13.7% of RWA (over 90% of total compliance), up 1.2 p.p. against the level recorded a year before. The ensemble of banks ended 2014 exhibiting return on assets (ROA) amounting to 4.1%, going up 0.7 p.p. against 2013. This y.o.y. growth in profits was observed in all groups of banks and was mainly driven by the item of sovereign bonds.

The portfolio of institutional investors (Sustainability Guarantee Fund [FGS], insurance companies and mutual funds) climbed 50% as of September 2014. Regarding GDP, the value of the aggregate portfolio rose up to 18.3%, up 3.5 p.p.

Chart IV.1

Credit in Pesos to Private Sector by Group of Financial Institutions

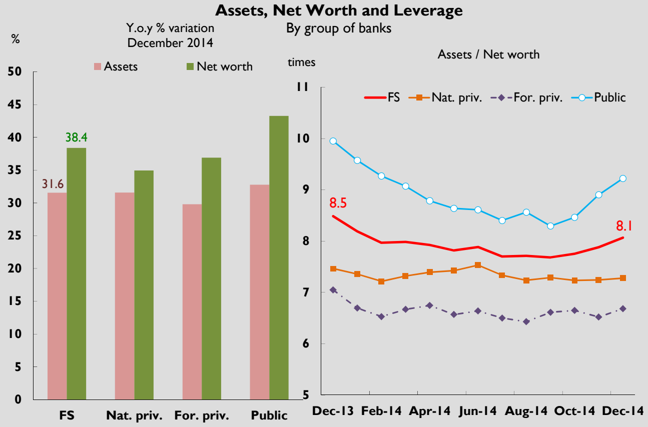
Quarterly annualized variation (%)



Source: BCRA

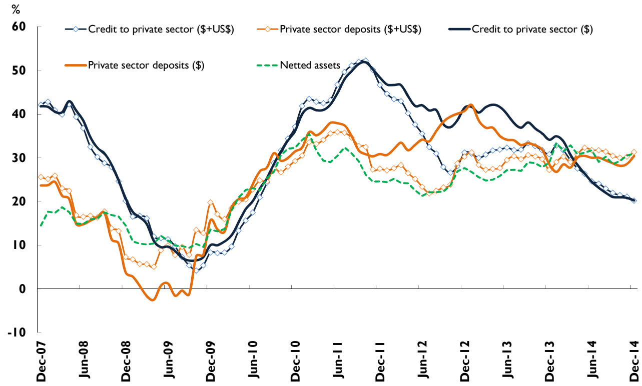
Chart IV.2

Assets, Net Worth and Leverage



Source: BCRA

Chart IV.3
Financial Intermediation
Y.o.y. % variation - Financial system



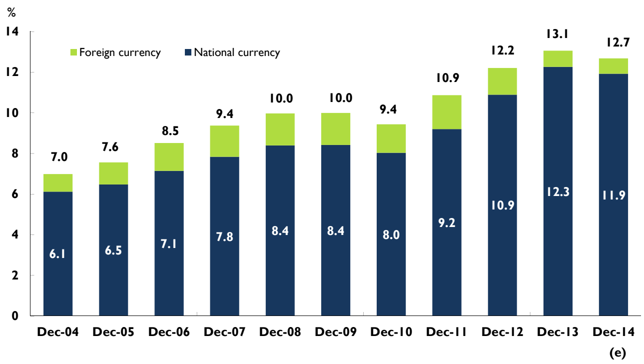
Source: BCRA

Table IV.1
Balance Sheet
Financial system

	As % of netted assets					Stock variation	
	Dec-13	Jun-14	Dec-14	Change in p.p.			
				II H-14	y.o.y.	II H-14 (a.)	Last 12 months (%)
Assets	100	100	100				
Liquid assets	20	18	20	1.3	-0.6	58	27
BCRA securities	9	14	15	0.6	5.6	50	113
Total credit to the public sector	10	10	9	-0.2	-0.2	32	29
Total credit to the private sector	52	49	47	-1.9	-4.2	27	20
Credit in $ to the private sector	49	46	45	-1.1	-4.0	32	20
Credit in US$ to the private sector	3	3	2	-0.9	-0.2	-27	19
Other assets	10	9	9	0.2	-0.7	45	22
Liabilities + Net Worth	100	100	100				
Public sector deposits	20	18	20	2.1	-0.7	73	26
Private sector deposits	55	57	55	-1.9	0.2	29	31
Outs. bonds, sub. debt and foreign lines of credits	2	3	3	-0.2	0.2	16	40
Other liabilities	11	10	10	0.2	-0.3	43	27
Net worth	12	12	12	-0.2	0.7	33	38

Source: BCRA

Chart IV.4
Credit to Private Sector
As % of GDP



Note: Estimated from the new GDP series with based in 2004. Annual average of credit to the private sector and quarterly GDP average of the last 4 periods are considered.
Source: BCRA and INDEC

IV.1 Financial Institutions[66]

IV.1.1 *Activity*

In a context of limited exposure to typical operation risks, intermediation activity of the ensemble of financial institutions with the private sector increased gradually in 2014 and early 2015. Total financing[67] (including domestic and foreign currency) to companies and households went up 20.2% y.o.y. in nominal terms at the end of 2014; in contrast, total deposits corresponding to this sector climbed 30.9% y.o.y. (see Chart IV.3). It is of interest to note that even though banks' financial intermediation activity with companies and households exhibited some moderation in its growth pace in 2014 against previous years, it gained momentum in the last quarter of the year.

Aggregate financial system's netted assets[68] expanded 30.9% y.o.y. in 2014, exceeding the value recorded a year before by 2 p.p. This year-on-year performance was mainly driven by public banks, which contributed to over 45% of the rise in total netted assets, followed by foreign and national private banks. The increase in monetary regulation instruments —LEBACs and NOBACs (not related to repos)— in the portfolio of the ensemble of financial institutions recorded in 2014 and, particularly, in the first half of the year, was outstanding. Thus, the share of BCRA bills and notes in the sector's total assets climbed 5.6 p.p. over the year, accounting for 15% at the end of 2014 (see Table IV.1). In this context, the remaining items of assets lost share in the total. Likewise, total financing channeled to the private sector continued being the main item of assets, accounting for 47% of the total in December.

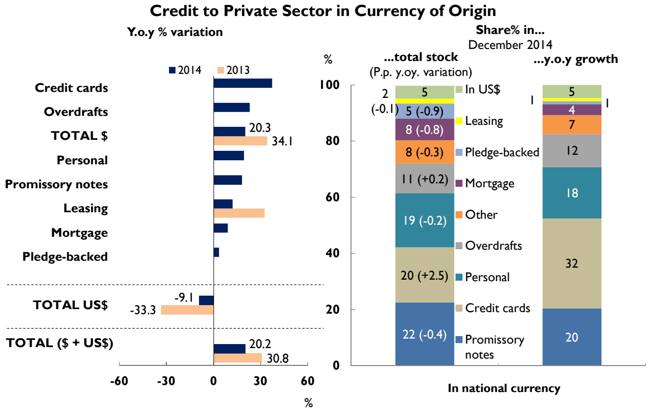
The stock of loans —in domestic and foreign currency— channeled to companies and households stood at 12.7%[69] in 2014 in terms of GDP, slightly below the level recorded the year before (see Chart IV.4). It should be noted that, from a more extensive time perspective, this indicator grew 2.7 p.p. of GDP in the past five years driven by loans in pesos.

The growth in total loans to the private sector in 2014 remained being primarily driven by the segment in pesos, which recorded a stock that increased 20.3% in 2014 in nominal terms (see Chart IV.5), exhibiting certain disparity between 6-month periods. Thus, in the second half of the year and within the framework of a

[66] The analysis of this section only includes financial institutions regulated and supervised by the BCRA (Law No. 21526).
[67] It includes the balance sheet stock of Loans and Leasing as per the Monthly Accounting Reporting System.
[68] Assets are expressed net of accounting duplications from repo, forward and spot transactions to be settled.
[69] Data estimated on the basis of the new GDP series with base year 2004. The annual average stock of bank loans to the private sector and the average of the four quarters of GDP are considered.

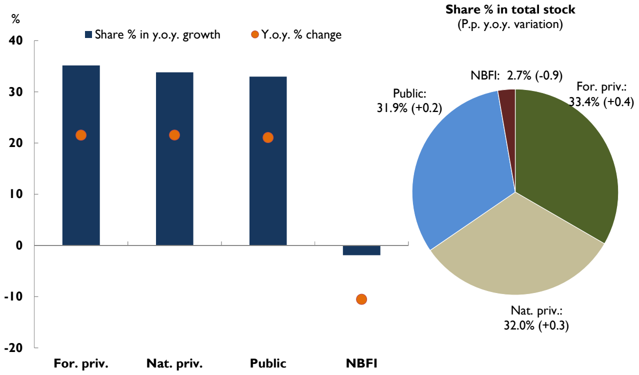
Chart IV.5

Credit to Private Sector in Currency of Origin



Note: Total includes balance sheet stock, including accrued interest and CER adjustment
Source: BCRA

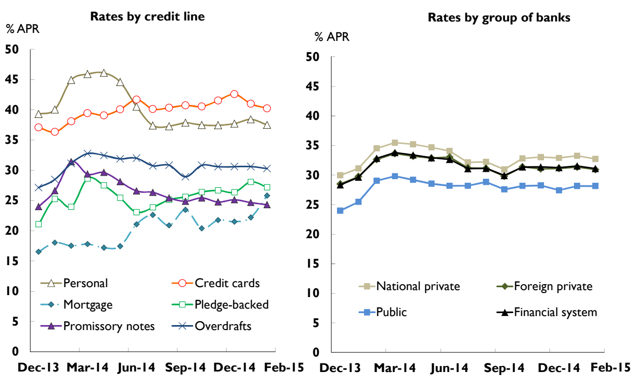
Chart IV.6
Credit to Private Sector by Group of Financial Institutions
December 2014



Source: BCRA

Chart IV.7

Lending Interest Rates in Pesos — Private Sector *



*Note: Average weighted by amount operated
Source: BCRA

set of government measures aimed at promoting bank lending under more favorable conditions, these loans improved their growth pace, reaching an annualized (a.) rise amounting to 32%, more than doubling the change observed in the first half of 2014. Indeed, loans in pesos expanded 40%a. in the last quarter of the year, reaching a growth rate similar to that of a year before (see Chart IV.1). All credit lines in pesos posted a positive change in 2014; cards and overdrafts recorded the highest relative year-on-year growth. Financing in foreign currency moderated its year-on-year fall rate over the year (-9.1% y.o.y. [70] in December).

Bank lending to the private sector evidenced a positive performance in almost all groups of financial institutions (see Chart IV.6) throughout 2014 and in the first months of 2015. The momentum shown by loans granted by private and public banks was similar to that of the previous year and contributed —in equal parts— to the year-on-year rise in total loans to the private sector.

Lending interest rates traded in pesos fell generally in all groups of banks and in various credit lines in the past few months (see Chart IV.7). Lending interest rates arranged in pesos for personal loans recorded the greatest relative drop over the 6-month period, which was followed by promissory notes. It should be noted that a rise in lending interest rates was observed in the first months of 2014, particularly in the case of pledge-backed loans and personal loans. These rises were reversed within the framework of the regulatory changes implemented by this Institution in mid-2014 aimed at regulating interest rates on credit transactions carried out by natural persons[71].

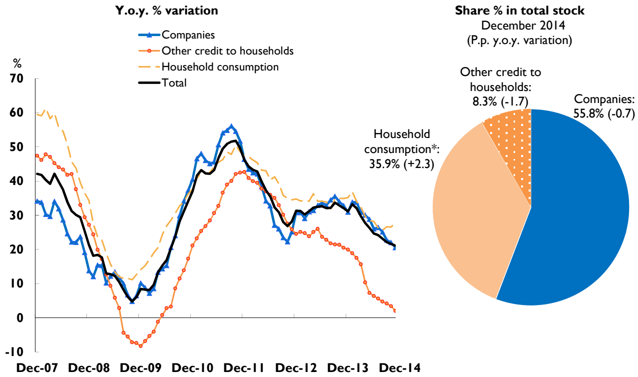
Loans to companies[72] moderated their year-on-year growth rate gradually in 2014, going up 18.8% y.o.y. in nominal terms by the end of the year (see Chart IV.8); this performance was mainly boosted by private banks. It also led to a 0.7 p.p. reduction in the share of this segment of financing in the total stock of loans to the private sector, down to 55.8%. Particularly, loans to companies channeled by foreign private banks were the most dynamic, going up 23.4% y.o.y. in December and gaining share in the total stock of lending for this purpose (see Chart IV.9).

The sectors of construction business, primary production and trade recorded the best performance in terms of bank lending in 2014. Particularly, in the second half of

[70] Change observed in the currency of origin.
[71] Communication "A" 5590. For further information see Chapter IV, Financial Stability Report corresponding to the Second Half of 2014.
[72] Information obtained from the Debtors' Database (including domestic and foreign currency). Lending to companies includes loans to legal persons and commercial loans granted to natural persons. Financing to households comprises loans granted to natural persons, unless they serve commercial purposes.

Chart IV.8

Total Credit to the Private Sector by Type of Debtor



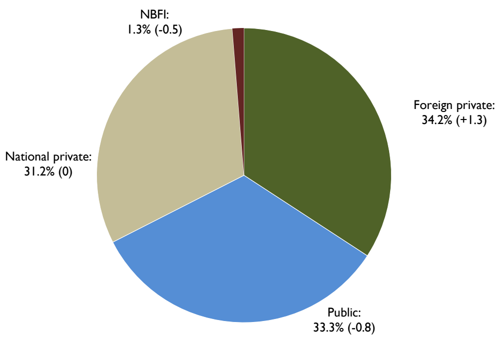
* Includes personal loans and financing through credit cards issued to families.
Source: BCRA

Chart IV.9

Credit to Companies by Group of Financial Institutions

Share % in total stock - December 2014

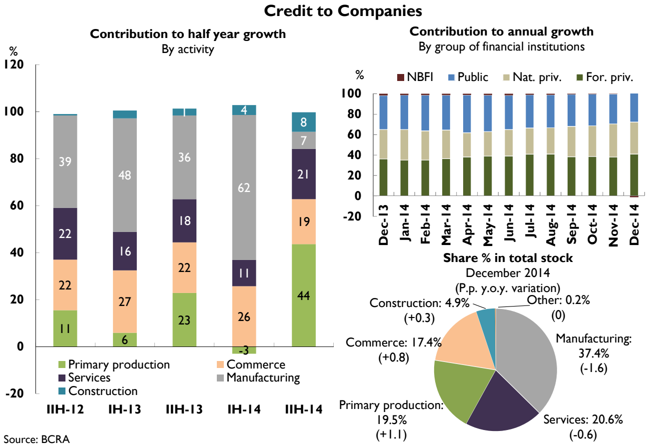
(P.p. y.o.y. variation)



Source: BCRA

Chart IV.10

Credit to Companies



Source: BCRA

2014, loans for primary production accounted for almost 44% of the rise in lending to companies and raised their share in total financing to the productive sector by 1.1 p.p., up to 19.5% (see Chart IV.10). In turn, manufacturing kept the most relevant share in the stock of loans to companies —37.4% of the total—.

In 2014, the BCRA continued promoting the granting of loans for productive purposes by the financial system through the Credit Line for Productive Investment (LCIP) and the Bicentennial Productive Financing Program (PFPB). In this regard, the Credit Line for Productive Investment granted, from its implementation —in mid-2012— to late 2014, loans for a total amount that exceeded the targets set for the first five stages (for an in-depth analysis of this line, see Box 4).

In addition, the BCRA conducted, through the Bicentennial Productive Financing Program —from its start (in late 2010) to February 2015[73]—, 29 fund auctions for a total amount of $8.2 billion and disbursements reaching $6.87 billion allocated amongst 375 companies (see Chart IV.11). Particularly, two fund auctions were carried out in the second half of 2014 and $330 million were awarded. Over two thirds of loans granted through the PFPB were channeled to the industrial sector, followed by service companies (16%) and primary production (9%). Considering the distribution of loans by type of company, over 57% of total transactions arranged through such Program corresponded to micro, small, and medium-sized enterprises (MiPyMEs).

These programs promoted access to bank lending under more favorable conditions, in particular, for companies of a smaller relative size. Consequently, loans granted in the past few years to micro, small, and medium-sized enterprises gained share in the total amount of lending given to legal persons. Thus, these loans accounted for 45% of total loans granted to legal persons in 2014, up 4 p.p. against the value observed a year before and up 18 p.p. against 2011 (see Chart IV.12).

Financing to households ended the year going up 22.2% y.o.y. The year-on-year change was mainly driven by credit cards (which accounted for over 58% of such growth), followed by personal loans. Lending channeled by public banks and national private banks were the most dynamic over the period, evidencing rises of 28% y.o.y. and 26% y.o.y. respectively in December. Particularly, lending to households gained momentum in the last quarter, climbing 47.9%a., above the values recorded in the previous quarters and

[73] Latest information available.

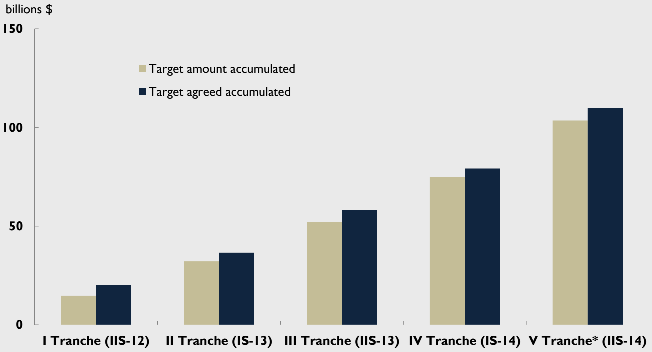
Box 4 / BCRA Active Policies for Micro, Small, and Medium-Sized Enterprises: the Credit Line for Productive Investment

The enactment of the new Charter of the BCRA, in early 2012, significantly extended this Institution's mandate by adding to its existing monetary stability goal, the explicit objectives of financial stability, employment and economic development with social equity. The new Charter empowered the BCRA and provided it with specific tools to operate on the credit channel and to design specific policies aimed at small and medium-sized enterprises (SMEs) and regional economies. The Credit Line for Productive Investment (LCIP) was implemented within this new context; it is an active policy that allowed raising the availability of financial funds to different productive segments, especially to companies of a smaller relative size in the economy, in the past few years

The LCIP was implemented by the BCRA in mid-2012 within the framework of a set of active official policies aimed at promoting productive lending and regulating conditions for companies to access financing. The LCIP established that institutions of a greater size in the financial system had to allocate a percentage of their deposits to grant lending for productive investment in the second half of 2012 (the term could be extended for another six months); additional requirements were established, which included the involvement of micro, small, and medium-sized enterprises (MiPyMEs), minimum amortization periods, and maximum interest rates[74].

Given the positive effects arising from the initial implementation of this instrument, the BCRA decided to extend its validity by setting new tranches of the LCIP. Indeed, as from 2014, the BCRA tried to prioritize financing to micro, small, and medium-sized enterprises through the LCIP by establishing that such credit had to be arranged with companies pertaining to this segment and by authorizing some exceptions and new instruments in specific proportions. As a result, since the launch of the line in the second half of 2012 to the end of 2014, loans granted through the LCIP totaled a gross amount exceeding $110 billion, thereby surpassing the target set at $103 billion for the first fives tranches as a whole (see Chart B.4.1); loans channeled to micro, small, and medium sized-enterprises accounted for about two thirds of the total. Productive projects or companies located outside the City of Buenos Aires were the main beneficiaries of the funds under the LCIP[75]; as a result, lending in the rest of the country gained momentum.

