Evolution of the Foreign Exchange Market and the Foreign Exchange Balance

December 2022

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Evolution of the Foreign Exchange Market and the Foreign Exchange Balance

December 2022

About inclusive language in the Spanish version of this report

The Central Bank of Argentina is committed to encouraging the use of a non-discriminatory language that promotes the acceptance of all gender identities. It should be noted that all those who have contributed to this report acknowledge that language influences ideas, feelings, ways of thinking, as well as principles and core values.

Therefore, efforts have been made to avoid sexist and binary language in this report.

Contents

Executive Summary

Global economic activity has continued to slowdown in the past few months, with global growth forecasts for the coming year also following a downward trend. This outlook was predicted against the backdrop of persistently high inflation rates that forced central banks of advanced economies to implement the largest contractionary monetary policy cycle since the global financial crisis of 2008/09. While financial conditions in developing countries slightly improved, the adverse effect of high interest rates and net capital outflows still prevails.

In this context, the BCRA has continued to improve foreign exchange regulations in order to promote a more efficient allocation of foreign currency. The National Government relaunched the “Export Increase Program” (Decree No. 787/2022 dated November 27), establishing an exchange rate of ARS230/USD1 for inflows into the forex market from exports of soybean and soybean by-products from November 28 to December 31. This measure has been adopted to encourage the trade of products from this sector. (To access Decree No. 787/2022, click here). In turn, it was confirmed that the BCRA and the People’s Bank of China have activated the currency swap agreement in January 2023. The swap includes the exchange of currencies intended to increase the BCRA's international reserves for an amount of CNY130 billion (equivalent to USD19 billion) and a special activation for CNY35 billion (equivalent to USD5 billion) to offset foreign exchange transactions.

In December, financial institution's clients sold USD2,348 million in the forex market: USD2,222 million to the BCRA (USD2,576 million purchased under the “Export Increase Program”), and USD192 million to financial institutions. At the same time, the BCRA made net payments through the Local Currency Payment System (SML) for USD67 million. In addition, the National Treasury made sales directly to the BCRA for USD1,184 million.

The “Non-Financial Private Sector” was a net seller of foreign currency for USD2,314 million. Within this group, the “Oilseeds and Grains” sector was the main net seller with net inflows of USD3,633 million, down 41% on a y.o.y. comparison. December’s inflows from goods were higher within the framework of the second edition of the “Export Increase Program”.

The “Real Sector excluding Oilseeds and Grains” was a net purchaser of foreign currency, with a total of USD999 million, down 58% y.o.y. The foreign currency thus purchased was mainly allocated to make payments for imports of goods and services.

“Natural Persons” made net purchases totaling USD436 million mainly for payments on cards to non-resident suppliers (USD277 million), and for saving purposes (USD127 million).

“Institutional Investors and Others”—both residents and non-residents—made net sales for USD115 million in December, mainly explained by net inflows for services.

The foreign exchange current account, which includes net flows from net exports of goods and services, as well as primary and secondary income, had a surplus of USD2,220 million. This could be mainly explained by net inflows from transfers of “Goods” for USD3,158 million, which were partially offset by a deficit in “Services” (USD473 million), and “Primary Income” (USD467 million).

In December, gross inflows from Travel and Passenger Transport increased 78% against November, reaching USD108 million, the highest figure since March 2020. The increase came as a result of the BCRA's decision to exclude such transactions from the requirement to settle currency in the forex market. Under this measure a higher exchange rate is charged on card consumptions of non-resident visitors.

The financial account of the "Non-Financial Private Sector" had a deficit of USD148 million in December, resulting basically from payments of balances in foreign currency to local institutions originated from purchases made with cards to non-resident suppliers for USD244 million (which do not involve a net demand of foreign currency in the financial account)[1]; records of inflows from self-to-self international transfers for USD120 million; and payments of loans owed to international organizations for USD58 million; partially offset by inflows from foreign direct investments for USD66 million; foreign assets for USD95 million; and financial loans and debt securities for USD114 million.