Chart B.4.1
Line of Credit for Productive Investment
Target amount and agreed accumulated



* The figures for the Tranche V are provisional. Latest information available.
Source: BCRA

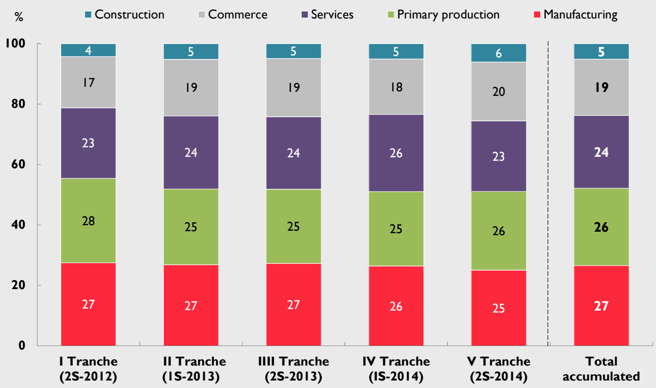
The evolution of the LCIP regulatory framework allowed compliance therewith through different instruments; the case of bank loans should be underscored, due to the volume of funds, followed by the discount of deferred payment checks of micro, small, and medium-sized enterprises, and mortgage loans for natural persons, among others. Regarding bank loans granted to MiPyMEs[76] —which are at the core of the LCIP as they account for over 60% of total bank loans—, it may be seen that lending was primarily channeled, in similar proportions, to industrial companies, enterprises related to the primary production of goods, and service companies; these segments accounted for a share of almost 27%, 26%, and 24% from July 2012 to December 2014 (see Chart B.4.2). In the case of manufacturing, the main uses of funds included processing activities of food products, the manufacturing of chemical products and substances, and the manufacturing of rubber and plastic products. Regarding primary production, funds were primarily channeled to activities related to crops and cattle raising.

[74] For further information, see Box 3 from the Financial Stability Report Second Half 2013 and the Consolidated Text "Credit Line for Productive Investment". http://www.bcra.gov.ar/pdfs/texord/t-licip.pdf

[75] If the discount of deferred payment checks is not taken into account, lending to productive projects or companies located outside the City of Buenos Aires accounted for about 77% of the total amount disbursed under this item within the framework of the LCIP. In turn, the share of financing for beneficiaries outside the City of Buenos Aires and the Province of Buenos Aires reached 45%.

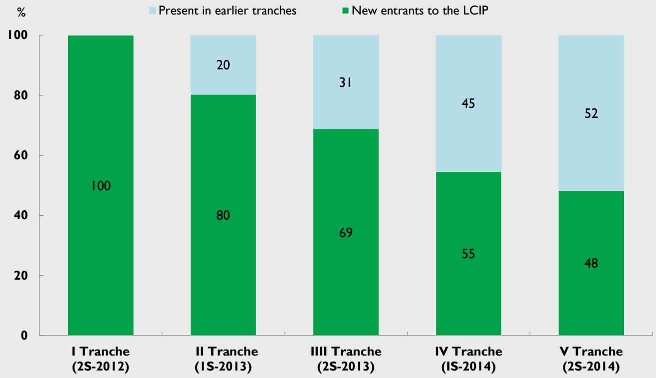
[76] Unless otherwise stated, reference is only made —here and in the rest of the Box– to bank loans granted to micro, small, and medium-sized enterprises (MiPyMEs). In this regard, financing through the discount of deferred payment checks is not included. In all cases, the data are estimated based on available information. No information of transfers between tranches is included.

Chart B.4.2
Amounts Agreed to MSMEs by Type of Activity



Source: BCRA

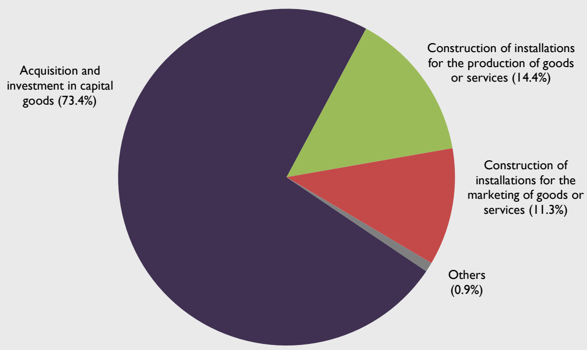
Chart B.4.4
Structure of MSMEs Funded by Tranche
As % of total SMEs financed



Source: BCRA

Bank loans to micro, small, and medium-sized enterprises have been mainly arranged through unsecured promissory notes (over 32% of the total accrued as of December 2014), followed by pledge-backed lines (24% of the total) and mortgage loans (19%). These loans were primarily used[77] for the purchase of capital goods that contribute to expanding production at a domestic level (see Chart B.4.3), followed by the construction of facilities for the production of goods and services and buildings for commercial purposes.

Chart B.4.3
Destinations of the Amounts Disbursed to MSMEs
As % of total disbursed accumulated in the first 5 tranches

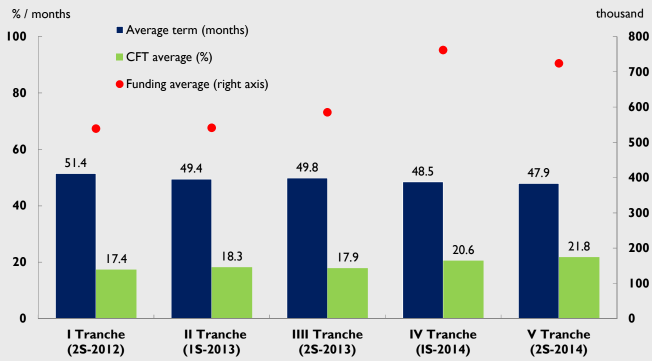


Source: BCRA

It has been estimated that, in the first five tranches of the LCIP, financing through bank loans was channeled to over 67,000 companies having characteristics of MiPyMEs which were gradually included in the use of this instrument in the different tranches that were implemented (see Chart B.4.4). Such companies received funds from the different groups of banks that participate in the scheme in relatively similar proportions: around 37% came from public banks; 33%, from foreign private banks; and 30%, from national private banks.

Concerning the characteristics of bank loans granted to micro, small, and medium-sized enterprises as of the end of 2014, it should be noted that almost 83% corresponded to loans made in only one disbursement; 10% to those in two disbursements, and the rest with more than three disbursements. The average term reached around 50 months in all tranches —exceeding the period provided for in the regulation— (see Chart B.4.5). The total financial cost (CFT)[78] increased gradually over time in line with the maximum rates implemented by the BCRA; the CFT totaled, in the second half of 2014, an average slightly below 22%.

Chart B.4.5
Agreed Structure Financing to MSMEs
Accumulated in the first 5 tranches



* Average weighted agreed amount; ** Simple average
Source: BCRA

In order to intensify the effects of the LCIP on the productive sector, the BCRA launched, in late 2014, a new segment of the LCIP for the first half of 2015. The benchmark considered on this occasion was 6.5% of deposits in pesos from the non-financial private sector as of November 2014 of institutions falling within the scope of the regulation, up 1 p.p. against the previous tranche. Total bank funds to be disbursed in this sixth tranche would amount to $37.4 billion, up 34% against the total anticipated for the second half of 2014. The interest rate projected for these loans will be fixed, at least in the first

[77] According to available information, the breakdown for uses is based on information on loans disbursed.

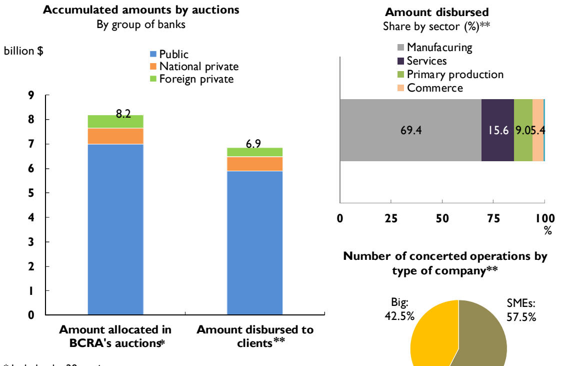
[78] Value that refers to the time the loan was granted.

three years, and may not exceed 19% in nominal annual terms, down 0.5 p.p. against the rate in force in the second half of 2014. Unlike the previous tranches, a special mechanism was included on this occasion to prioritize financing to companies of a smaller relative size and to promote the expansion of lending in other regions, thereby stimulating bank credit in regions with less economic development.

The LCIP implementation put in place a new funding source for companies facing difficulties to obtain financing in the medium and long-term in the market, a situation that is more evident in the case of micro, small, and medium-sized enterprises. Thus, the BCRA contributes to the active policies promoted by the National Government that allow meeting the financing needs of investment, thereby favoring the development of the economy's productive capacity.

Chart IV.11

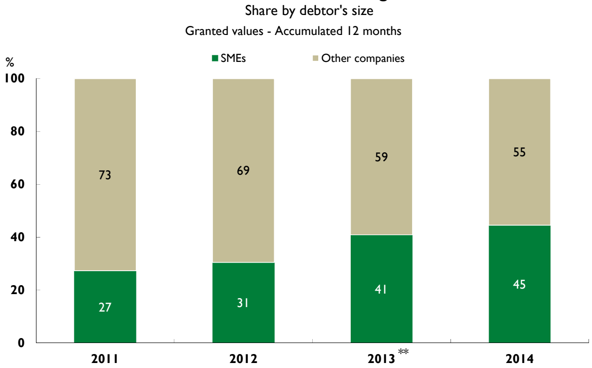
Bicentenary Productive Financing Program



* Includes the 29 auctions
**Amount disbursed up to February 28, 2014
Source: BCRA

Chart IV.12

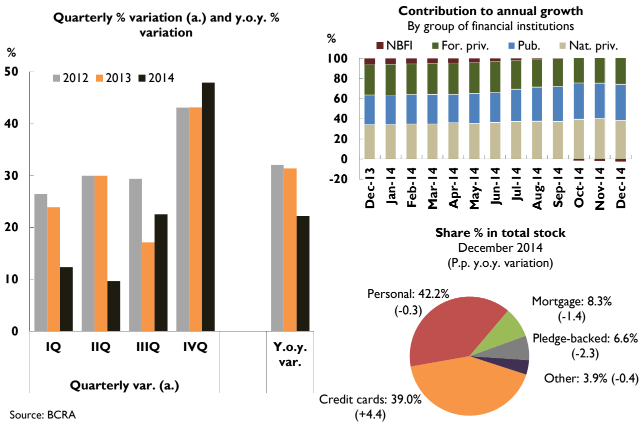
Granted Credits in Pesos to Legal Persons*



* Overdrafts excluded.
** From the end of April the Ministry of Small and Medium Companies and Regional Development through Resolution N° 50/13, establishes a new classification of MiPYMES.
Source: BCRA

Chart IV.13

Credit to Households



Source: BCRA

in the same period in previous years (see Chart IV.13).

The positive performance observed in lending to households during the last quarter of 2014 was partly associated to certain seasonal factors and, primarily, to the set of government measures implemented in 2014 and aimed at favoring better credit conditions for households. On the one hand, this Institution limited, as from mid-2014, the cost of financing to households by establishing maximum ceilings for interest rates on personal and pledge-backed loans for natural persons. On the other hand, the National Government launched the PRO.CRE.AUTO Program in June, the purpose of which is to promote access to personal loans at subsidized interest rates at a 5-year maximum term for the purchase of new locally-manufactured vehicles. In addition, the National Government implemented the AHORA 12 Program in September 2014 to foster the purchase of goods and services with credit cards in 12 installments at 0% interest rate in all shops in the country that have adhered to such program. With a view to enhancing this Program, the BCRA set, as from October 2014, a reduction of the minimum cash requirement[79] equal to 16% of the amount of financing in pesos that banks channel within the framework of the AHORA 12 Program and of loans at 0% interest rate that entities grant to non-financial institutions that issue credit cards provided these firms have adhered to the Program. Given the good performance shown by the AHORA 12 Program, its extension for the current year was announced in early March 2015.

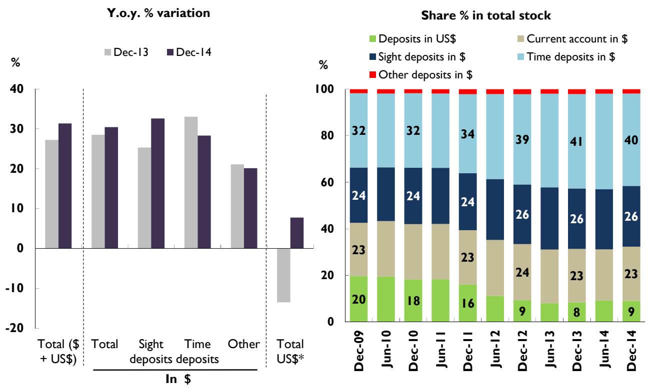
Private sector deposits in pesos posted a 30.4% y.o.y. rise in 2014, up almost 2 p.p. against the growth rate recorded a year before (see Chart IV.14). This performance was mainly driven by sight deposits, which went up 32.6% y.o.y by the end of the year. In turn, time deposits of companies and households moderated their growth pace over the period to 28.3% y.o.y. in December. Unlike what happened in 2013, deposits in foreign currency grew 7.7%[80] in 2014.

As a result of the evolution of the different types of deposits, private sector total deposits (in domestic and foreign currency) climbed 31.3% y.o.y. as of December 2014, up 4 p.p. against the change observed in the same month of 2013. Public banks exhibited the greatest year-on-year relative rise in deposits of companies and households (38.2% y.o.y.), followed by foreign and national private banks.

[79] Communication "A" 5638.
[80] Considering changes in the currency of origin.

Chart IV.14

Non-Financial Private Sector Deposits in the Financial System

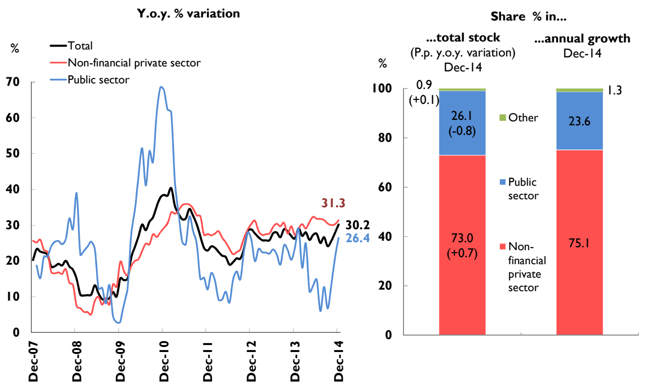


* In currency of origin. Source: BCRA

Chart IV.15

Total Deposits of Financial System

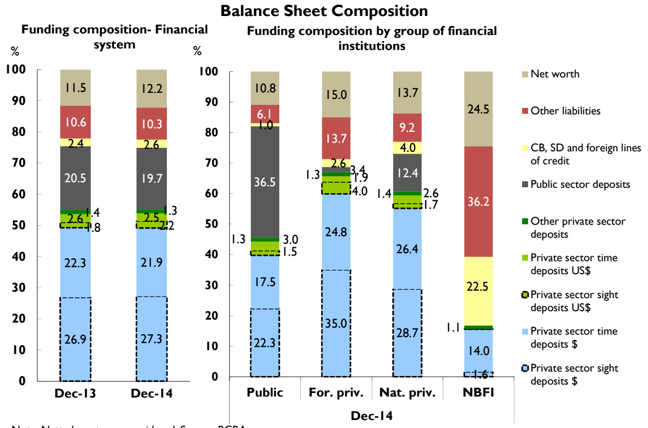
Includes deposits in pesos and foreign currency



Source: BCRA

Chart IV.16

Balance Sheet Composition



Note: Netted assets are considered. Source: BCRA

The favorable performance of private sector deposits throughout 2014 was partly explained by the set of measures promoted by the BCRA and aimed at encouraging the use of bank saving instruments. Particularly, this Institution established, since early October, a minimum level for interest rates on time deposits in pesos made by natural persons, provided that total time deposits do not exceed the amount of the deposits guarantee scheme[81], which was raised from $120,000 to $350,000 per holder[82]. In addition, in order to encourage savings in foreign currency of companies and households, this Institution has offered, since early 2014, LEBACs in dollars in the market that banks may underwrite provided they receive time deposits in the same currency[83]. In this regard, this institution reinforced, in early 2015, regulatory incentives so that financial institutions may underwrite this kind of instruments[84]. Particularly, the maximum spread to be received by banks underwriting LEBACs in dollars was adjusted so that such banks promote reception of this kind of deposits transferring to their clients most of the yield obtained by such instruments.

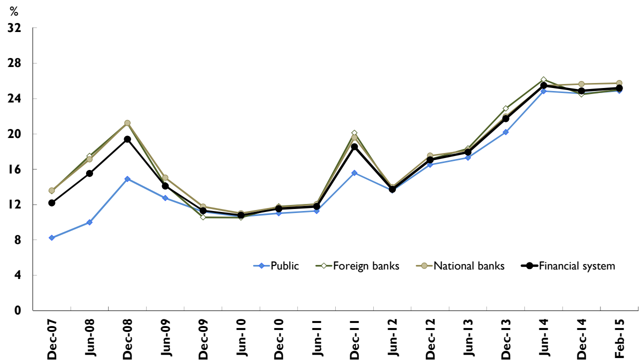
Public sector total deposits accelerated their y.o.y. growth pace in the last months of 2014 and early 2015 (see Chart IV.15). As a result of this dynamics, these deposits reached a 26.4% y.o.y. hike in December, up almost 3 p.p. y.o.y. and 11.7 p.p. against the value recorded in mid-2014. Thus, the stock of total deposits (in domestic and foreign currency of the private and public sector) increased 30.2% y.o.y. at the end of 2014, evidencing the highest change in the past 3 years.

As is a typical characteristic of the Argentine financial system, private sector total deposits continued being the most relevant fund source of the ensemble of financial institutions in 2014 (see Chart IV.16). These deposits accounted for 55.2% of total funding (liabilities plus net worth) by the end of 2014, slightly above the level recorded a year before. Particularly, private sector deposits in pesos represented 49.2% of total funding. Net worth exhibited the highest relative growth in funding of the ensemble of banks over the year. In turn, public sector deposits accounted for 19.7% of funding in December 2014.

The cost of funding for private sector time deposits in pesos ended the year at a level slightly above that of late 2013 (see Chart IV.17). It should be mentioned that the cost of funding of these deposits evidenced a minor drop

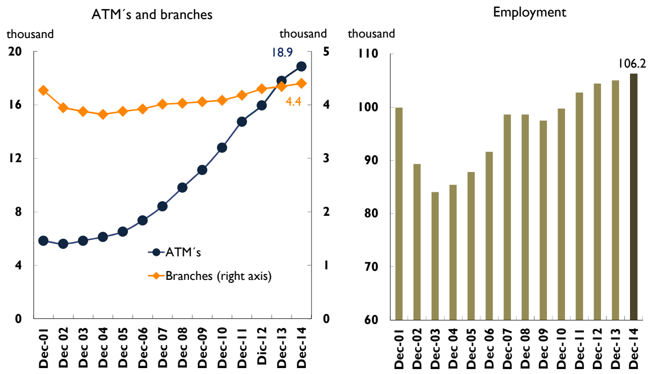
[81] Communication "A" 5640.
[82] Communication "A" 5641 and Communication "A" 5651.
[83] Communication "A" 5527.
[84] Communication "A" 5711.