In December, the transactions carried out under the foreign exchange financial account of the "Financial Sector" ran up a deficit of USD1,078 million. This result is explained by the increase of USD1,063 million in liquid foreign assets of financial institutions' General Exchange Position, outflows from financial loans and credit lines of USD11 million, and the purchase and sale of securities of USD5 million.[2]

In turn, the transactions carried out under the foreign exchange financial account of the "General Government and the BCRA" produced a surplus of USD3,958 million, due to gross disbursements from the International Monetary Fund for USD5,994 million (SDR4,500 million), and gross payments of principal for USD2,684 million (SDR2,014 million), net disbursements of "Loans from Other International Organizations and Other Organizations" for USD723 million, and inflows from "Financial Loans and Credit Lines" for USD25 million, partially offset by records of inflows from self-to-self international transfers for USD18 million and the "buildup of foreign assets" for USD82 million.

During December, BCRA's international reserves increased USD6,588 million, totaling USD44,598 million by the end of the month. This increase was mainly explained by the purchases made by the BCRA in the forex market, net inflows from disbursements from the International Monetary Fund and other international organizations for USD3,960 million, and the increase in the US dollar exchange rate of foreign exchange reserves by USD698 million, which were partially offset by net payments made by the BCRA through the Local Currency Payment System for USD67 million.

[1] The demand of foreign currency due to purchases made with cards from foreign suppliers is recorded in a services account of the foreign exchange balance, under "Travel and Passenger Transport, and Other Expenses Paid with Cards".
[2] The General Exchange Position is defined in Section C.4.7. of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics.

I. Introduction

This report analyzes information on foreign exchange transactions made in December 2022 as gathered by the Exchange Transaction Reporting System administered by the BCRA. Additionally, it relies on information on changes in BCRA's International Reserves due to transactions carried out by the BCRA on its own account or on behalf of the National Government, and on changes in the balance of institutions' foreign currency accounts at the BCRA.[3]

Data collected from institutions include information on every transaction conducted in the forex market by natural or legal persons (including the sector to which they belong, which agrees with the main business activity reported to AFIP (Federal Administration of Public Revenue)), amounts traded, currency denomination, and the reason for the foreign exchange transaction (heading)—such as inflows or outflows from exports or imports of goods or services, saving, and financial liabilities, as defined in the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).

For further information on methodological aspects of this report, please read the methodology used for compiling foreign exchange market and foreign exchange balance statistics, which is available here on BCRA's website.

Should you need detailed information about the exchange rate regulations in force and the changes that have been implemented since November 2017, please see the Consolidated Text on Foreign Trade and Exchange Regulations available on BCRA's website.

Section II of this report analyzes the result of foreign exchange transactions for December; data are broken down by sector and by heading.[4]

Section III deals with the Foreign Exchange Balance which comprises transactions carried out by the institutions with their clients in the foreign exchange market and those carried out by the BCRA—either on its own account or on behalf of the National Government. It is worth noting that the Foreign Exchange Balance is presented in an analytical format based on the Balance of Payments broken down by component and by institutional sector. This information is published anew in 2020, allowing readers to follow-up data (which has taken again the form of an affidavit) by type of transaction. However, the evolution of the historical series

[3] Communication "A" 3840, as amended.
[4] Sectors were grouped into: "Central Bank", "Institutions", "General Government", "Oilseeds and Grains", "Real Sector excluding Oilseeds and Grains", "Natural Persons", and "Institutional Investors and Others".
For identification purposes, each sector is defined as follows: **"General Government"** stands for the so-called "Public Sector" and embraces transactions made by the National Treasury directly through its account in foreign currency held with the BCRA; **"Oilseeds and Grains"**; **"Real Sector excluding Oilseeds and Grains"** includes the following sectors: "Oil", "Food, Beverages and Tobacco", "Textile and Leather Industries", "Paper, Publishing and Printing Industry", "Chemical, Rubber and Plastic Industries", "Non-Metallic Mineral Products (Cement, Ceramics and Others)", "Common Metals and their Manufacture", "Machinery and Equipment", "Automobile Industry", "Other Manufacturing Industries", "Electricity (Generation, Transport, Distribution)", "Gas (Extraction, Transport, Distribution)", "Water", "Commerce", "Transport", "Communications", "Mining", "Agriculture and Other Primary Activities", "Construction", "Information Technology", "Gastronomy", "Entertainment" and "Tourism and Accommodation Services"; **"Financial and Foreign Exchange Institutions"** includes the sector's transactions; **"Natural Persons"** includes all natural persons within the sector "Other Non-Financial Private Sectors"; and **"Institutional Investors and Others"** includes "Insurance" as well as the rest of the "Other Non-Financial Private Sectors".

shown here should be analyzed in light of the different forex regulations in force by period (see Section B.5. of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics).[5]

Section IV deals with the stock of international reserves by the end of the period and their evolution.

Finally, Section V deals with information on the amount traded in the foreign exchange market. This amount stands for transactions made by institutions with their clients—both gross purchases and gross sales—, transactions between institutions, and those carried out among institutions and the BCRA.

II. Result by Sector in the Foreign Exchange Market

Global economic activity has continued to slowdown in the past few months, with global growth forecasts for the coming year also following a downward trend. This outlook was predicted against the backdrop of persistently high inflation rates that forced central banks of advanced economies to implement the largest contractionary monetary policy cycle since the global financial crisis of 2008/09. While financial conditions in developing countries slightly improved, the adverse effect of high interest rates and net capital outflows still prevails.

The National Government relaunched the "Export Increase Program" (Decree No. 787/2022 dated November 27), establishing an exchange rate of ARS230/USD1 for the export of soybean and soybean by-products from November 28 to December 31. This measure has been adopted to encourage the trade of products from this sector. (To access Decree No. 787/2022, click here).

In December, financial institution's clients sold USD2,348 million in the forex market: USD2,222 million to the BCRA (USD2,576 million purchased under the "Export Increase Program"), and USD192 million to financial institutions. At the same time, the BCRA made net payments through the Local Currency Payment System (SML) for USD67 million. In addition, the National Treasury made sales directly to the BCRA for USD1,184 million (see Table II.1).[6] [7] [8]

---

[5] The Central Bank's website (www.bcra.gob.ar) contains different statistical series of the Foreign Exchange Market (to access statistical series, click here), together with an annex broken down by sector and main headings (to access the Statistical Annex of the Foreign Exchange Balance click here). In addition, the "Main differences between the balance of payments and the foreign exchange balance" are available here. The results in this section are broken down by the main sectors trading in the forex market in order to set net purchasers apart from net sellers.

[6] Information on the local currency payment system of this report has been drawn from the Exchange Transaction Reporting System (RIOC) and reported by transaction date. For more information, see the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics

[7] Transactions in the forex market are reported according to their transaction date, except for the purchase and sale of securities payable in foreign currency.

[8] The result by sector excludes purchases of foreign currency to pay card bills for expenses incurred abroad for an amount of USD244 million. These payments of local debts in foreign currency do not imply a net demand in the whole system, made up by the institutions and the BCRA.

Table II.1 Foreign Exchange Market
Result by Sector
Equivalent in million dollars