Chart IV.17
Estimation of Average Funding Costs by Deposits in Pesos
By private sector time deposits
Weighted by 1 - month traded volume and adjusted by cash requirements



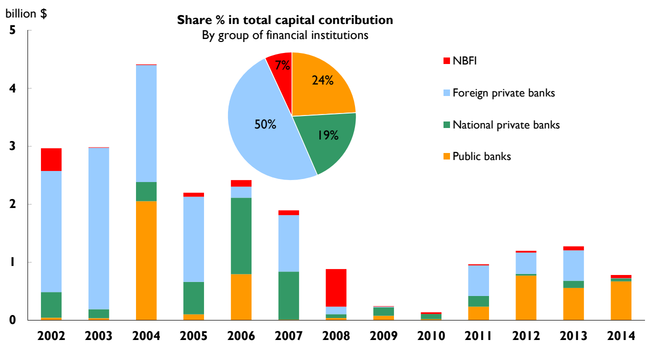
Source: BCRA

Chart IV.18
Financial System Operational Structure



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

Chart IV.19
Capital Contributions
2002-2014



Source: BCRA

in the second half of 2014. According to preliminary information, funding cost levels remained in line with those of the previous year in early 2015 and were lower than the figures observed in early 2014.

The financial system operation infrastructure continued expanding in 2014. In this regard, the number of bank branches in the country increased 1.3% in the past year, totaling 4,401 offices at the end of 2014. In turn, the number of ATMs and self-service ATMs climbed 6.1% in this period, amounting to 18,880 units throughout the country (see Chart IV.18). It should be noted that—through authorization policies for the new branches[85] that focus on the federalization of financial intermediation—the opening of 16 new branches in zones with fewer banking services was authorized in 2014. Thus, from the launch of these measures —in early 2011— to the end of 2014, the BCRA authorized the opening of a total of 132 new branches in regions with less financial services coverage. The improvement of the banking infrastructure took place together with a rise in the level of employment in the sector. Thus, the number of bank employees increased 1.1% in the last year, totaling 106,229 employees at the end of 2014.

IV.1.2 *Capital Position*

The consolidated financial system net worth expanded 38.4% in 2014, and evidenced a similar momentum between groups of banks. This growth was primarily boosted by accrued book profits and, to a lesser extent, new capital contributions that totaled $886 million in 2014 and were mainly channeled to public financial institutions (see Chart IV.19). In turn, some financial institutions decided to distribute dividends for a total amount of about $1.8 billion over the year.

The financial system leverage level fell in 2014 as the relative growth of net worth exceeded the expansion of assets at an aggregate level; this evolution was observed in all groups of banks (see Chart IV.2). Thus, netted assets of the ensemble of banks accounted for 8.1 times the net worth at the end of the year, down 0.4 against December 2013. Such drop was mainly observed in the first half of 2014 and was mitigated in the last months of the year. It should be noted that these figures remain low on a historical comparison basis and are lower than those recorded in the region and in other emerging and developed economies.

The solvency of the ensemble of banks increased throughout the year, exhibiting a similar performance in

[85] Communication “A” 5168 and Communication “A” 5355.

both 6-month periods. Thus, capital compliance by the financial system stood at 14.7% of risk-weighted assets (RWA) at the end of the year, up 1.1 p.p. y.o.y. It should be considered that Tier 1[86] capital represented 13.7% of RWA (over 90% of total compliance), up 1.2 p.p. against the level recorded at the end of last year. At an aggregate level, the domestic financial system recorded a surplus in compliance equal to 90% of the total regulatory requirement (capital position) as of December 2014 (see Chart IV.20), going up 14 p.p. y.o.y. and exhibiting a surplus in capital position in all homogeneous groups of banks.

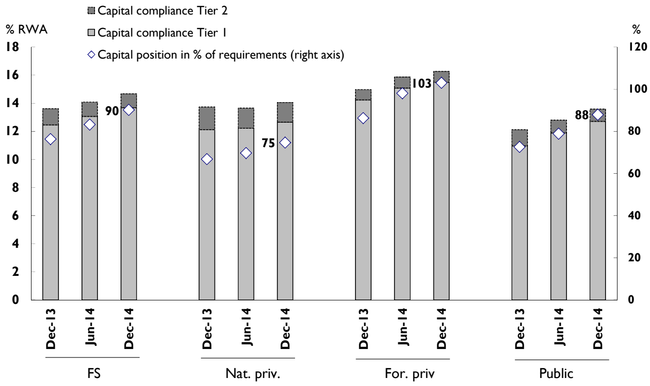
In line with the proposals by G20 leaders and with the commitments undertaken within the framework of the Basel Committee on Banking Supervision (BCBS), the BCRA continued promoting a new design of the banking regulation in 2014 with a view to enhancing the financial system. Regarding regulatory capital, and from a macroprudential standpoint, an additional capital requirement was established for a set of banks deemed as Domestic Systemically Important Banks[87] (D-SIBs), defined on the basis of a criterion that includes factors proposed by the BCBS and specific factors of our economy[88] (see Box 5). This decision will be supplemented with the enhancement of supervision and the reporting regime regarding the participating financial institutions.

Regarding the capital regulatory requirement, in late 2014, the BCRA extended the gradual schedule to verify the operational risk requirement[89]. Particularly, financial institutions of a smaller size (Groups "B" and "C") have already complied with 100% of the operational risk requirement since March 2015[90].

In 2014, the BCRA worked on the design of a new solvency requirement for institutions: the "Leverage Ratio", a standard set by the BCBS and for which compliance has been anticipated for January 2018. It was decided that banks must provide this Institution with information on their capital and exposures[91] —on and off-balance sheet— on a quarterly basis as from September 2014 to calculate their leverage level. On the other hand, requirements for the publication of this information on leverage as from the first quarter of 2015[92] were also determined. The analysis of this information will allow working on the calculation of a

Chart IV.20

Capital Compliance and Excess of the Requirement (Position)



Source: BCRA

Table IV.2

Profitability Structure: Financial System

Annualized indicators as % average netted assets

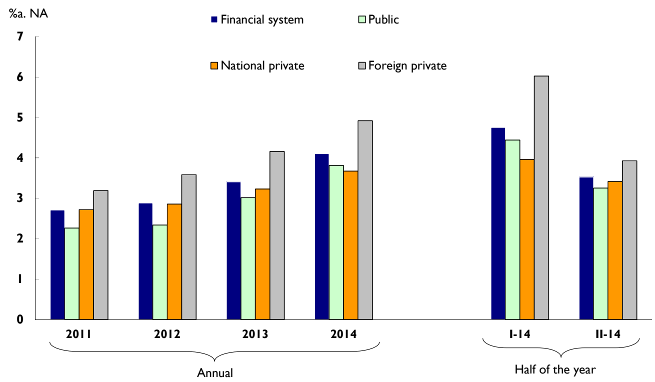
	Annual				Half of the year	
	2011	**2012**	**2013**	**2014**	**I-14**	**II-14**
Financial margin	8.0	9.2	10.3	11.7	12.6	10.9
Net interest income	4.6	5.7	5.9	5.8	5.7	6.0
CER and CVS adjustments	0.3	0.3	0.3	0.4	0.5	0.3
Gains on securities	2.6	2.6	2.6	4.0	3.6	4.4
Foreign exchange price adjustments	0.6	0.6	1.3	1.2	2.1	0.5
Other financial income	0.0	0.0	0.3	0.2	0.7	-0.2
Service income margin	3.9	4.2	4.3	4.3	4.2	4.4
Operating costs	-6.7	-7.0	-7.1	-7.4	-7.3	-7.5
Loan loss provission	-0.7	-0.9	-1.1	-1.0	-1.0	-0.9
Tax charges	-1.1	-1.3	-1.6	-1.7	-1.8	-1.7
Other	0.5	0.4	0.3	0.4	0.5	0.3
Total results before income taxes	3.9	4.3	5.0	6.1	7.0	5.3
Income tax	-1.2	-1.5	-1.6	-2.0	-2.3	-1.8
ROA	**2.7**	**2.9**	**3.4**	**4.1**	**4.8**	**3.5**
ROE	25.3	25.7	29.5	32.7	38.3	27.8
ROE (before income tax)	36.5	38.8	43.7	48.8	56.6	41.9

Source: BCRA

Chart IV.21

Profitability by Group of Banks

As % of netted assets



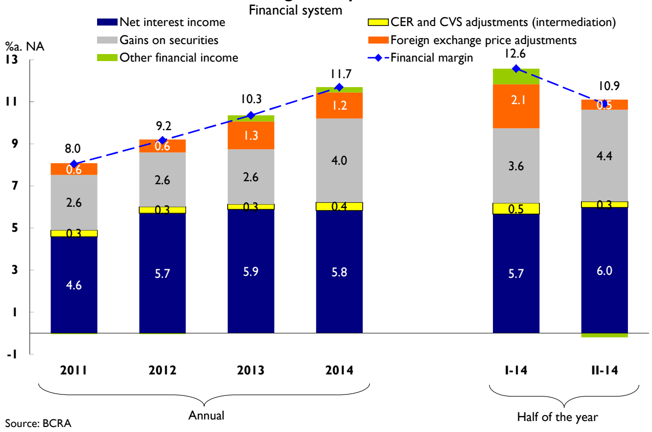
Source: BCRA

[86] Defined as basic net worth (regular and additional capital) net of deductible accounts. See Communication "A" 5369.
[87] Communication "A" 5694.
[88] http://www.bcra.gob.ar/pdfs/marco/D_SIBs.pdf.
[89] For further information, see Section V.3
[90] Communication "A" 5469 and Communication "A" 5686.
[91] Communication "A" 5610.
[92] Communication "A" 5606.

Chart IV.22

Financial Margin Composition

Financial system



Source: BCRA

Table IV.3

Profitability Structure by Type of Banks

2014 - As % average netted assets

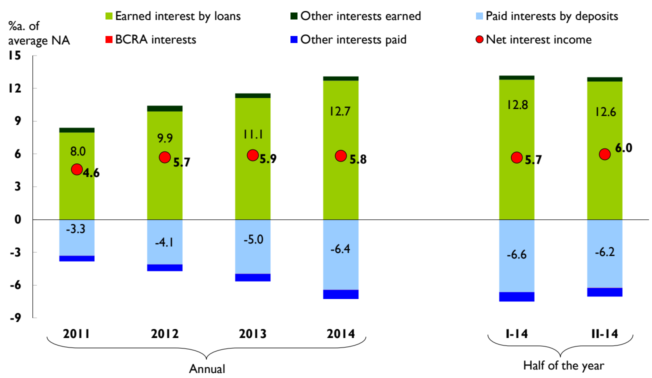
	Private banks			Public banks	NFBI
	Total	National	Foreign		
Financial margin	12.9	11.8	14.0	10.0	13.6
Net interest income	7.4	6.6	8.3	3.4	12.6
CER and CVS adjustment	0.1	0.1	0.2	0.8	0.0
Gains on securities	3.5	4.1	2.9	4.7	0.9
Foreign exchange price adjustements	1.3	0.7	1.8	1.3	0.3
Other financial income	0.6	0.3	0.8	-0.2	-0.1
Service income margin	5.5	5.4	5.6	2.5	8.1
Operating costs	-8.8	-8.8	-8.8	-5.5	-9.1
Loan loss provisions	-1.3	-1.3	-1.3	-0.5	-3.2
Tax charges	-2.3	-2.4	-2.2	-1.0	-2.9
Others	0.6	0.7	0.4	0.1	1.3
Total result before income tax	6.6	5.4	7.7	5.5	7.8
Income tax	-2.3	-1.8	-2.8	-1.7	-2.7
ROA	**4.3**	**3.7**	**4.9**	**3.8**	**5.1**
ROE	32.1	30.9	33.0	34.5	23.0
ROE (before income tax)	49.0	45.7	51.6	49.6	35.2

Source: BCRA

Chart IV.23

Net Interest Income

Financial system



Source: BCRA

regulatory technical ratio to be introduced in the future, thereby continuing with the process of convergence to Basel III standards.

The ensemble of banks ended the second half of 2014 recording profits totaling almost $20.86 billion, amounting to about $45.94 billion over the year. In terms of assets, the financial system recorded return on assets (ROA) of 3.5%a. in the second half of the year (see Table IV.2), below the figure of the first half mainly due to the performance of the financial margin. Thus, the financial system ended 2014 exhibiting a level of return on assets of. 4.1%, positing a 0.7 p.p. increase in assets in relation to the end of 2013. It should be considered that the year-on-year growth in profits was observed in all groups of banks (see Chart IV.21).

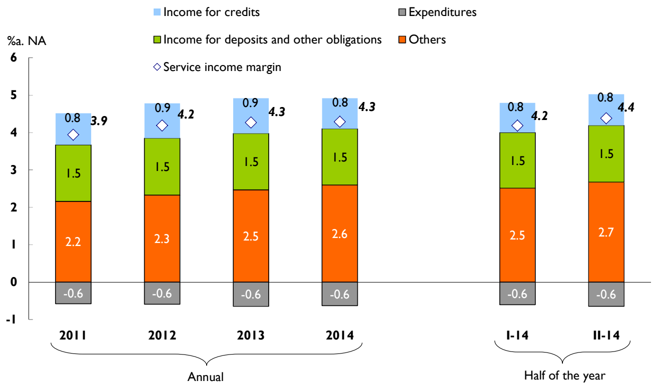
Banks' financial margin remained at 10.9%a. of assets in the second half of 2014, down 1.7 p.p. against the level of the first half of the year. Such evolution was mainly due to the performance of the balance sheet items related to the evolution of the exchange rate (exchange rate differences and adjustments for forward transactions in foreign currency) that were more relevant in the first part of the year. Thus, the financial margin reached 11.7%a. of assets in 2014, up 1.4 p.p. against 2013 (see Chart IV.22). The year-on-year hike was mainly due to profits accrued from results from securities. It should be noted that income from interest continued exhibiting the highest share within the aggregate financial margin, accounting for half of it over the year. All groups of banks increased their year-to-date financial margin, with foreign private banks recording the highest relative rise.

Income from interest evidenced a 0.3 p.p. hike of assets in the second half of 2014 if compared to the first half, standing at 6%a. (see Chart IV.23). Thus, these revenues stood at 5.8% of assets in 2014, falling slightly against the previous year. Although private banks posted greater income from interest against 2013, the financial system year-on-year performance was primarily accounted for by national private banks.

Given banks' positive position against foreign currency mismatching observed during the year (see Chapter V) and in view of the evolution of the nominal peso-dollar exchange rate over the period, accrued income from exchange rate differences stood at 1.2% of assets in 2014, remaining almost in line with the previous year. Income from this concept, as well as that related to adjustments for forward transactions in foreign currency —reflected in the item "other financial results"— recorded significant growth at the start of the year and

Chart IV.24

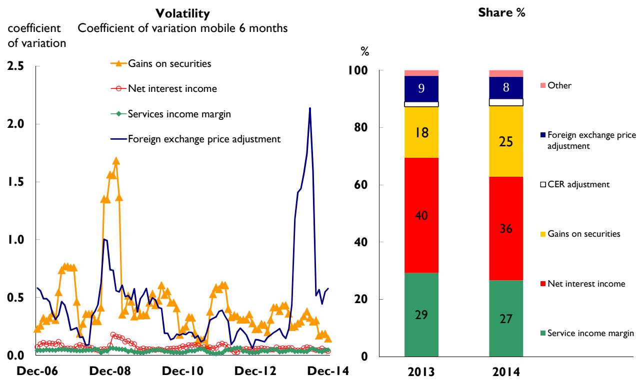
Service Income Margin
As % of netted assets



Source: BCRA

Chart IV.25

Major Sources of Financial System Income



Source: BCRA

then their evolution mitigated in the following months as a result of the moderation in the exchange rate evolution and in view of the regulatory adjustments put in place by the BCRA[93].

Income from securities drove the year-on-year rise in the financial system's results in 2014. This income exhibited greater momentum in the second half of the year, standing at 4.4%a. of assets, up 0.8 p.p. against the first half of the year. Thus, net income from securities stood at 4% of assets in the year, up 1.4 p.p. against 2013. Although public financial institutions accounted for the highest relative share (4.7% of assets), national and foreign private banks recorded the most relevant momentum in this segment of the income statement (going up 1.7 p.p. of assets in both cases up to 4.1% and 2.9% respectively). This performance was related to the growth in the nominal outstanding stock of BCRA bills in banks' portfolio, higher interest rates auctioned and the improvement of prices of sovereign bonds held by institutions (see Chapter II).

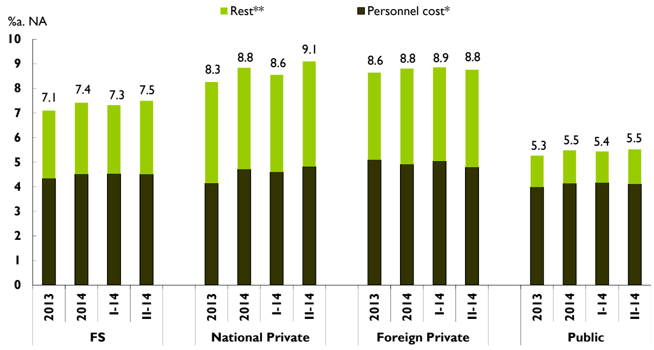
In 2014, net income from CER-adjusted items remained at low levels close to 0.4% of assets, going up on the margin against previous years and within the framework of the implementation of the new methodology to calculate the price index, which has taken, as benchmark, the National Urban Consumer Price Index (IPCNu – National Urban CPI)) since early 2014. Through a breakdown per financial institutions, it may be seen that public banks have recorded the highest balance sheet mismatching in items adjusted by CER and a subsequent higher share of this income in their result (see Table IV.3).

Net income from financial system services ended the year at around 4.3% of assets in 2014 (see Chart IV.24), in line with the value observed a year before. This source of income remains the most relevant between private banks (reaching 5.6% and 5.4% in foreign private banks and national private banks respectively) and, to a lesser extent, between public financial institutions (2.5%).

Concerning the main profitability sources that make up the financial system income statement, the most volatile net sources recorded the highest relative momentum in 2014. In this regard, the results from securities and exchange rate differences accounted for 33% of the total of the sector's fund sources. In contrast, the most stable net income —derived from interest and services— reduced their share and accounted for 63% of the total (see Chart IV.25).

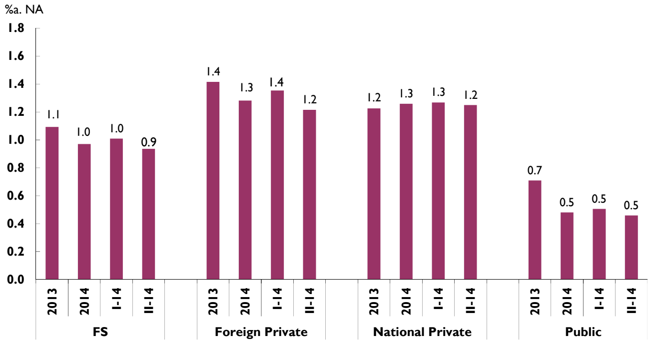
[93] For further information see Section V.5 and the Financial Stability Report corresponding to the Second Half of 2014.