Result by Sector of the Foreign Exchange Market with Institutions	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Aggregate period from January to December
BCRA - Market	161	367	-477	-211	-684	-1,046	1,580	310	-5,062	700	628	-2,222	-5,956
BCRA - SML	51	44	77	81	86	59	30	108	74	53	72	67	802
National Treasury	1	-	-	1	-	-	-	-	0	-	2	-	4
Institutions	76	-110	113	95	-27	547	-740	-24	-523	-37	223	-192	-599
Institutions' Clients (1 + 2 + 3)	-288	-301	287	34	625	440	-870	-394	5,511	-716	-926	2,348	5,750
1. Non-Financial Private Sector	-160	-118	441	148	782	450	-950	-338	5,445	-769	-793	2,314	6,451
Oilseeds and Grains	2,575	2,494	3,601	3,364	4,293	3,693	2,687	2,863	8,133	866	1,365	3,633	39,568
Real Sector Excluding Oilseeds and Grains	-2,062	-2,016	-2,527	-2,591	-2,904	-2,633	-2,941	-2,453	-1,929	-1,141	-1,783	-999	-25,976
Natural Persons	-545	-565	-573	-498	-526	-622	-744	-772	-669	-498	-406	-436	-6,854
Institutional Investors and Others	-129	-30	-61	-128	-82	11	47	25	-91	4	31	115	-286
2. General Government (National Treasury Excluded)	-54	-155	-103	-60	-119	17	66	-98	6	68	-67	72	-427
3. Institutions (Own Transactions)	-74	-28	-52	-53	-38	-26	14	41	60	-15	-65	-38	-274
National Treasury Directly with the BCRA	-1,373	-	-246	-132	-248	-253	-1,009	-228	-964	-1,442	-	1,184	-4,712

Note: (+) Net sales; (-) Net purchases

Source: BCRA

The following table is intended to analyze the purchases and sales carried out through institutions in the forex market, reflecting each sector's net foreign exchange result. Each heading's net result—as informed by the institutions to the BCRA—is displayed vertically. The result of forex transactions in pesos and in foreign currency may be set apart from the result of self-to-self international transfers (transfers of foreign currency to accounts abroad in December). (See Table II.2).[9]

Based on the chart above, the following sectors' performance can be highlighted (for more information on the sector-based categorization used, see Section B.4. of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics).

[9] Although self-to-self international transfers are not precisely forex transactions, they are recorded in forex statistics. They involve a transfer of foreign currency from abroad to a local account opened in foreign currency and/or a debit of funds deposited locally for their transfer abroad. Inflows are recorded under the transfer heading (positive sign). In addition, there is a second record where the same amount is entered under a negative sign for the crediting of funds. Contrariwise, a payment abroad from a local account in foreign currency is recorded under the payment heading with a negative sign, and the debit from the account, under a positive sign. Consequently, the total result of self-to-self international transfers in the forex market is neutral. For more information, see Section C.4.6. of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics

Table II.2 Foreign Exchange Market
Result of Institutions' Transactions with Clients. December 2022
Equivalent in million dollars

Sector/Main Headings	Goods	Travel and Passenger Transport, and Other Expenses Paid with Cards	Remaining Services and Other Current Transfers	Foreign Assets - Banknotes	Foreign Assets - Foreign Currency	Net Self-to-Self International Transfers	Debt, FDI, Portfolio, and Other Transactions	Total
Non-Financial Private Sector	**3,203**	**-415**	**-337**	**-34**	**129**	**-126**	**-106**	**2,314**
Oilseeds and Grains	3,606	0	0	0	2	-34	59	3,633
Real Sector Excluding Oilseeds and Grains	-324	-123	-542	17	59	68	-153	-999
Natural Persons	-14	-277	4	-127	59	-81	-1	-436
Institutional Investors and Others	-65	-15	200	76	10	-80	-12	115
General Government (National Treasury Excluded)	**-31**	**0**	**-101**	**192**	**3**	**-18**	**26**	**72**
Institutions (Own Transactions)	**-14**	**0**	**-8**	**0**	**0**	**0**	**-16**	**-38**
Institutions' Result with Clients	**3,158**	**-415**	**-446**	**158**	**133**	**-144**	**-96**	**2,348**
Result for Forex Transactions	**3,166**	**-472**	**-481**	**158**	**30**	**0**	**-54**	**2,348**
Result for Self-to-Self International Transfers	**-8**	**57**	**35**	**0**	**103**	**-144**	**-43**	**0**

Note: (+) Net sales; (-) Net purchases
Source: BCRA

"Oilseeds and Grains" was the main net seller of foreign currency in the market over December. This sector recorded net inflows for USD3,633 million mainly for the concepts included in "Goods" (collections on exports net of payments for imports), which is reasonable enough as it proves to be the main exporting sector in the economy. The sector's net result from transfers of goods on the forex market amounted to USD3,606 million, up 38% against December 2021, and with gross inflows from exports also up about 28% against that same period. December's inflows from goods were higher within the framework of the second edition of the "Export Increase Program".

The "Real Sector excluding Oilseeds and Grains" was a net purchaser of foreign currency, with a total of USD999 million, down 58% y.o.y. The foreign currency thus purchased was mainly allocated to make net payments of imports of goods and services (for further information, see Sections III.1.1 and III.1.2). In this sense, the two economic sectors running into the highest deficit were "Chemical, Rubber and Plastic Industries" (USD537 million) and "Machinery and Equipment" (USD408 million), while the two sectors recording the highest surplus were "Food, Beverages and Tobacco" (USD736 million) and "Mining" (USD315 million), (see Table II.3).

Table II.3 Foreign Exchange Market
Result of the Real Sector excluding Oilseeds and Grains disaggregated by main headings. December 2022
Equivalent in million dollars

Sector/Main Headings	Goods	Travel and Passenger Transport, and Other Expenses Paid with Cards	Remaining Services and Other Current Transfers	Foreign Assets - Banknotes	Foreign Assets - Foreign Currency	Net Self-to-Self International Transfers	Debt, FDI, Portfolio, and Other Transactions	Total
Food, Beverages and Tobacco	768	0	-36	0	2	-5	7	736
Mining	331	0	-50	0	35	-42	41	315
Construction	-19	0	-2	1	0	-34	327	274
Information Technology	-10	2	165	0	0	-8	9	159
Agriculture and Other Primary Activities	172	0	-6	1	1	-9	-14	145
Automobile Industry	119	0	-20	0	0	7	0	105
Entertainment	-1	0	33	0	0	-1	-1	30
Gastronomy	-3	0	0	0	0	0	0	-3
Non-Metallic Mineral Products (Cement, Ceramics and Others)	-13	0	-1	0	0	0	1	-13
Textile and Leather Industries	-49	0	-2	0	0	1	10	-41
Communications	-40	0	-14	0	0	11	-2	-44
Paper, Publishing and Printing Industry	-55	0	-10	0	0	0	-6	-70
Tourism and Accommodation Services	0	-88	-27	0	0	-4	0	-118
Other Manufacturing Industries	-140	0	12	0	0	0	6	-122
Water	0	0	-13	0	0	135	-302	-180
Common Metals and their Manufacture	-188	0	-22	0	0	-1	13	-197
Energy*	104	0	-268	12	17	51	-238	-324
Commerce	-342	0	-3	-1	1	-1	10	-337
Transport	-43	-37	-279	2	0	-31	19	-369
Machinery and Equipment	-411	0	-1	0	0	2	2	-408
Chemical, Rubber and Plastic Industries	-504	0	3	0	1	-2	-35	-537
Total	**-324**	**-123**	**-542**	**17**	**59**	**68**	**-153**	**-999**

*It includes: Electricity (Generation, Transport, Distribution), Oil, and Gas (Extraction, Transport, Distribution) Sectors

Note: (+) Net sales; (-) Net purchases

Source: BCRA

Financial institutions made net purchases with their own funds for USD38 million for paying goods, services and lines of credit. Moreover, the "General Government" (excluding the National Treasury) made net sales in the forex market through licensed financial institutions for USD72 million, mainly for the sale of foreign assets for USD192 million, partially offset by payments of interest in foreign currency for about USD101 million.

"Natural Persons" made net purchases totaling USD436 million mainly for payments on cards to non-resident suppliers (USD277 million), and for saving purposes (USD127 million).

"Institutional Investors and Others"—both residents and non-residents—made net sales for USD115 million in December, mainly explained by net inflows for services.