Chart IV.26
Operating Costs
As % of netted assets



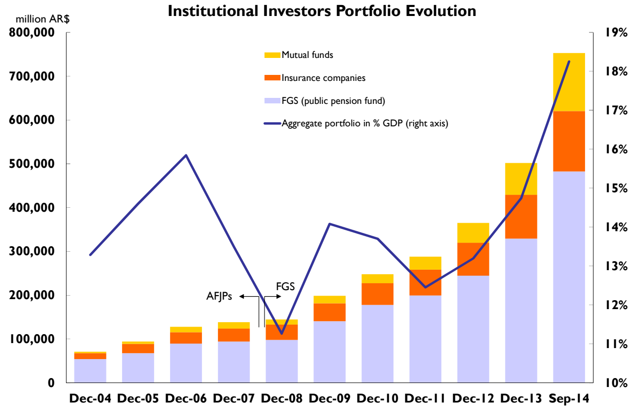
* Includes remunerations and social security.
** Includes services, fees, insurance, rent, maintenance costs and repair, among others.
Source: BCRA

Chart IV.27
Loan Loss Provisions
As % of netted assets



Source: BCRA

Chart IV.28
Institutional Investors Portfolio Evolution



Source: BCRA based on ANSES, SSN and Cámara Argentina de FCI

Operating costs stood at 7.5%a. of assets in the second half of the year, up 0.2 p.p. against the first half. Thus, these expenses amounted to 7.4% of assets over the year, up 0.3 p.p. against 2013 (see Chart IV.26). The year-on-year rise was observed in all groups of financial institutions; foreign private banks posted the highest relative growth. Such performance at the system level was boosted by staff-related expenses (wages and social security contributions) and by the rest of the components. Thus, staff-related expenses continued accounting for over 60% of total operating costs for the ensemble of institutions.

Loan loss provisions for the aggregate financial system stood at almost 1% of assets in year-to-date terms in 2014, remaining unchanged y.o.y. Public and foreign private banks decreased these expenses while national private banks recorded a minor rise (see Chart IV.27).

The coverage of operating costs with income from interest and services (net of loan loss provisions) stood at 123% for the ensemble of institutions in 2014, down 5 p.p. against the previous year. The year-on-year reduction of this indicator was mostly observed in national private banks; foreign private banks recorded the greatest coverage.

In turn, the financial system recorded, in 2014, expenses related to taxes (income tax and other taxes) for an amount equal to 3.7% of assets, up 0.5 p.p. against the previous year. Such rise was affected by the performance of national and foreign private banks.

IV.2 Institutional Investors

Considering the portfolios of the three main institutional investors —the Sustainability Guarantee Fund (FGS), insurance companies, and mutual funds (FCI)— the aggregate amounted to $752.84 billion[94] as of September 2014, evidencing a 50% hike as of that moment in 2014. In terms of GDP, the value of the entire portfolio increased and accounted for 18.3%, up 3.5 p.p. (see Chart IV.28).

Regarding the FGS, the portfolio managed amounted to $472.26 billion as of December 2014[95] (see Table IV.4), up 43% annually. There was no capital inflow from any surplus from ANSES in 2014. The rise in the portfolio in 2014 was mainly based on the revaluation of sovereign bonds and corporate bonds and, in second place, on the

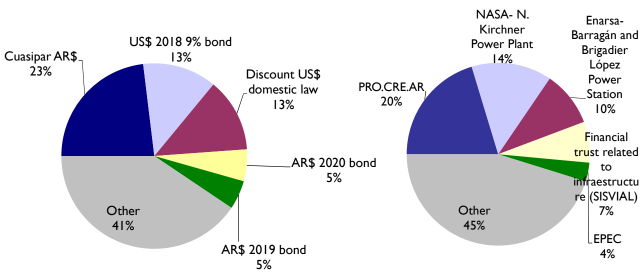
[94] The amount corresponds to the addition of unconsolidated portfolios. Latest date for which there is information available regarding insurance companies that allow making an aggregate calculation. In the case of the FGS, information from the bimonthly report corresponding to October 2014 is used for this calculation.
[95] Latest information available.

performance of shares that account for 72% and 17% of the total rise, respectively. Sovereign bonds and corporate bonds in the portfolio —main item accounting for 67% of the total— rose 48% over the year due to new subscriptions net of amortizations and rises in valuation (see main instruments in the portfolio in Chart IV.29). Shares rose 87% in 2014 and are the third item in terms of relevance, accounting for 11% of the total portfolio. Productive and infrastructure projects —which come second in terms of significance (13% of the total)— increased 32% in 2014. Following the significant boost received during the year, the main investment as of December 2014 was the PRO.CRE.AR. Program, amounting to $19.16 billion and taking the place of the nuclear station Central Nuclear NASA, with almost $14.35 billion. Finally, time deposits lost share once again in 2014, evidencing a 30% decline in the amount which led the share of these deposits by the ANSES in the total financial system to a historical minimum level.

Chart IV.29

FGS: Holdings of Public Bonds and Productive Investments

As of December 2014



Note: Public bonds and corporate bonds holdings include other instruments such as the sovereign bonds Bonar AR$16 and Bonar AR$18, Bonar X (dollar-denominated), PGN in addition to provincial bonds, LEBAC, Treasury bills and other.
Source: ANSES-FGS

Investments by insurance companies at an aggregate level totaled $137.91 billion according to information available as of September 2014[96], going up 38% in year-to-date terms and 47% y.o.y. (see Table IV.5). The rise in the valuation of sovereign bonds —main kind of assets in the portfolio— amounted to 64% in the three quarters up to September. Thus, this segment was the main driver of the rise in the portfolio value and led to a rise in its share in the total of up to 37%[97]. Secondly, mutual funds and corporate bonds recorded a significant increase from January to September (71% and 28%, respectively) and are currently the second and third most relevant components of the portfolio of insurance companies (24% and 16% of the total, in that order). This increase falls mostly within "paragraph k", which refers to productive investments, set by the National Insurance Superintendence in late 2012. Particularly, the growth in corporate bonds displaced the relevance of time deposits in the total portfolio (to 14%), the amount of which fell 10%. In turn, shares also climbed significantly (162% up to September 2014), raising their share in the aggregate portfolio by 3 p.p. up to 6%. In contrast, the amount of investments in financial trusts went down 26%, accounting for less than 2% of the total. Regarding the evolution of investments per activity, the momentum exhibited by investments of property-casualty insurance and mixed insurance companies should be underscored, as they grew almost 50% in the first 9 months of 2014, and, in second place, those of labor risk insurance companies (which increased 42% in the same period).

Table IV.4

Social Security Fund (FGS) Portfolio Evolution

As of December 2014

million AR$

	Dec-13	Oct-14	Dec-14	Variation October to December 2014 (%)	Variation since December 2013 (%)
Equity	27,838	62,362	52,128	-16%	87%
Sovereign and corporate bonds	215,584	310,652	318,665	3%	48%
Time deposits	15,996	14,514	11,213	-23%	-30%
Productive projects and infraestructure related instruments	44,677	55,004	59,088	7%	32%
Cash, liquid assets and other	25,378	40,128	31,171	-22%	23%
Total FGS	**329,472**	**482,660**	**472,265**	**-2%**	**43%**

Source: FGS

Table IV.5

Insurance companies portfolio evolution

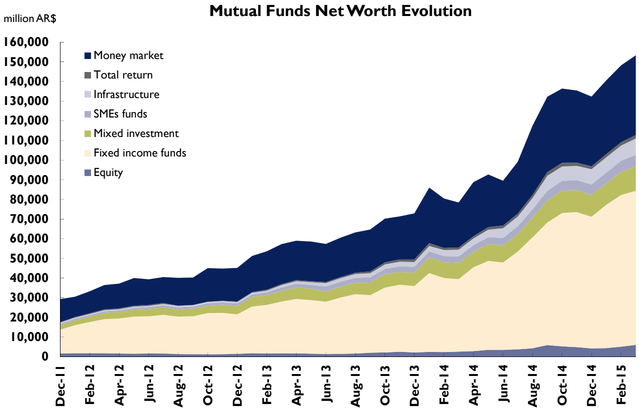
millions AR$

	Dec-12	Dec-13	Dec-14	Variation in 2014 (%)
Publics bonds	28,892	31,176	54,695	75.4
Stocks	4,175	3,314	7,634	130.3
Corporate bonds	7,807	16,931	21,357	26.1
Mutual funds	11,421	19,228	32,130	67.1
Financial trusts	2,719	3,212	2,504	-22.0
Time deposits	18,643	21,644	17,107	-21.0
Other investments in the country	897	3,801	1,309	-65.6
Investments abroad	447	433	427	-1.3
Total portfolio	**75,000**	**99,740**	**137,164**	**37.5**

Source: SSN.

[96] Latest information available.
[97] From December 2012 to June 2014, the average share was 33%.

Chart IV.30
Mutual Funds Net Worth Evolution



Source: BCRA based on Cámara Argentina de FCI

Net worth of mutual funds (FCIs) amounted to $153.36 billion as of March 2015, going up 16% in the first quarter after having ended 2014 with an 82% hike (see Chart IV.30). The rise observed in 2014 resulted from new subscriptions for $38.39 billion and from a rise in the portfolio's positive yield of $21.03 billion. In terms of the portfolio structure, the performance in 2014 was explained, just like in 2013, by the evolution of funds investing in the fixed income segment, which grew 98% last year (66% due to new subscriptions and 33% due to yield) and accounted for 51% of net worth managed by FCIs as of December 2014. Secondly, the rise in money market funds (they accounted for 27%) should be highlighted, as they grew 51% in 2014. In addition, the increase recorded by infrastructure funds (related to the regulation mentioned regarding productive investments of insurance companies) should be underscored, as their net worth rose 210% in 2014 (169% due to new subscriptions and the rest due to yields) and accounted for 6% of the entire net worth. According to the latest information available, all funds continued raising their net worth from December 2014 to late March 2015, especially equities and fixed income funds (going up 44% and 17%, respectively).

V. Financial System Risks

Summary

During the second half of 2014 and the beginning of 2015, the financial system exhibited a slight improvement in the map of risks inherent in its activity. In a context of consolidation of solvency indicators, relatively favorable changes were observed in terms of liquidity, credit and currency risks.

In terms of liquidity risk, on the one hand, the indicators of exposure of the financial system posted no significant changes during the second half of 2014 nor throughout the whole year, while the hedge for this risk went up, which was reflected in most financial institutions. Thus, the ratio of liquid assets to short-term liabilities stood at 47.7% at the end of the period, 5.6 p.p. above the value at the end of 2013. In terms of liquidity structure, the relative importance of LEBACs went up.

In the second half of 2014, the gross exposure of the ensemble of banks to the private sector decreased slightly, and in this period the non-performance of bank loans remained stable, within a range of low values. In turn, the hedging of the non-performing portfolio with loan loss provisions continued to stand at high levels. Thus, the balance sheet exposure to credit risk undertaken by the sector was limited, even in a context of deceleration of the evolution of the economic activity. The low values recorded of aggregate indebtedness of companies and households, and the financial burden resulting from it, contributed to maintaining the financial position and the payment capacity of such credit holders.

During this year, the aggregate amount of operational risks events reported by banks rose, which is mainly related to the execution, management and completion of processes and to external fraud. In line with such context, the regulatory capital requirement for operational risk for the ensemble of banks gained momentum among capital requirements in 2014. The gradual compliance schedule with this regulatory requirement is fully effective as from March 2015.

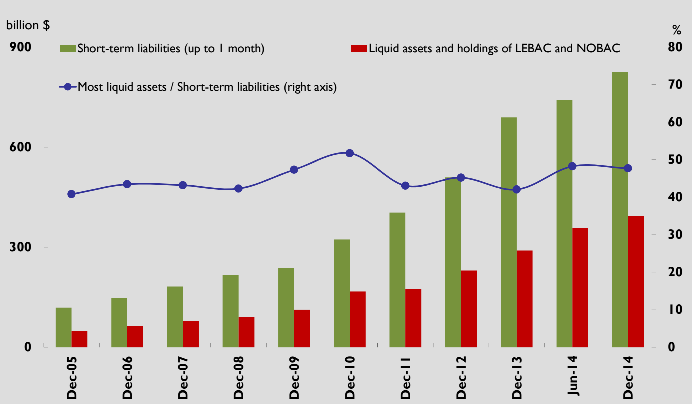
The financial system exposure to market risk continued posting a low weighting in the map of risks. The capital requirement to cover any possible losses derived from this risk, which accounted for 3.5% of the total as of December 2014, increased during the year mainly due to the component of domestic bonds in pesos and with a shorter relative term (LEBACs and public sector securities).

Throughout 2014, the ensemble of banks reduced its exposure to foreign currency risk. The currency mismatch of the financial system shrank significantly during the first half of the year, and this performance was explained by the adoption of macroprudential measures encouraged by the BCRA. In addition, this evolution was accompanied by a considerable decrease of the peso-dollar nominal exchange rate volatility.

Starting from reduced levels, the exposure of banks to interest rate risk posted a slight increase in the second half of the year. The estimated duration of assets not at mark-to-market rate in domestic currency rose in the period, while the sensitivity of liabilities in pesos upon changes in interest rates stood stable during the second half of 2014.

Chart V.1

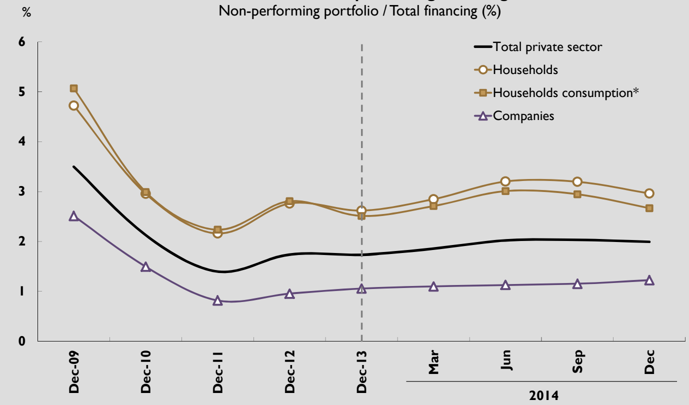
Most Liquid Asset in Terms of Short Term Liabilities*



* Short term liabilities : up to 1 month of residual term
Source: BCRA

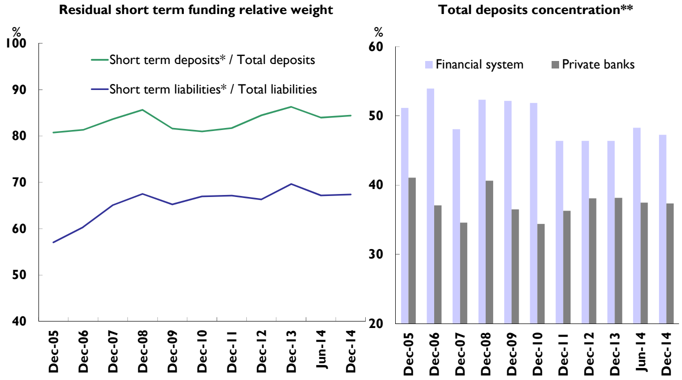
Chart V.2

Private Sector Non-performing Financing
Non-performing portfolio / Total financing (%)



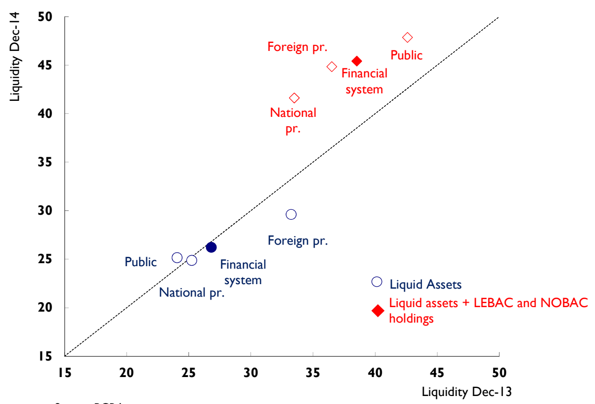
*Note: includes personal and credit cards.
Source: BCRA

Chart V.3
Liquidity Risk Exposure Indicators
Financial system



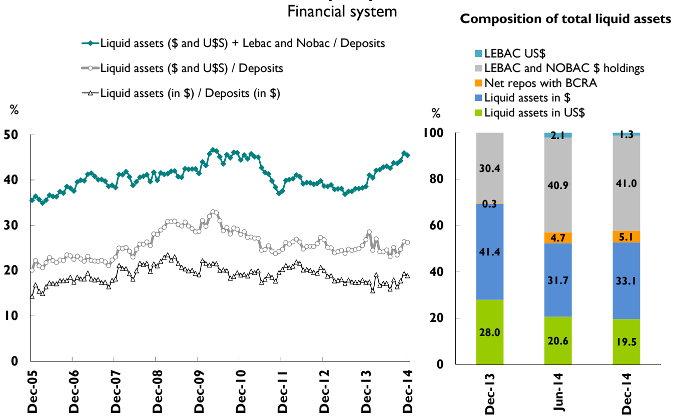
*Residual term less than 1 month.**Balance of the 160 largest customers of each institution as a percentage of total deposits.
Note: The annual information corresponds to the quarterly average of each period.
Source: BCRA

Chart V.4
Liquidity by Group of Banks
% of non-financial deposits



Source: BCRA

Chart V.5
Liquidity
Financial system



Source: BCRA

V.1 Liquidity Risk

The financial system exposure to liquidity risk is significantly low, as a result of the combination of a reduced exposure to such risk and high hedging levels. According to indicators available, the aggregate financial system exposure to liquidity risk posted no significant changes throughout 2014, standing at levels similar to those of the last years. In particular, during this period, the relative weight of short-term liabilities[98] in total funding went down slightly —especially during the first half of 2014—, whereas the concentration in deposits rose slightly (see Chart V.3). With respect to the latter indicator, the year-on-year performance was mainly explained by public banks —that receive most of deposits from the public sector—, whereas the concentrations of deposits shrank in private banks.

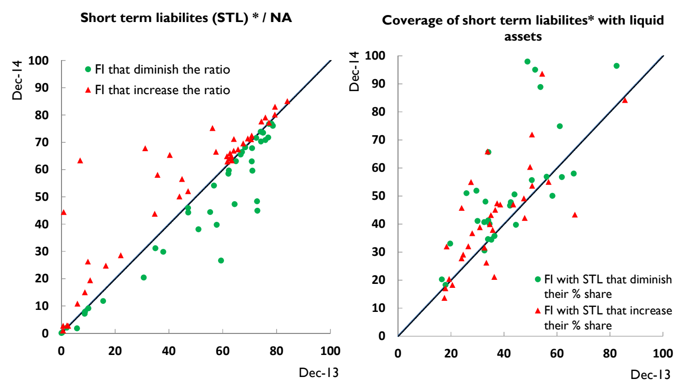
In terms of hedging of banks with respect to liquidity risk, the level of liquid assets —not including LEBACs and NOBACs— with respect to total deposits went down slightly if compared in year-on-year terms, down to 26.2% by the end of 2014, a change mainly reflected on foreign private banks (see Chart V.4). However, the liquidity indicator incorporating holdings of monetary regulation instruments ended the year around 45.4% of deposits, up 6.9 p.p. against the level recorded twelve months ago. In relation to the composition of bank liquidity in a broad sense, in the year a fall was recorded in the share of cash disposals in pesos and in dollars and an increase in LEBACs (see Chart V.5). This change in the composition of liquidity was mostly observed during the first part of the year.

Considering all short-term liabilities in the balance sheet of the ensemble of banks, in 2014 the hedging with liquid assets in a broad sense went up (see Chart V.1). In particular, this level of hedging ended the year around 47.7%, up 5.6 p.p. against the value recorded in December 2013.