III. Foreign Exchange Balance

The Foreign Exchange Balance comprises transactions carried out by institutions with their clients in the foreign exchange market (included in Section II) and those carried out by the BCRA—either on its own account or on behalf of the National Government. It is worth noting that the Foreign Exchange Balance is presented in an analytical format based on the Balance of Payments broken down by component and by institutional sector.

III. 1. Current account

Current account transactions recorded in the foreign exchange balance showed a surplus of USD2,220 million in December (see Table III.1.1).[10]

Table III.1.1. Foreign Exchange Balance
Foreign Exchange Current Account
Equivalent in million dollars

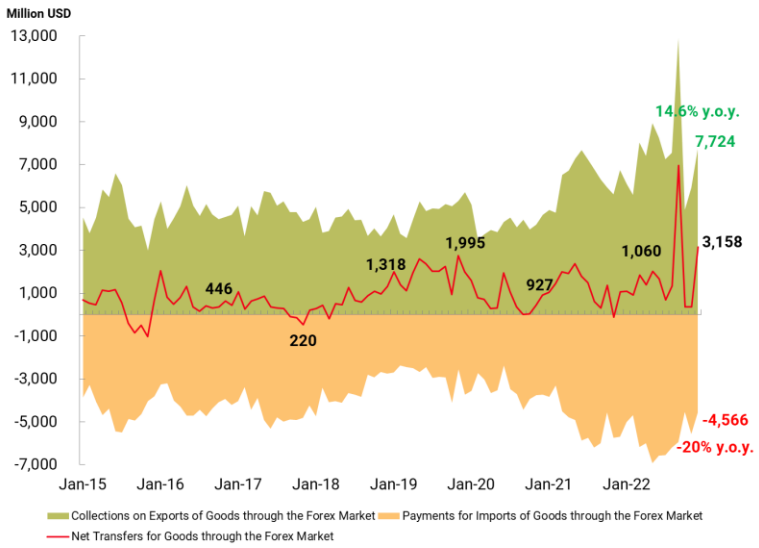
Date	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Foreign Exchange Current Account	-44	-471	-476	486	276	484	522	-1,302	-572	5,478	-664	-1,201	2,220
Goods	1,060	1,101	906	1,853	1,403	2,015	1,678	689	1,345	6,948	363	359	3,158
Services	-714	-683	-630	-1,040	-866	-867	-896	-1,065	-1,072	-1,075	-799	-641	-473
Primary Income	-383	-910	-717	-314	-261	-675	-261	-934	-844	-387	-217	-917	-467
Secondary Income	-7	20	-35	-12	0	10	1	8	-2	-9	-12	-3	1

Source: BCRA

III.1.1 Goods

In December, transfers for "Goods" on the foreign exchange balance exhibited net inflows for USD3,158 million, resulting from collections on exports for USD7,724 million and payments of imports for USD4,566 million (see Chart III.1.1.1).

Chart III.1.1.1 Foreign Exchange Balance
Transfers for Goods



Source: BCRA

The "Oilseeds and Grains" sector recorded in December foreign currency sales for collections on exports of goods through the forex market for USD3,785 million (+28% y.o.y.). The highest inflows from goods during

---

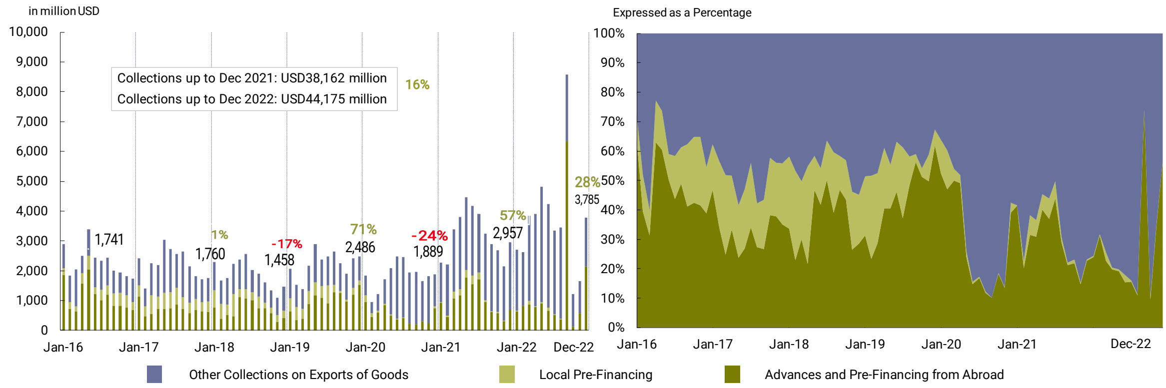
[10] For more information on the changes in the regulations that have an impact on the comparison of flows under "Goods", among other headings, see Section B.5. Important Regulatory Provisions that Have an Impact on Foreign Exchange Statistics of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics available at BCRA's website.