The liquidity risk exposure and hedging indicators posted certain dispersion among financial institutions. Even though the number of banks whose exposure indicator —measured as short-term liabilities relative to total funding— rose in year-to-year terms is similar to the number of banks reducing their exposure in the period, most banks increased their hedging —measured as liquid assets relative to short-term liabilities (see Chart V.6). Moreover, a large portion of banks recording a year-on-year increase in the ratio between short-term liabilities and total funding, also improved their hedging with liquid assets in the period.

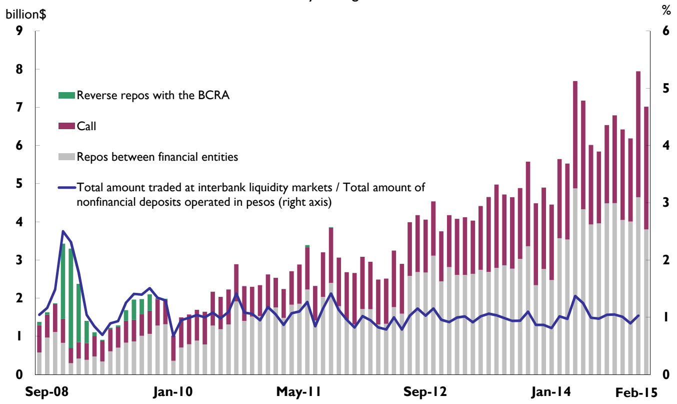
[98] Liabilities with residual terms shorter than a month.

Chart V.6
Relative Importance of Short term Funding and Coverage with Liquid Assets
By Financial Institution (FI)



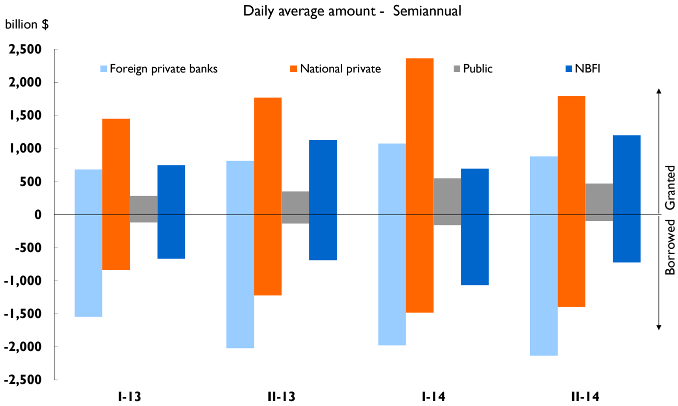
*Residual term less than 1 month. Source: BCRA

Chart V.7
Liquidity Markets
Daily average traded



Source: BCRA

Chart V.8
Call Market
Daily average amount - Semiannual



Source: BCRA

The minimum cash position —compliance in excess of requirement— in domestic currency stood at 0.2% of average total deposits in pesos in 2014 for the ensemble of banks, a level similar to that observed in the last two years. Taking into the regulatory requirements for the foreign currency segment, the financial system posted a surplus position equal to 95% of the requirement by the end of 2014. It is worth recalling that at the beginning of the year, the BCRA set forth an increase of the requirement for deposits in dollars[99], which led to a year-on-year reduction of the minimum cash position in this segment.

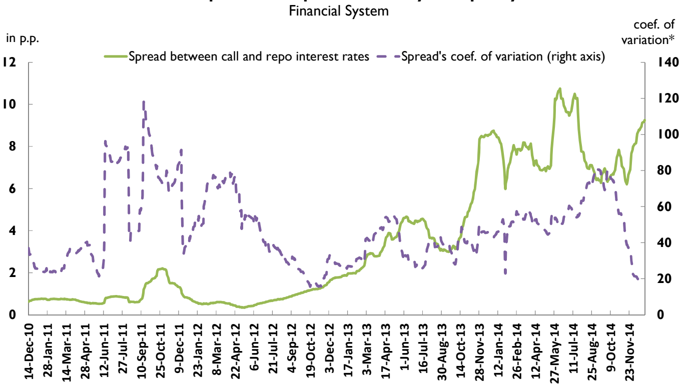
For the purpose that households' and companies' savings in foreign currency be channeled through the financial system, by mid-February 2015, the BCRA created incentives to help banks encourage the taking of time deposits in dollars, by increasing the maximum spread for banks underwriting LEBACs in dollars[100]. As established at the beginning of 2014, when the auction of bills by the BCRA in dollars was resumed, the amount taken for time deposits applied to such instrument will not be subject to any minimum cash requirement.

In furtherance of commitments undertaken under the G-20 and the Basel Committee on Banking Supervision (BCBS), as from January 2015, the BCRA introduced, among technical ratios to be satisfied by financial institutions, the liquidity coverage ratio —LCR— (see Box 5). This ratio sets forth that larger banks[101] must hold a certain number of high-quality and free-availability assets in order to mitigate any potential adverse shocks in the short run. According to the current composition of the balance sheet of banks, it may be expected that the inclusion of this new requirement would create no sizable inconveniences for selected banks. The agreed schedule contemplates gradual compliance, starting in 2015, with a 0.6 ratio, to end at 1 in 2019.

From shallow levels, call money markets continued growing in the last year. The amount traded in 2014 rose 34% relative to 2013 and accounted for 0.9% of the amount traded for deposits at the end of the period. When taking into account the first months of 2015, an even higher relative increase was observed in the interbank market —reaching almost 2% of deposit transactions—, especially in the call money segment (see Chart V.7). In the call market, in the second half of 2014, foreign private banks posted an outstanding

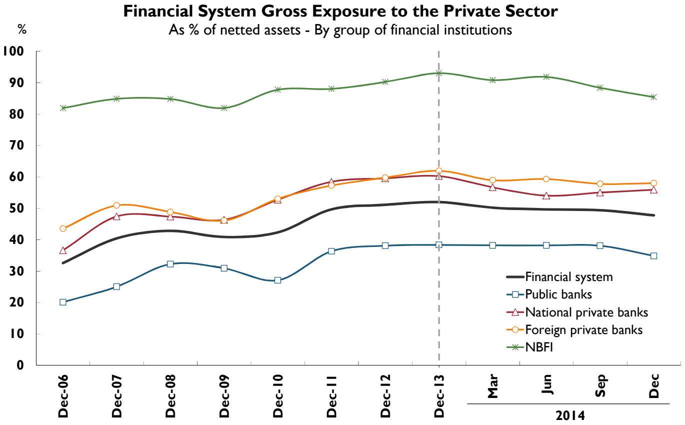
[99] Communication "A" 5534.
[100] Communication "P" 50517 and Communication "A" 5711.
[101] According to the provisions of Communication "A" 5703.

Chart V.9
Interest Rate Spread and Spread Volatility in Liquidity Markets
Financial System



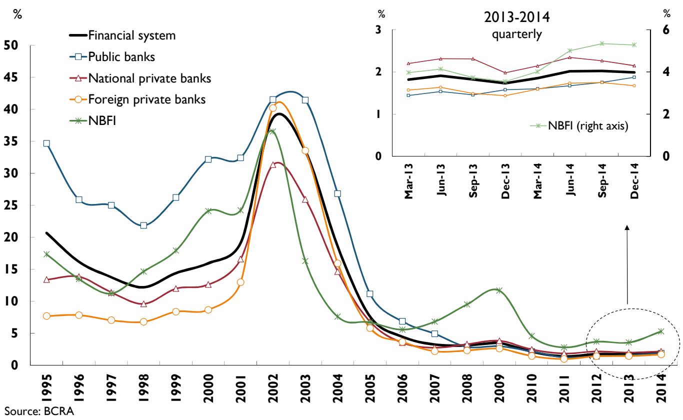
Note: Spread calculated as centered average -of 40 trade days- of the difference between call and repo interest rates. Coefficient of variability is obtained dividing standard deviation of 40 trade days -centered- by the centered average -of 40 trade days- of that spread.
Source: BCRA

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
Non-performing portfolio / Total financing (%)



Source: BCRA

borrowing position, whereas the other ensembles of banks acted as net lenders (see Chart V.8).

As regards interest rates of short-term markets where banks operate —through which they can manage any liquidity surplus and shortage—, the spread between the call and the repo loans rate for banks against the BCRA ended 2014 at a level below the peaks recorded in mid-2014. In addition, it is worth considering that as from September 2014, the variability of such spread started to shrink (see Chart V.9), which contributed to the liquidity risk management by banks.

V.2 Credit Risk

V.2.1 Private Sector[102]

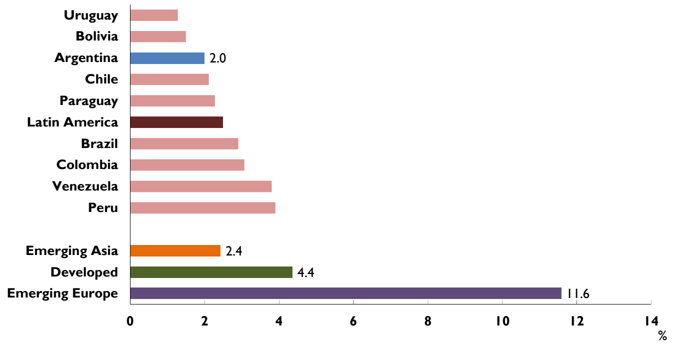
Throughout the year, the financial system gross exposure to the private sector went down to 47.8% of netted assets (see Chart V.10). All ensembles of banks posted year-on-year declines in their exposure to this sector. The non-performance of loans to the private sector stood at reduced values, showing some stability in recent months following a slight increase in the first half of 2014. Both households and companies continued posting low levels of indebtedness (see Chapter III), which contributed to sustaining a low credit risk for the ensemble of banks. In addition, the hedging of the non-performing portfolio with accounting provisions continued to stand at high levels for the financial system, above 100% in all ensembles of banks.

From mid-2014 to the end of such year, the non-performance of loans to the private sector stood around 2% of total lending, which is a low level both in a medium-term comparison (see Chart V.11) and internationally as well (see Chart V.12). This indicator exceeded slightly the value recorded by the end of 2013, mainly due to the performance observed in the first half. All ensembles of banks posted increases in their non-performance ratio during the first two quarters of 2014, whereas in the second half of the year, they recorded dissimilar performances —with a slight reduction in private banks and minor increases in public banks (see Chart V.11).

Along the year, loans to the productive sector exhibited no significant changes in their non-performance ratio. In turn, loans to households recorded a slight increase in non-performance during the first half, a change that was partially offset by a reduction during the second half of 2014 (see Chart V.2) in a context of higher momentum of loans in this segment (see Chapter IV). Taking into

[102] In this section, lending to the private sector is obtained from data of the Debtors' Database.

Chart V.12
Non-performing Financing. International Comparison
Non-performing Financing / Total financing (%)



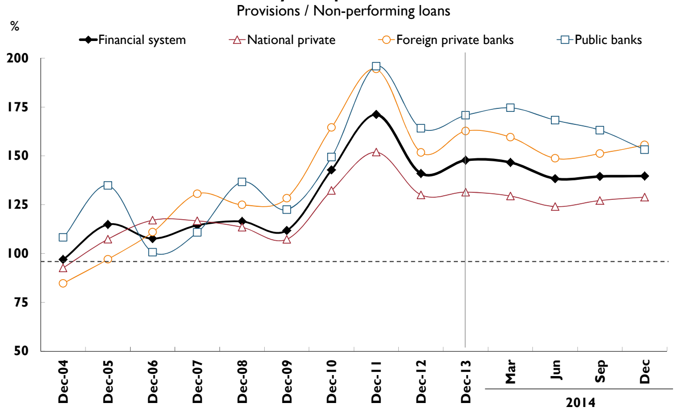
Note: Private sector non-performing loans as percentage of total private sector financing. Note: Emerging Europe: Turkey, Russia, Romania, Bulgaria and Hungary. Emerging Asia: China, India and Indonesia. Developed: Korea, Spain,USA, UK, France, Japan, Italy, Canada, Australia and Germany. Data to 2014 except Bolivia, Bulgaria, China, Spain (2013) y Venezuela (2010). Sources: BCRA, IMF and Central Banks.

Table V.1
Private sector Financing Evolution / Jun-14 to Dec-14
As % of the credit stock at initial time - June 2014

			December 2014		
			Performing (91.9%)	Non-performing (2.3%)	Drop of Balance* (5.8%)
June 2014	Performing	98.0	91.6	1.1	5.2
June 2014	Non Performing	2.0	0.2	1.2	0.6

(*) Debt cancellation, financial trusts constitution or written off and booked in memorandum accounts. Source: BCRA

Chart V.13
Provisions by Group of Financial Entities
Provisions / Non-performing loans



Source: BCRA

consideration the non-performance of loans to the private sector in the different geographical areas of Argentina, in the second half of the year, all regions, except for the North West (NOA) and the Central West (Cuyo) regions, exhibited reductions in delinquency levels.

The situation of debtors that explained the total stock of credit to the private sector by mid-2014 deteriorated slightly during the second half of the year. In particular, whereas only 0.2% of such total stock improved, going from non-performing to performing between June and December, the rating of 1.1% of such stock worsened in this period (see Table V.1).

In 2014, all ensembles of banks maintained the hedging of the non-performing portfolio with accounting provisions above 100% (see Chart V.13). In aggregate, this indicator reached 139.7%, just below the value recorded twelve months ago. In turn, the provisions created by the financial system at the end of the year stood 39.4 p.p. above the minimum required.

Households

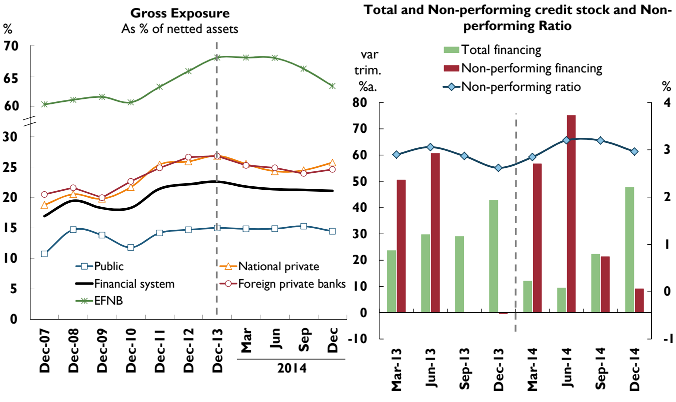
The financial system exposure to households stood almost unchanged during the second half of 2014, reaching 21.1% of netted assets at the end of the year (see Chart V.14). This level stood slightly below that recorded by the end of 2013, due to the events taking place during the first months of the year. The evolution of the exposure to households was in line with the performance of lending to such sector[103] during 2014, with a remarkable improvement of the growth rate in the last portion of the period (see Chapter IV), upon the implementation of public policies aimed at encouraging credit and the regulation of interest rates for personal and pledge-backed loans and the AHORA 12 and PRO.CRE.AUTO programs. In turn, the reduced levels of indebtedness and of the financial burden generated by them (see Chapter III) maintain at a limited level the credit risk taken by the financial sector against households.

In the second half of the year, the non-performance ratio of loans to households went down to 3%, in a context of expansion of lending and reduction of the growth pace of the non-performing portfolio of households (see Chart V.14). Credit lines for consumption —personal loans and credit cards— were the forces behind the reduction of the non-performing ratio in the last months of the year. On a year-on-year comparison, the non-performing ratio of loans to households at the end of

[103] Loans to households are those granted to natural persons, except in case of loans for commercial purposes.

Chart V.14

Households Financing



Source: BCRA

Chart V.15

Companies' Non-performing Financing by Economic Activity and Credit Line

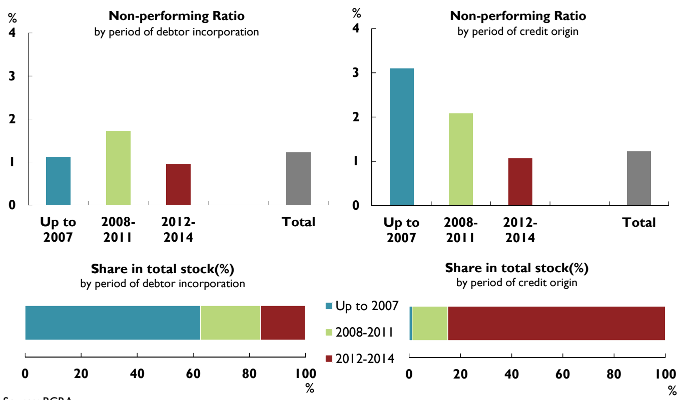
Non-performing portfolio / Total financing (%)

Source: BCRA

Chart V.16

Companies' Financing and Non-Performing Portfolio

By estimated period of debtor incorporation and credit origin -to December 2014



Source: BCRA

2014 exceeded by 0.4 p.p. the level recorded at the end of 2013, due to the increase posted in the first half.

Companies

In 2014, the financial system exposure to companies[104] shrank slightly —based on the performance of loans to this sector (see Chapter IV)—, and closed the year at 26.7% of netted assets. This fall was recorded in all ensembles of financial institutions.

The non-performing loans to the productive sector posted no relevant changes as to their magnitude during the year, and stood at reduced levels, below the values of loans to households. In turn, the bouncing of checks due to insufficient funds relative to the total cleared documents —another indicator of credit risk to companies— stood at low levels during 2014, reaching minimum values in a medium term comparison (see Chapter VI).

Taking into consideration the lines of credit to companies, in the year, the delinquency ratio went down in overdrafts and went up in other lines (see Chart V.15). A mixed performance was also observed in the non-performing loans intended for productive activities, with a lower delinquency rate in the construction business and slight increases in other segments of activity, a behavior that is in line with the sectoral performance recorded in 2014 (see Chapter III). In turn, within a context evidencing a greater share of loans given to SMEs in the aggregate amount traded by legal entities (see Chapter IV), the non-performance ratio of lending with a lesser residual stock (up to $5 million) has shown no significant changes, and remained stable during the second half of the year.

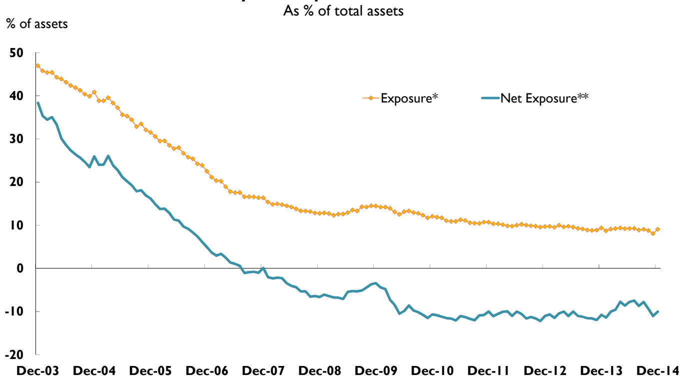
Considering credit to companies based on the estimated period of origination, loans generated as from 2012 and onwards —i.e. the effective term of the Credit Line for Productive Investment (LCIP)— posted a lower non-performing ratio than the total amount of lending to companies at the end of 2014. The same situation is observed if segmenting the loans to companies according to the estimated period of incorporation of the debtor, in which case debtors incorporated in the 2012-2014 period posted a lower non-performance ratio than other debtors (see Chart V.16).

V.2.2 Public Sector

The gross exposure of the ensemble of financial institutions to the public sector went down slightly along

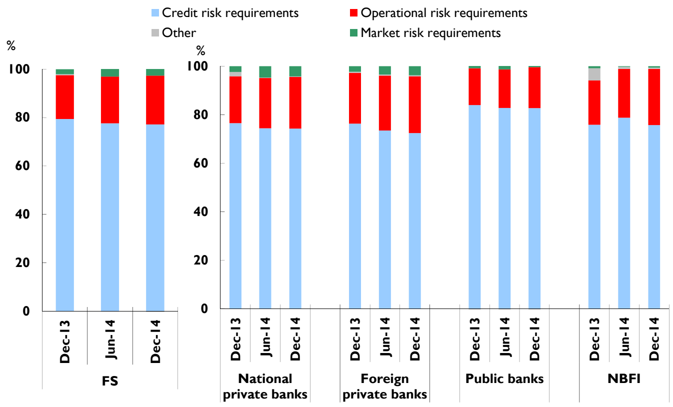
[104] Loans to companies comprise loans to legal persons and commercial loans to natural persons.

Chart V.17
Financial System Exposure to the Public Sector
As % of total assets



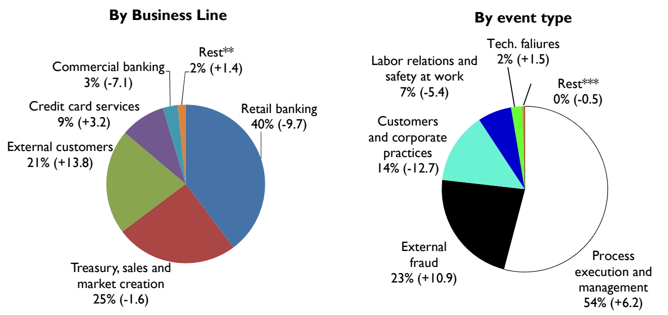
* (Position in government securities (not including Lebac or Nobac) + Loans to the public sector) / Total Assets .
** (Position in government securities (not including Lebac or Nobac) + Loans to the public sector - Public sector deposits) / Total Assets
Public sector includes all jurisdictions (national,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

Chart V.18
Capital Requirements by Group of Banks
Share in regulatory requirements



Note: Requierements are ajusted by exemptions and the efects of the Com. "A" 5396. Source: BCRA

Chart V.19
Financial System Operational Risk * Event Clasification
% Share in the total value of events discovered in 2014 informed by Dec-14 - (y.o.y. p.p. var)



* Operational risk events database (IR for Quarterly / Annual Supervision).
** Rest: Agency services, Asset administration and intermediation . *** Rest: Impact in business and technological failures, internal fraud and material assets damages. Source: BCRA

the year, to 9.1% of assets by the end of the period (see Chart V.17). This decrease was mainly driven by public banks and, to a lesser extent, by national private institutions.

The total of deposits of the public sector reached 19.1% of total funding of the financial system at the end of 2014, thus maintaining a net negative exposure of financial institutions to such sector at a level equal to 10% of assets, slightly below the value recorded in 2013. On the basis of an international comparison, these ratios of exposure to the public sector stood below the average value observed in the region and were also lower than values reported by developed and emerging economies.

V.3 Operational Risk

Among the capital requirements for financial institutions, as from 2012, the BCRA included a requirement to hedge the exposure to operational risk[105] in line with international recommendations. For such purpose, a gradual compliance schedule had been designed which was completed in March 2015 for smaller banks (Groups "B" and "C").

The capital requirement for operational risk grew 42.6% in 2014 in aggregate, thus gaining relevance among capital requirements (see Chart V.18). This increase was mainly due to the performance of "gross income", based on higher gains deriving from the financial margin in the first half of 2014 (see Chapter IV). Therefore, by the end of the year, the capital requirement for operational risk exceeded 20% of the total capital requirement, up 2.1 p.p. against the value at the end of 2013. In all ensembles of financial institutions, the capital requirement for operational risk became relevant, posting a higher increase in non-banks financial institutions (NBFIs) and foreign private banks.

The amount of the group of operational risk events reported by financial institutions in the last quarter of 2014 rose 38% y.o.y. Except for commercial banks, in all lines of business, losses reported for operational risk grew in year-on-year terms, with a higher increase in the business of foreign customers' management. The types of events mainly behind the year-on-year performance were

[105] In local regulations, the capital requirement for operational risk hedging was established according to the basic indicator approach, at a level equivalent to 15% of average positive "gross income" (among which the financial margin and net income for services mainly stand out) for the last three years. For further detail, see Restated Text "Minimum Capital Requirements of Financial Institutions."

Box 5 / Local Forward Guidance to Basel III

In 2011, the BCRA announced a road map for the implementation of the banking regulation schedule, usually known as Basel III. Four years later, significant regulatory progress has been made that contributes to consolidating the liquidity and solvency levels of financial institutions operating in the domestic market. At present, another group of measures is under analysis, which will also allow to keep on consolidating the financial stability conditions in the medium term, without neglecting the processes for expansion of lending to the productive sector and households

At the 2008 Washington Summit, the G20 leaders undertook to make a comprehensive reform of the global financial system for the purpose of addressing the failures that resulted in the global economic crisis, a commitment that was subsequently ratified several times[106]. From such moment onwards, the Basel Committee on Banking Supervision (BCBS) started the works to restate the regulatory framework in force up to such time.

This plan consisted of two stages. The first stage, completed by mid-2009 and known as Basel 2.5, consisted in several measures aimed at reinforcing the three pillars of Basel II, in particular, the standards on market risk and the treatment of securitizations. The second stage, usually called Basel III (2010), is intended to make an integral reform of the banking regulatory framework. The objective of these reforms was to increase the financial institutions' ability to face any disruptions caused by potential stress situations through improvements in regulation, supervision and management of bank risks. The Basel II solvency requirements were increased and, for the first time, standards related to liquidity and measures for macroprudential regulation were introduced.

In line with the commitments undertaken at international levels, the BCRA has made progress in including, at local level, the different dimensions of international recommendations. Thus, in 2012, the BCRA adopted the Basel II basic indicator approach to determine the capital requirement for operational risk[107]. Also in 2012, provisions were established on credit risk and computable capital[108] [109]. The minimum ratios for capital and the definition of capital stated in Basel III were included, in stricter terms than those set forth in Basel II. Therefore, the ordinary capital, tier 1 capital and total capital must amount, at least, to 4.5%, 6% and 8% of risk weighted assets (RWA), respectively. To determine the credit risk requirement, the standardized approach was adopted with the improvements of Basel 2.5 and Basel III, but not making references to external ratings, thus incorporating the recommendation of the Financial Stability Board (FSB).

Pillar 2 requirements related to the supervisory review process were incorporated in 2011 and in 2013 to the guidelines for risk management of financial institutions[110]. Such guidelines now include guides for the management of credit risk (including the counterparty risk), liquidity risk, market risk, interest rate risk, operational risk, securitization risk, concentration risk, reputational risk and strategic risk, as well as guides for stress testing. The guidelines for risk management and reporting requirements related to the business model are the basis for the banks' internal capital adequacy assessment process (ICAAP) and the subsequent review by the Superintendence of Financial and Foreign Exchange Institutions (SEFyC).

Pillar 3 requirements related to market discipline specify the minimum information to be disclosed so that market participants may assess the banks' liquidity and solvency and how they manage risk. In 2013, the BCRA established that as from the end of such year, banks had to post in their Web sites both qualitative and quantitative information subject to Basel II and III conventions[111].

Since the excessive leverage of banks was considered one of the reasons for the global financial crisis and, later on, its quick reduction was one of the forces contributing to the expansion of negative effects, Basel III established a new prudential regulation on leverage —a ratio between tier 1 capital and total assets—, which is simple in nature and independent from risk weights, and that supplements the capital requirement based on risks[112]. In this context, the BCRA established that as from the first quarter of 2015, domestic financial institutions must publish information on their leverage, following the standards on market discipline[113]. Since 2018, the leverage ratio would

[106] Seoul 2010, Cannes 2011 and Brisbane 2014 G20 Summits.
[107] Communication "A" 5272. For more information, see Box 3 of Financial Stability Report, First Half 2012.
[108] Communication "A" 5369.
[109] For further detail, see Box 3 of Financial Stability Report, First Half 2013.
[110] Communications "A" 5203 and "A" 5398.
[111] Communication "A" 5394.
[112] For further detail, see Box 4 of Financial Stability Report, Second Half 2014.
[113] Communication "A" 5674

be a measure of mandatory compliance at international level, with a minimum not yet agreed upon.

To prevent that in stress situations the banks' lack of liquidity may affect the real economy, Basel III encouraged that institutions must have, at all times, a level of high quality liquid assets. Such assets would allow them to face any outflows of funds during, at least, a 30-day stress period (liquidity coverage ratio —LCR—)[114]. The ratio between liquid assets and the expected outflow of funds should not be lower than 1, but a lower ratio is acceptable during stress periods, due to the need of making payments. The BCRA has recently made effective the ratio for larger institutions[115], based on the Basel III schedule, with initial 60% compliance of the requirement (100% by 2019). Moreover, in March, the BCRA announced, on the one hand, the liquidity risk follow-up tools[116], consisting of a group of measures or supplementary parameters that will contribute to BCRA's surveillance actions and, on the other hand, the minimum disclosure requirements as to the LCR for the purposes of market discipline[117].

In turn, the G20 requested that the regulatory framework for global systemically important banks (G-SIBs) be extended to domestic systemically important banks (D-SIBs). In this respect, in 2014, the BCRA published the "Methodology for Identification of Systemically Important Banks at Domestic Level"[118] [119] and, in 2015, it established an additional requirement for such institutions equal to 1% of their RWA, to be constituted by tier 1 ordinary capital, gradually between January 2016 and 2019[120].

Upon the implementation of practically all international commitments related to Basel III to be satisfied in the short term, in the next months, the BCRA will make progress in the analysis of the redrafting of some of its regulations in force and in the introduction of some minor aspects in order to complete this stage. Besides, this Institution will use its best efforts to include the new tools into the supervisory cycle.

On the one hand, at local level, the introduction of amendments to the capital requirement for market risk is under study to include higher requirements as to derivative instruments and the valuation of illiquid positions. In addition, quite soon, the BCRA is going to introduce into the market risk chapter a specific capital requirement for exposures of banks to clearing houses or central counterparties (CCPs).

On the other hand, there are two margins (buffers) whose local implementation is currently under analysis, which must be constituted with tier 1 ordinary capital, and that will establish limits on dividend distribution in case of an insufficient buffers' fulfil. First of all, according to Basel III, as from 2016, banks must maintain a capital conservation additional margin, equivalent to 2.5% of their RWAs. Besides, there is the countercyclical margin, a macroprudential measure aimed at preventing scenarios of excessive expansion of credit that may result in vulnerabilities. The BCRA will soon define the economic conditions that will determine the constitution or release of this reserve, which will range from 0% to 2.5% of RWAs.

To supplement the short-term liquidity supervision, the BCRA will soon announce a set of tools to monitor the management of intraday liquidity by financial institutions. In terms of the Net Stable Funding Ratio (NSFR), the final wording of this standard was published by the BCBS in October 2014, establishing that the ratio will become a minimum requirement in 2018. The goal is to limit the funding of long-term assets with short-term funds, specifically, funds coming from the wholesale market. For the time being, the BCRA will continue monitoring the evolution of the NSFR through a bank sampling.

The BCRA is going to implement soon the "Principles for effective risk data aggregation and risk reporting", published by the BCBS in 2013. The aim of this set of principles is to promote the implementation of information technologies allowing banks to integrally manage their financial risks. In a first stage, they must be implemented by institutions identified as D-SIBs by the BCRA.

Finally, in 2014, a road map was published[121] for the adoption of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The banks' convergence plan, to be concluded in 2018, will allow for a smoother integration of the banks' balance sheet data with the chapters of Basel III.

Thus, the BCRA had made significant progress in implementing Basel recommendations, a guidance that

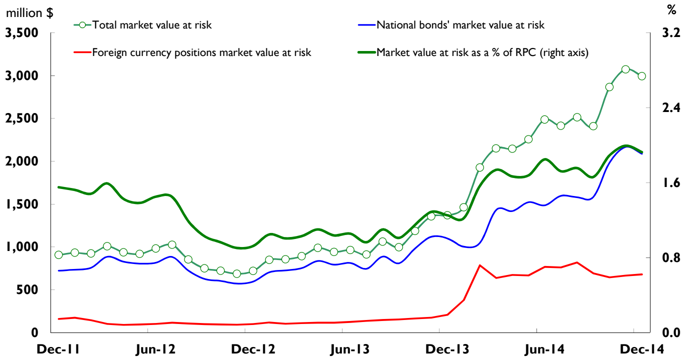
[114] For further detail, see Box 3 of Financial Stability Report, First Half 2014.
[115] Communication "A" 5693.
[116] Communication "A" 5733.
[117] Communication "A" 5734.
[118] http://www.bcra.gov.ar/pdfs/marco/D_SIBs.pdf
[119] For further detail, see Box 4 of Financial Stability Report, Second Half 2012 and Box 4 of Financial Stability Report, First Half 2014.
[120] Communication "A" 5694
[121] Communication "A" 5541

the Institution will keep in the few next months, without losing sight of the intrinsic characteristics of a developing economy, such as the Argentine one, and the need for counting on adequate lending sources to foster investment and consumption at domestic level.

Chart V.20

Market Value at Risk

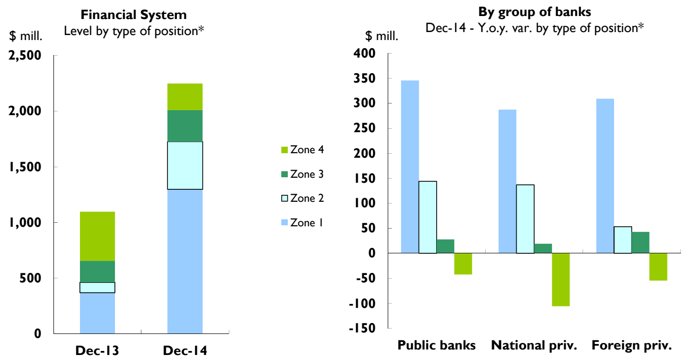
Total, national bonds'* and foreign currency positions' capital requirements



*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.21

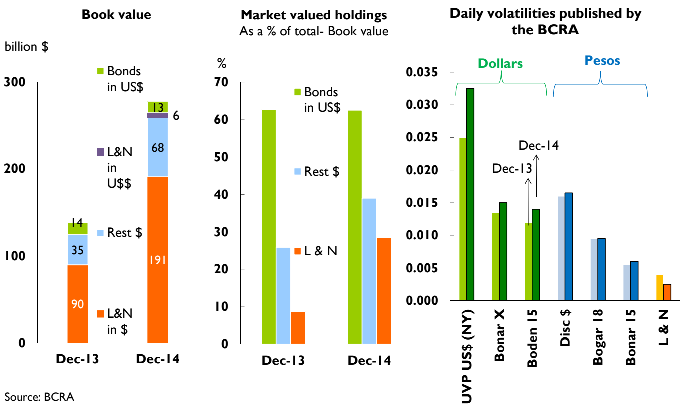
Capital Requirements due to National Bonds



*Types of position by Compiled texts of Financial institution minimum capital requirements. Section 6. Bonds are classified depending their currency and their average term ("modified duration", MD): Zone 1 (pesos, MD less than 2.5 years), Zone 2 (pesos, MD more than 2.5 years), Zone 3 (dollars, MD less than 2.5 years) and Zone 4 (dollars, MD more than 2.5 years). Source: BCRA

Chart V.22

Public Bonds, LEBAC and NOBAC in Banks' Porfolio



Source: BCRA

related to execution, management and completion of processes and to external fraud (see Chart V.19).

V.4 Market Risk

The exposure to a net worth loss due to changes in the value of net positions upon a potential decline of market prices has a rather low relative importance among the risks faced by the financial system. By the end of 2014, the position of national bonds of the public sector (LEBACs and sovereign bonds) in the balance sheet of the ensemble of banks valued at market price, represented less than one third of the total accounting position of these instruments and only 6.8% of netted assets. In this context, the value at risk —regulatory minimum capital requirement— totaled only 1.9% of de RPC (Adjustable Stockholders' Equity) (see Chart V.20) and 3.5% of total capital requirement as of December 2014.

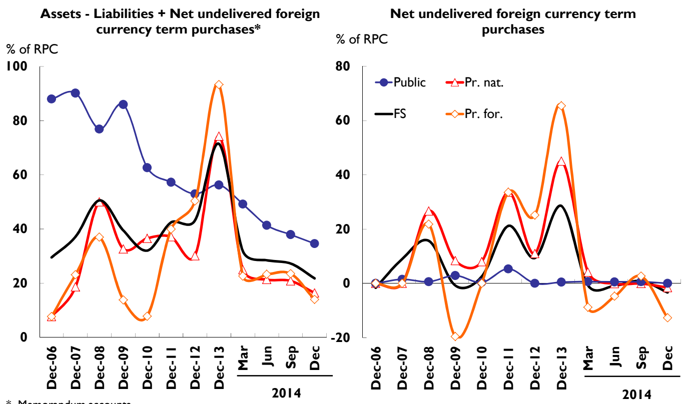
From this reduced levels, throughout the year, the regulatory capital requirement for market risk rose for the financial system mainly due to the increase of the value at risk of national bonds[122] (see Chart V.20) and, to a lesser extent, due to the component recording positions in foreign currency —this latter effect was evident during the first months of the period. Thus, as of December 2014, the segment of national bonds reached 70% of the market risk value for the ensemble of banks. Upon breaking down by position type in the segment, the year-on-year growth of the capital requirement was mainly explained by bonds in pesos with a modified duration shorter than 2.5 years, and was reflected on all ensembles of banks (see Chart V.21). This performance is in line with the increased holdings of BCRA's bills and bonds of the public sector in domestic currency valued at market price (see Chart V.22). Besides, volatilities[123] of prices of the main instruments —except for LEBACs and NOBACs— held by banks rose if compared to the values of December 2013.

V.5 Currency Risk

The foreign currency mismatching of the ensemble of financial institutions in terms of Adjustable Stockholders' Equity (RPC) posted a significant decline during 2014 (see Chart V.23). This indicator stood at 21.8%[124] at aggregate level at the end of 2014, almost 50 p.p. below the value recorded one year ago. Private banking posted the greatest year-on-year relative fall of

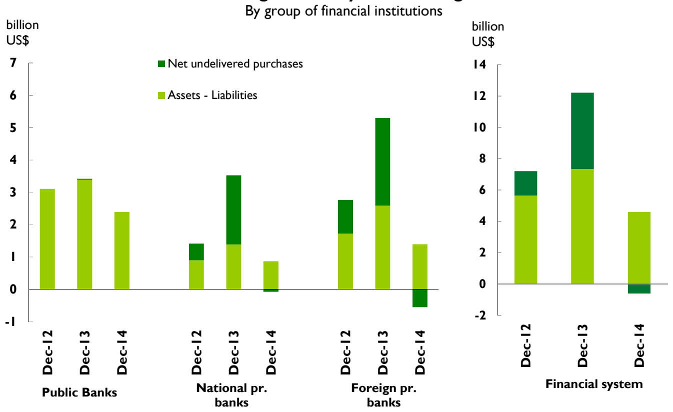
[122] Sovereign bonds issued by the Government, LEBACs and, to a lesser extent, unit shares of mutual funds.
[123] According to monthly Communications "B", stating the daily volatilities for market risk calculation.
[124] This mismatching does not exactly consider the regulatory definition of PGNME (since it takes into consideration neither the regulatory extensions of the limit nor any allowances granted), even though at aggregate level they post similar values.

Chart V.23
Foreign Currency Mismatching



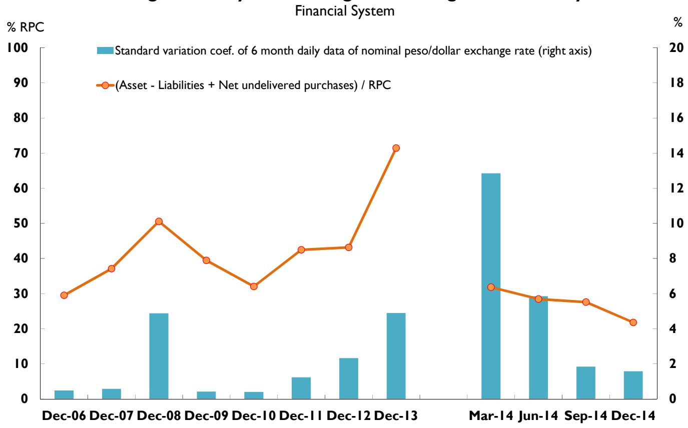
* Memorandum accounts
Source: BCRA

Chart V.24
Foreign Currency Mismatching*
By group of financial institutions



*Note: (Assets - Liabilites + Net undelivered purchases) / RPC.
Source: BCRA

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



Source: BCRA

this ratio, mainly as a consequence of the reversal of foreign currency net forward purchases in the period (see Chart V.24). This year-on-year evolution was accompanied by a significant reduction of the volatility of the peso-dollar nominal exchange rate if compared to the beginning of the year (see Chart V.25), as a result of the measures taken by the BCRA to consolidate supervision and encourage savings in domestic currency.

The fall of the mismatching of foreign currency of banks was mainly explained by the group of macroprudential measures encouraged by the BCRA when applicable, that contributed to maintaining the exchange market stability and to reducing the exposure to currency risk faced by the sector. In particular, at the beginning of 2014, the BCRA introduced again the positive limit to each bank's Net Global Position in Foreign Currency (PGNME), which was fixed at an initial level equal to 30% of RPC[125], and that was reduced to 20% as from September. On a supplementary basis, it was established that the positive futures net global position in foreign currency could not exceed 10% of RPC of the month prior to the relevant month[126].

It is worth considering that, based on the lesser exposure to currency risk and the more moderate volatility of the peso-dollar nominal exchange rate, in recent months, the financial system recorded only slight net worth changes resulting from items related to the statement of income —foreign exchange price adjustments and forward foreign exchange operations—, if compared to the effect that had been recorded at the end of 2013 and in early 2014.

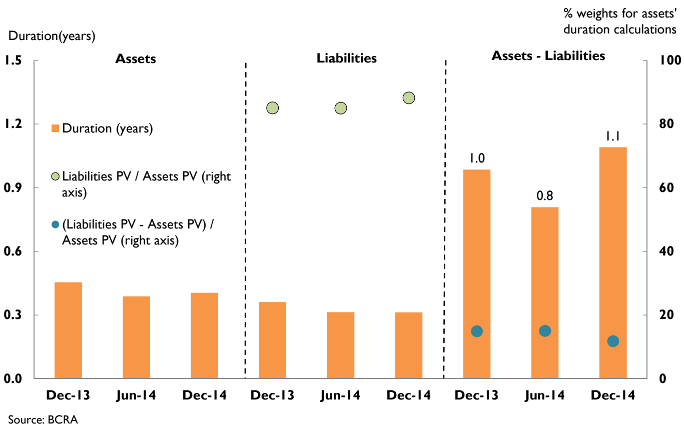
V.6 Interest Rate Risk

In line with international standards still in force and effect on this matter, as from 2013, the manner to address the interest rate risk faced by banks became part of the supervisory review and evaluation process (Pillar II) at local level. As from such time, the Superintendence of Financial and Foreign Exchange Institutions (SEFyC) may require banks, if it may deem it so necessary, to satisfy an additional capital requirement to hedge this risk and/or to reduce exposure to such risk. Likewise, each bank must assess the adequacy of its own capital, taking into consideration the interest rate risk taken by it.

This risk is inherent in bank transactions and originates in the higher relative sensitivity of liabilities against assets upon interest rate changes. This occurs in the

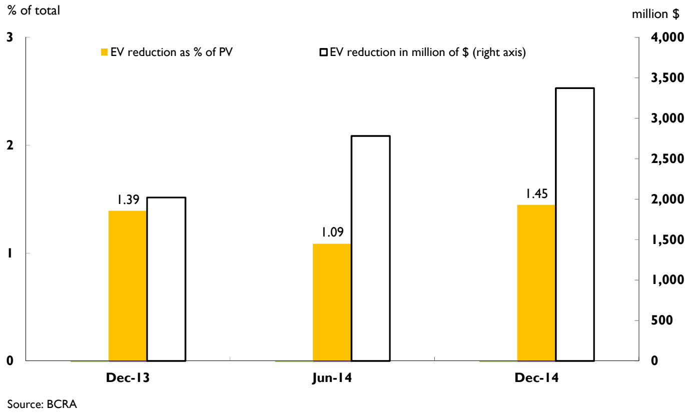
[125] From the month prior to the applicable month or the banks' own liquid funds (whichever may be lower).
[126] Communication "A"5536 and Communication "A" 5627.

Chart V.26
Estimated Domestic Currency Banking Book Portfolio Duration



Source: BCRA

Chart V.27
Economic Value Estimated Reduction Caused by an Increase on the Interest Rate
Financial system - Domestic and foreign currency - By a 200 bp increase on the interest rate



Source: BCRA

segment of transactions agreed at a fixed rate, in general, because the term of assets is longer than the term of liabilities. As regards the domestic financial system, transactions in domestic currency concentrate to a large extent the exposure to interest rate risk. Such exposure is moderate, if we take into account that assets at fixed interest rate and for a medium and long term account for a small portion of total assets.

From these moderate levels, in the second half of 2014, a slight increase was observed of the financial system exposure to interest rate risk. In particular, the duration of assets net of liabilities of domestic currency instruments not valued at market price (banking book) recorded a marginal increase as from July 2014 (see Chart V.26). This was a result of the longer duration of assets, since the sensitivity of liabilities upon rate changes stood stable during the period.

In order to assess the status in terms of management of this risk, one of the criteria used by the BCRA[127] consists in estimating the impact on the current value of the banking book portfolio caused by an increase of 200 basis points in interest rates. As of December 2014, the result for this year showed that the economic value for the ensemble of banks had gone down only 1.45%[128] (see Chart V.27).

[127] Communication "A" 5398.
[128] Considering the information of the BCRA's Reporting Regime of Minimum Capital Requirement and Composition.

Box 6 / Local Progress in Terms of Transparency: Identification of Financial Institutions with LEI Codes

One of the keys to assess the soundness of a financial system is to have an appropriate capacity to measure activity-related risks and to identify the parties carrying out such activity. At the 2011 G20 Summit in Cannes, the Presidents agreed on the creation of an identifier, the Legal Entity Identifier —LEI—, in order to identify, uniquely and globally, the parties of financial transactions. Over 70 regulatory authorities adhered to the initiative. At the end of 2014, there were more than 330,000 institutions of more than 189 countries having LEI codes issued by the 20 registration units operating up to such time. The BCRA adhered to the standard and, in October 2014, created the Entities' Identification Registry. This action entails a new approach to international policies and an improvement in the tools at hand to contribute to improving transparency and to streamlining the processes related to anti-money laundering measures

The worldwide initiative to identify banks with LEI codes came up as a response to the international financial crisis, as part of a comprehensive set of regulatory policies aimed at recreating the conditions for financial stability. One of the keys to assess the soundness of a financial system lies in the capacity to measure activity-related risks and to identify the parties carrying out such activity. At the 2011 G20 Summit at Cannes, the Presidents agreed on the creation of a global identifier, Legal Entity Identifier —LEI—, in order to uniquely identify the parties to financial transactions. For such purpose, the Financial Stability Board (FSB) was asked to coordinate and prepare, together with the regulatory community, good governance practices for the LEI, representing public interest. One year later, the G20 adopted the FSB recommendations on governance structure of the LEI Global System.

LEI is a single entity identification code recognized worldwide. It is designed to be a unique code and to serve to identify the huge number of institutions around the globe. It is a 20-character alphanumeric code under the terms of standard ISO 17.442, and it is supplemented with basic data related to the entity identified, such as name and address, and still under development, name and LEI of related entities.

To provide the LEI code with worldwide recognition and to assure the quality of associated data, the FSB designed the Global LEI System. Its goal is to contribute to financial stability with a specific tool, the LEI code, preserving characteristics similar to those of a public good, as well as to secure free and unlimited access to data, without use restrictions, and to ensure the collective benefit of its broad adoption.

Besides, the Global LEI System promotes the use of the code by the public sector, because it allows to add the exposures to risk of an entity with transactions in different jurisdictions, to measure total exposure and, consequently, to facilitate the monitoring/supervision of systemic risks. In addition, the private sector has a tool to improve risk management, to increase operating effectiveness, and to make the calculation of exposures more accurate, among other applications.

The 3-tier governance structure designed by the FSB allows the LEI to be instrumental to meet the needs of regulatory authorities, of private firms and of financial users in general. It consists of:

- the Regulatory Oversight Committee (ROC), with more than 70 authorities for regulation and supervision of the financial system worldwide, in charge of monitoring and preserving the public interest of the Global LEI System,
- the Global Legal Entity Identifier Foundation (GLEIF), that manages the centralization of LEI data and establishes operating standards, and
- pre-LOUs (local operating units), i.e., local registries issuing LEI codes for institutions.

By the end of 2014, there were more than 330,000 entities of more than 189 countries having LEI codes issued by the 20 pre-LOUs operating up to such time[129]. It is worth considering that the use of the LEI code was extended, in principle, among the standards of developed countries. For example, in the United States, based on the provisions of the Dodd-Frank Act, the LEI code of counterparties of swap transactions must be reported jointly with the other transaction data —nominal value, maturity date, among others. It was also included in the European Community's rules and regulations as a reporting requirement of OTC (over-the-counter) derivative transactions. In addition, other markets

[129] The list of local registries, pre-LOUs, whose LEI codes are acknowledged worldwide to be used for regulatory purposes can be found at: http://www.leiroc.org/publications/gls/lou_20131003_2.pdf

adopted the LEI code under their regulations for different industries, including Canada, Singapore, Hong Kong, and Russia[130].

The objective of the Regulatory Oversight Committee (ROC) is to complete the standard on identification of related entities in 2015. This entails an even broader use of the LEI code in the medium term, even in measures against money laundering and for prevention of misconduct[131]. In this case, the identification of entities by means of unique and global LEI codes would allow to refine the mapping mechanisms of institutions punished and their related parties, and consequently, improve the cost-efficiency ratio in the customer's due diligence. As part of the development process, the Regulatory Oversight Committee consulted the Financial Action Task Force (FATF) and the Basel Committee on Payments and Market Infrastructures. Meanwhile, the international organizations that issue standards (Basel Committee, IOSCO, among others) are planning to adopt the LEI code in the development of international standards, so as to encourage its use.

In Argentina, the Central Bank has become interested in the LEI initiative as from early 2013, when it adhered to the objectives of the Charter of the Regulatory Oversight Committee, based on strengthening financial stability through the identification of institutions with unique and global LEI codes, and on preserving the public interest of the System, i.e., to make sure that the benefits will be distributed among financial users in general, thus preventing any monopolistic practices and market abuses. In addition, locally, there is a representative in the Board of the Global LEI Foundation, and the latest and most recent step has been the creation of the Entities' Identification Registry in the Central Bank.

The Entities' Identification Registry was created in October 2014[132], intended to assign LEI identification codes, in line with the G20 principles and recommendations. This entails an approach to international policies and an improvement in the tools at hand to contribute to improving transparency and to streamlining the processes related to measures against money laundering. In January 2015, the Entities' Identification Registry of the BCRA was approved by the Regulatory Oversight Committee to be part of the Global LEI System, jointly with other pre-LOUs also accepted from other countries. This means that LEI codes issued by it will be recognized worldwide, and may be used for regulatory purposes also in other jurisdictions[133].

The worldwide acknowledgement of the BCRA's Entities' Identification Registry was given based on full compliance with international principles and recommendations, that assure that all existing local operating units be governed by the same standards in terms of: application for and transfer of the LEI code, exclusivity, uniqueness and design based on standard ISO 17.442, compatibility, data storage and quality, access, flexibility and structure of the system.

It is an online registry designed to issue LEI codes for financial institutions regulated by the Central Bank, and will be available at the Bank's institutional Web site. Entities must visit such site to apply for their LEI code[134]. The system is both easy and agile. It requires the validation of data as well as checking processes against information from other operating pre-LOUs. They are procedures followed by the Central Bank to assure the quality of the local registry data. Also, the system provides the means to transfer LEI codes issued in other jurisdictions. Data related to the LEI code will be of public access, as stated in the international standard. Besides, the online application guideline provides general information, FAQs and statistics of the system operation available to the public.

The Central Bank keeps on making progress in the adoption of international standards related to financial regulation. On this occasion, for the purpose of expanding the understanding of players operating in the system, and with a view to making advances in this sense, as long as the uses of the LEI code are widely spread around the world and the benefits —in terms of related entities' identification— are also known worldwide.

[130] The existing and proposed standards requiring the use of the LEI code are listed in the institutional Web site of the Global LEI Foundation: http://www.gleif.org/en/events-and-media/rulemaking
[131] The prevention of misconduct is one of the topics in the 2015 agenda in the context of new risks and vulnerabilities of the international financial system, addressed by the G20 and the Financial Stability Board (FSB).
[132] Communication "A" 5642.
[133] http://www.leiroc.org/publications/gls/lou_20150128-1.pdf
[134] Communication "A" 5642 provides that financial institutions must request the LEI code to the Entities' Identification Registry of the BCRA.

VI. Payment System

Summary

The use of means of payment as an alternative to cash continued going up in 2014 as a result of the measures implemented by the BCRA aimed at modernizing the National Payment System; these alternative means of payment help improve flexibility, security, and efficiency in transactions, particularly, in electronic operations.

Thus, transfers to third parties kept on evidencing a significant hike over the year totaling 21.8% in terms of number and 42.7% in terms of the amount transferred. This rise was boosted by instant transfers of funds, a method put in place in April 2011 by this Institution. The number of online transactions increased 30.2% over the year —63.7% in value— and, within this method, the homebanking channel continued gaining share, accounting for 71.8% of transactions—48.2% in value transferred.

In accordance with the costs schemes ordered by the BCRA, the share of instant transfers made free of charge corresponding to users of financial services amounted to 96.2% of total transactions in this method, exceeding the percentage recorded in the last two years. This Institution has recently expanded to $50,000 the daily limit for transfers free of charge; in addition, transactions made through bank cashiers will also have the same free ceiling.

Credit and debit cards —other means of payment alternative to cash— recorded a 6.4% growth pace along the year mainly due to the latter's performance, which was driven by public banks. The ratio of credit cards per inhabitant in Argentina shows average values (0.74 card/inh.) if compared to other economies.

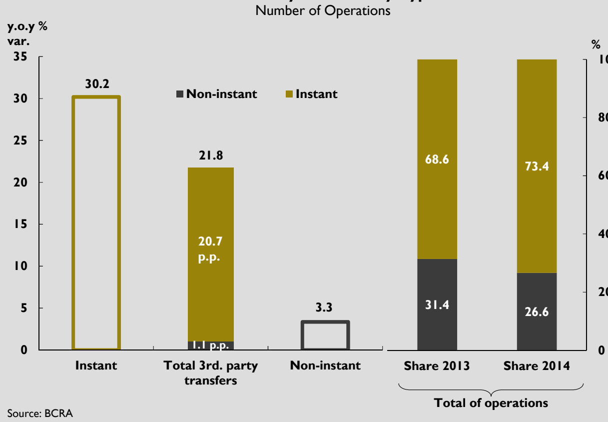
As part of the trend observed in the past few years that has replaced the use of checks by electronic means of payment, the total number of checks cleared fell in 2014 (-3%). In this context, the ratio of checks bounced for insufficient funds posted low levels compared to those observed in the past few years.

Transactions carried out through the Electronic Means of Payment (MEP) increased 3.5% (in number), accounting for 285% of GDP in terms of the value traded, thereby surpassing the figures on record in the last ten years.

In the past few months, the BCRA continued working on the new principles to shape the infrastructure of financial markets in line with the boost provided by the CPMI (Committee on Payment and Market Infrastructures) and the IOSCO (International Organization of Securities Commissions). In this regard, the payment and settlement systems of securities falling under the regulatory scope of the BCRA were assessed to detect any potential improvement or adjustment to new conditions.

Chart VI.1

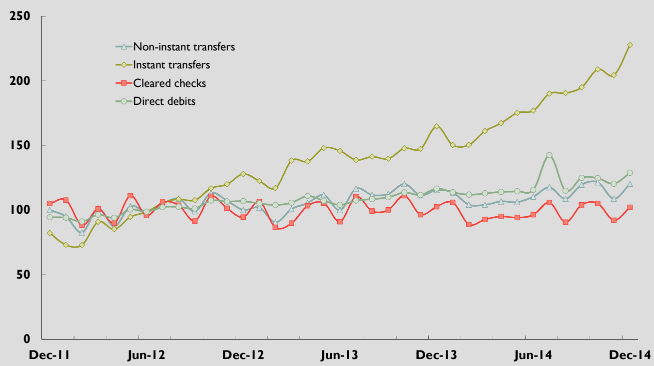
Third Party Transfers by Type
Number of Operations



Source: BCRA

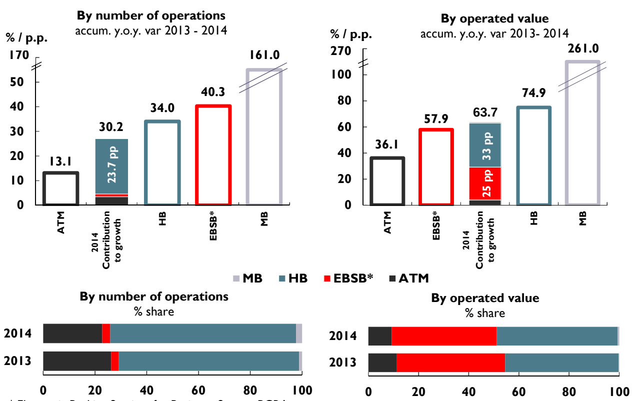
Chart VI.2

Use of Means of Payment's Evolution
index number / base: 2012= 100



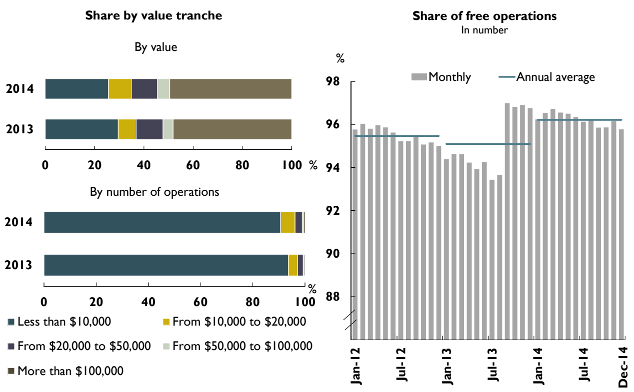
Source: BCRA

Chart VI.3
Instant Transfers by Channel



* Electronic Banking Services for Business. Source: BCRA

Chart VI.4
Instant Transfers by Value Tranche



Source: BCRA

VI.1 National Payment System

With a view to deepening the population's access to banking services and the use of more secure and effective means of payment, the BCRA continued working to modernize the National Payment System (NPS). As a result of these policies, the relative use of electronic means of payment as an alternative to cash has increased, particularly, in the case of instant transfers of funds.

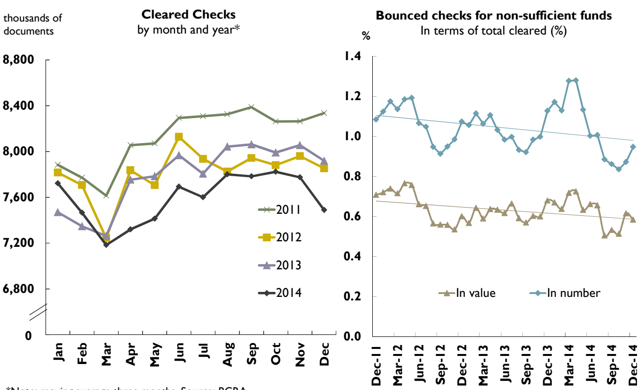
Regarding SNP instruments, bank transfers to third parties[135] continued exhibiting an outstanding performance in 2014. They grew 21.8% in terms of number of transactions (42.7% in amount) against 2013 (see Chart VI.1), evidencing a minor slowdown against the pace recorded the year before partly related to the fact that the use of this instrument has already spread considerably. The rise in the number of transfers to third parties was boosted by instant transfers[136]—which accounted for 20.7 p.p. of such rise (95.2% of the total growth)—; therefore, they raised their share in total transfers to third parties, reaching 73.4% of transactions (+4.7 p.p. y.o.y.).

As far as instant transfers are concerned, homebanking continued being the channel used the most which, with a growth pace exceeding the average —both in terms of number and amount—, increased its share in the number of instant transfers by 71.8% (48.2% in amount) (see Chart VI.3). Like in previous periods, the ATM[137] channel lost share to the rest of instant transfer channels available due to its lower relative growth, amounting to 22.8% of transactions —in number—. Mobile banking continued exhibiting significant growth (161% in number and 261% in amount) though it still records a low share in total instant transfers (2.3%).

In addition to being made online, instant transfers are free of charge provided they do not exceed a specific amount; such amount was raised from $10,000 to $20,000 on a daily basis as from September 2013. Thus, the share of transfers made at no cost for bank clients reached 96.2% in number (see Chart VI.4) —35% in value— in 2014, exceeding the figures recorded for free-of-charge transactions in the past two years. This Institution has recently increased the daily limit of free-of-charge electronic transfers to $50,000 and the same cost exemption was applied to transactions made

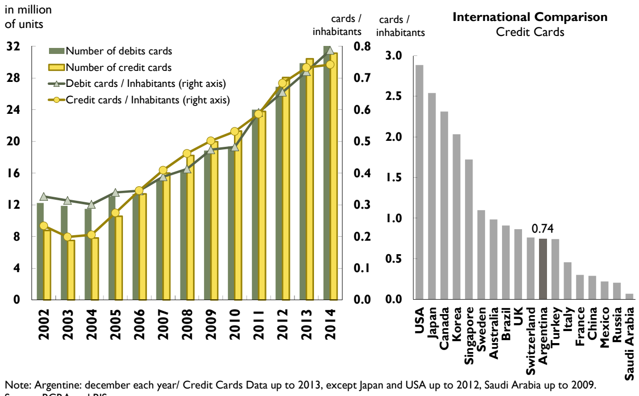
[135] Transfers made by banks on behalf and to the order of their clients, excluding payments to suppliers, the payment of wages, family allowances, pensions and retirements, taxes, court deposits and any type of garnishment.
[136] They comprise transfers made by: online banking (home-banking), self-service ATMs and ATMs, business e-banking, mobile banking including online crediting.
[137] It comprises ATMs and self-service ATMs.

Chart VI.5
Checks



*Note: moving average three months. Source: BCRA

Chart VI.6
Credit and Debit Cards



Note: Argentine: december each year/ Credit Cards Data up to 2013, except Japan and USA up to 2012, Saudi Arabia up to 2009.
Source: BCRA and BIS.

through bank cashiers (with the same amount ceiling)[138]. In addition, transfers in dollars were included in that scheme of costs especially to facilitate the flow of funds in such currency within the regime of this Institution's internal bills (see Chapter V). These regulations became effective in February 2015.

In line with the trend observed in the past few years, the number of checks cleared dropped almost 3% y.o.y. in 2014 exhibiting, in almost all months of the year, values that were lower than those observed in the last four years (see Chart VI.5). In this context of a lower use of this instrument, the ratio of checks bounced for insufficient funds remained limited in 2014, posting a falling trend in terms of amount and number of instruments.

An analysis of the medium-term comparative evolution of the means of payment used the most shows that since the implementation of instant transfers by the BCRA —together with the limits in costs—, such transfers have posted an outstanding performance in relation to the other channels —non-instant transfers to third parties, checks and direct debits—(see Chart VI.2), in line with a greater flexibility and security for bank service users. Taking the year 2012 as a basis, it may be seen that while instant transfers grew 128% in the number of monthly transactions by late 2014, the remaining transfers to third parties increased only 20% and checks did not exhibit significant changes in the period under study (+2%).

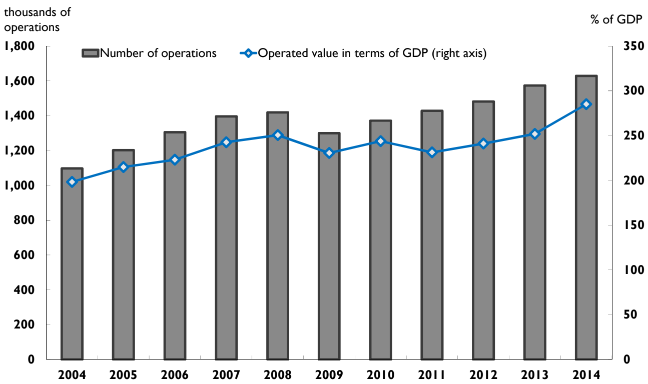
The number of cards continued going up over the year (6.4%), particularly debit cards which, by increasing 10.6%, accounted for 82% of the total annual rise in the number of total cards held by the public. In turn, credit cards recorded a lower hike (2.4%), evidencing some slowdown against the pace recorded in 2013 (see Chart VI.6). Public banks boosted this growth in the case of debit cards while private banks promoted the increase in credit cards. Regarding the population, both types of cards rose over the year, reaching an amount of 0.79 per inhabitant in the case of debit cards and 0.74 per inhabitant in the case of credit cards; the latter shows average values if compared to the ratios recorded in other economies.

Transactions made through the Electronic Means of Payment (MEP) rose 3.5% over the year in terms of number, continuing the growth pace observed in the past few years. In terms of GDP, the total value traded through the MEP reached 285% in 2014 (see Chart VI.7). Both the number of transactions and the value in

[138] Communication "A" 5718 and Communication "P" 50526.

terms of GDP recorded in 2014 reached the maximum level for the use of this NPS instrument in the past 10 years.

Chart VI.7
Electronic Mean of Payment - Peso Transactions Cleared



Source: BCRA

VI.2 Payment System Modernization

With respect to international standards, the BCRA has continued working on the new principles to shape the infrastructure of financial markets in recent months. Such principles were boosted by the CPMI (Committee on Payment and Market Infrastructures) and the IOSCO (International Organization of Securities Commissions). In this regard, the payment and settlement systems of securities falling under the regulatory scope of the BCRA were assessed to detect any potential of improvement or adjustment to new conditions.

In addition, the Institution participated in the working group related to the “Western Hemisphere Payment and Securities Clearance and Settlement Initiative”, coordinated by the CEMLA to debate and promote, at an international level, the optimization of tasks related to surveillance, the progress made on low and large-value payment systems, and the study of the business continuity of payment systems. In this context, alternatives that allow for a greater regional and multilateral interconnection for low-value payments are under study. To that end, work has been done on tasks related to the project of adapting and modernizing the country’s payment structure through greater operation integration by unifying electronic channels to share information.

Statistics Annex* – Financial System

Chart 1 | Financial Soundness Indicators

As %	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Jun 2014	Dec 2014
1.- Liquidity	20.1	22.5	23.0	27.9	28.6	28.0	24.7	26.8	26.8	24.5	26.2
2.- Credit to the public sector	31.5	22.5	16.3	12.7	14.4	12.1	10.7	9.7	9.4	9.2	9.1
3.- Credit to the private sector	25.8	31.0	38.2	39.4	38.3	39.8	47.4	49.5	50.9	47.7	45.8
4.- Private non-performing loans	7.6	4.5	3.2	3.1	3.5	2.1	1.4	1.7	1.7	2.0	2.0
5.- Net worth exposure to the private sector	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-3.5	-2.9	-2.9
6.- ROA	0.9	1.9	1.5	1.6	2.3	2.8	2.7	2.9	3.4	4.8	4.1
7.- ROE	7.0	14.3	11.0	13.4	19.2	24.4	25.3	25.7	29.5	38.3	32.7
8.- Efficiency	151	167	160	167	185	179	179	190	206	229	215
9a.- Capital compliance	-	-	-	-	-	-	-	-	13.6	14.1	14.7
9b.- Capital compliance (credit risk)	15.9	16.9	16.9	16.9	18.8	17.7	15.6	17.1	-	-	-
10a.- Capital compliance Tier 1	-	-	-	-	-	-	-	-	12.5	13.1	13.7
10b.- Capital compliance Tier 1 (credit risk)	14.1	14.1	14.6	14.2	14.5	13.0	11.0	11.9	-	-	-
11.- Excess capital compliance	169	134	93	90	100	87	69	59	76	83	90

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.

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	Dec 12	Dec 13	Jun 14	Dec 14	Change (in %)	
									II-S-14	2014
Assets	**346,762**	**387,381**	**510,304**	**628,381**	**790,026**	**1,004,892**	**1,143,608**	**1,340,880**	**17.2**	**33.4**
Cash disposal[1]	58,676	71,067	93,085	104,389	148,254	200,925	187,058	234,284	25.2	16.6
Public bonds	65,255	86,318	117,951	112,906	123,491	141,494	229,282	291,807	27.3	106.2
Lebac/Nobac	37,093	43,867	76,948	71,050	84,057	89,641	173,815	215,141	23.8	140.0
Portfolio	25,652	34,748	61,855	59,664	70,569	88,091	153,618	187,973	22.4	113.4
Repo[2]	11,442	9,119	15,093	11,386	13,488	1,550	20,197	27,168	34.5	1,652.9
Private bonds	203	307	209	212	251	434	593	1,602	170.0	269.1
Loans	154,719	169,868	230,127	332,317	433,925	563,344	598,476	666,260	11.3	18.3
Public sector	17,083	20,570	25,907	31,346	39,951	48,438	50,635	51,470	1.6	6.3
Private sector	132,844	145,247	199,202	291,708	383,674	501,857	535,043	604,062	12.9	20.4
Financial sector	4,793	4,052	5,018	9,263	10,299	13,049	12,798	10,729	-16.2	-17.8
Provisions over loans	-4,744	-5,824	-6,232	-7,173	-9,596	-13,117	-15,203	-17,054	12.2	30.0
Other netted credits due to financial intermediati	38,152	33,498	39,009	40,805	38,769	42,435	67,591	74,383	10.0	75.3
Corporate bonds and subordinated debt	912	1,146	1,433	1,657	2,255	5,421	4,716	5,853	24.1	8.0
Unquoted trusts	5,714	5,942	6,824	7,967	10,822	12,656	12,888	12,759	-1.0	0.8
Leasing	3,935	2,933	3,936	6,222	7,203	9,460	9,933	10,578	6.5	11.8
Shares in other companies	7,236	6,711	7,921	9,123	11,682	15,117	18,210	20,752	14.0	37.3
Fixed assets and miscellaneous	7,903	8,239	9,071	10,111	11,251	14,231	15,850	19,504	23.1	37.1
Foreign branches	3,153	3,926	3,283	3,525	4,354	5,627	6,998	7,273	3.9	29.2
Other assets	12,275	10,337	11,943	15,944	20,441	24,941	24,820	31,491	26.9	26.3
Liabilities	**305,382**	**339,047**	**452,752**	**558,264**	**699,205**	**883,091**	**997,373**	**1,172,675**	**17.6**	**32.8**
Deposits	236,217	271,853	376,344	462,517	595,764	752,422	831,674	979,387	17.8	30.2
Public sector [3]	67,151	69,143	115,954	129,885	163,691	202,434	194,441	255,914	31.6	26.4
Private sector[3]	166,378	199,278	257,595	328,463	427,857	544,331	629,467	714,878	13.6	31.3
Current account	39,619	45,752	61,306	76,804	103,192	125,237	138,108	166,663	20.7	33.1
Savings account	50,966	62,807	82,575	103,636	125,210	158,523	185,782	215,132	15.8	35.7
Time deposit	69,484	83,967	104,492	135,082	183,736	241,281	284,442	309,353	8.8	28.2
Other netted liabilities due to financial intermedia	57,662	52,114	60,029	76,038	75,106	92,634	123,371	138,056	11.9	49.0
Interbanking obligations	3,895	3,251	4,201	7,947	8,329	10,596	10,196	7,639	-25.1	-27.9
BCRA lines	1,885	270	262	1,920	3,535	4,693	4,798	4,209	-12.3	-10.3
Outstanding bonds	5,984	5,033	3,432	6,856	9,101	14,198	16,029	18,961	18.3	33.6
Foreign lines of credit	4,541	3,369	3,897	6,467	4,992	6,328	10,995	10,106	-8.1	59.7
Other	13,974	14,891	17,426	24,137	26,280	41,345	39,512	51,536	30.4	24.7
Subordinated debts	1,763	1,922	2,165	2,065	2,647	3,425	4,049	4,445	9.8	29.8
Other liabilities	9,740	13,159	14,213	17,644	25,688	34,610	38,279	50,787	32.7	46.7
Net worth	**41,380**	**48,335**	**57,552**	**70,117**	**90,820**	**121,800**	**146,235**	**168,205**	**15.0**	**38.1**
Memo										
Netted assets	321,075	364,726	482,532	601,380	767,744	989,825	1,103,869	1,295,781	17.4	30.9
Consolidated netted assets	312,002	357,118	472,934	586,805	750,598	968,458	1,081,593	1,273,965	17.8	31.5

([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							Half-yearly	
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**I-14**	**II-14**
Financial margin	20,462	28,937	35,490	43,670	61,667	88,509	130,742	66,295	64,447
Net interest income	9,573	14,488	17,963	24,903	38,365	50,336	65,206	29,886	35,320
CER and CVS adjustments	2,822	1,196	2,434	1,725	2,080	2,153	4,402	2,729	1,673
Foreign exchange price adjustments	2,307	2,588	2,100	3,025	4,127	11,287	13,826	11,014	2,812
Gains on securities	4,398	11,004	13,449	14,228	17,356	22,280	44,522	18,741	25,781
Other financial income	1,362	-339	-457	-211	-261	2,454	2,786	3,925	-1,139
Service income margin	10,870	13,052	16,089	21,391	28,172	36,503	47,966	22,071	25,894
Loan loss provisions	-2,839	-3,814	-3,267	-3,736	-6,127	-9,349	-10,857	-5,323	-5,535
Operating costs	-18,767	-22,710	-28,756	-36,365	-47,318	-60,722	-82,946	-38,631	-44,316
Tax charges	-2,318	-3,272	-4,120	-6,047	-8,981	-13,916	-19,562	-9,329	-10,233
Adjust. to the valuation of gov. Securities[1]	-1,757	-262	-214	-336	-338	-377	-906	-544	-362
Amort. payments for court-ordered releases	-994	-703	-635	-290	-274	-128	-82	-41	-41
Other	1,441	918	2,079	2,963	2,475	2,576	4,161	2,585	1,577
Total results before tax[2]	6,100	12,145	16,665	21,251	29,276	43,094	68,516	37,084	31,432
Income tax	-1,342	-4,226	-4,904	-6,531	-9,861	-13,951	-22,579	-12,004	-10,575
Total result[2]	**4,757**	**7,920**	**11,761**	**14,720**	**19,415**	**29,143**	**45,937**	**25,079**	**20,857**
Adjusted Result[3]	7,508	8,885	12,610	15,345	20,027	29,649	46,925	25,665	21,260
Annualized indicators - As % of netted assets									
Financial margin	6.7	8.6	8.5	8.0	9.2	10.3	11.7	12.6	10.9
Net interest income	3.1	4.3	4.3	4.6	5.7	5.9	5.8	5.7	6.0
CER and CVS adjustments	0.9	0.4	0.6	0.3	0.3	0.3	0.4	0.5	0.3
Foreign exchange price adjustments	0.8	0.8	0.5	0.6	0.6	1.3	1.2	2.1	0.5
Gains on securities	1.4	3.3	3.2	2.6	2.6	2.6	4.0	3.6	4.4
Other financial income	0.4	-0.1	-0.1	0.0	0.0	0.3	0.2	0.7	-0.2
Service income margin	3.6	3.9	3.8	3.9	4.2	4.3	4.3	4.2	4.4
Loan loss provisions	-0.9	-1.1	-0.8	-0.7	-0.9	-1.1	-1.0	-1.0	-0.9
Operating costs	-6.1	-6.7	-6.9	-6.7	-7.0	-7.1	-7.4	-7.3	-7.5
Tax charges	-0.8	-1.0	-1.0	-1.1	-1.3	-1.6	-1.7	-1.8	-1.7
Adjust. to the valuation of gov. Securities[1]	-0.6	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1
Amort. payments for court-ordered releases	-0.3	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Other	0.5	0.3	0.5	0.5	0.4	0.3	0.4	0.5	0.3
Total results before tax[2]	2.0	3.6	4.0	3.9	4.3	5.0	6.1	7.0	5.3
Income tax	-0.4	-1.3	-1.2	-1.2	-1.5	-1.6	-2.0	-2.3	-1.8
ROA[2]	**1.6**	**2.3**	**2.8**	**2.7**	**2.9**	**3.4**	**4.1**	**4.8**	**3.5**
ROA adjusted[3]	2.5	2.6	3.0	2.8	3.0	3.5	4.2	4.9	3.6
ROE before tax	*17.2*	*29.5*	*34.5*	*36.5*	*38.8*	*43.7*	*48.8*	*56.6*	*41.9*
ROE [2]	*13.4*	*19.2*	*24.4*	*25.3*	*25.7*	*29.5*	*32.7*	*38.3*	*27.8*

([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	Dec 12	Dec 13	Jun 14	Dec 14
Non-performing loans (overall)	**5.2**	**3.4**	**2.7**	**2.7**	**3.0**	**1.8**	**1.2**	**1.5**	**1.5**	**1.8**	**1.8**
Provisions / Non-performing loans	115	108	115	117	115	148	176	144	150	140	142
(Total non-perfoming - Provisions) / Overall financing	-0.8	-0.3	-0.4	-0.5	-0.5	-0.9	-0.9	-0.7	-0.8	-0.7	-0.7
(Total non-perfoming - Provisions) / Net worth	-2.6	-0.9	-1.6	-1.8	-1.7	-3.6	-4.6	-3.4	-3.7	-3.1	-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**	**2.0**	**2.0**
Provisions / Non-performing loans	115	108	114	116	112	143	171	141	148	138	140
(Total non-perfoming - Provisions) / Overall financing	-1.1	-0.3	-0.5	-0.5	-0.4	-0.9	-1.0	-0.7	-0.8	-0.8	-0.8
(Total non-perfoming - Provisions) / Net worth	-2.5	-0.8	-1.5	-1.7	-1.3	-3.2	-4.3	-3.1	-3.5	-2.9	-2.9

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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