December were explained by the implementation of the second edition of the "Export Increase Program", established by the National Government (Decree No. 787/2022 dated November 27: it was effective until December 31, 2022) and set an exchange rate of ARS230/USD1 for inflows into the forex market from exports of soybean and soybean by-products. (To access Decree 787/2022 click here). Out of the total collections of exports, USD2,576 million were settled in the forex market under the "Export Increase Program".

The sector's FOB exports totaled USD2,546 million in December; down about USD1,239 million against the inflows from the collection of exports of goods through the forex market. This brings about an increase of the sector's commercial debts in consonance with the incentives to advance foreign inflows corresponding to the Export Increase Program.

In line with this behavior, 57% of the sector's inflows were collected ahead of time in December, either through advances or pre-financing (local and foreign); this share was over and above the figures observed in the past few months and also above the historical average of the series, 46% for the 2016-2021 period (see Chart III.1.1.2).

Chart III.1.1.2 Foreign Exchange Balance
Collection on Exports of Goods from the "Oilseeds and Grains" Sector

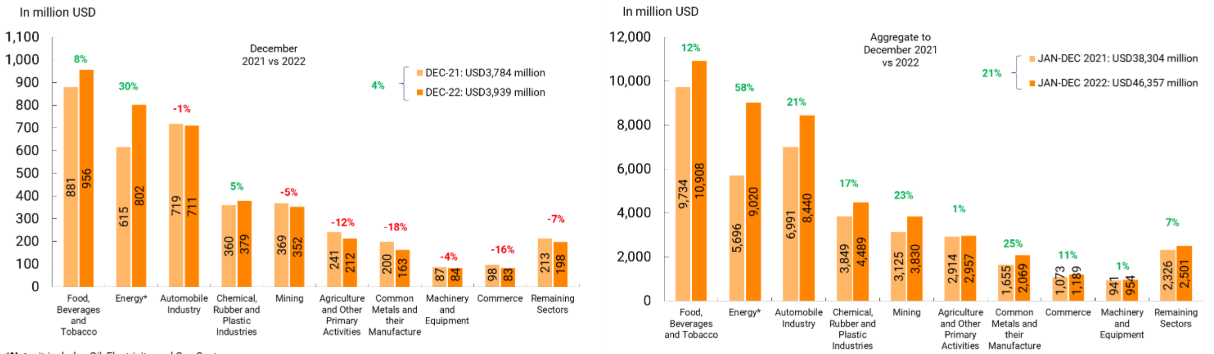


Source: BCRA

In turn, Affidavits of Sales Abroad (Declaraciones Juradas de Ventas al Exterior, DJVEs) as reported by the Agriculture and Fisheries Secretariat (which determine withholding payments on exports) totaled USD3,046 million in December, down 35% y.o.y.

Inflows from the collections on exports of goods from the remaining sectors totaled USD3,939 million in December, growing 4% y.o.y., reaching USD46,357 million on a year-to-date basis, and recording a 21% y.o.y. increase (see Chart III.1.1.4).

Chart III.1.1.4 Foreign Exchange Balance
Collection on Exports of Goods (“Oilseeds and Grains” Sector Excluded)

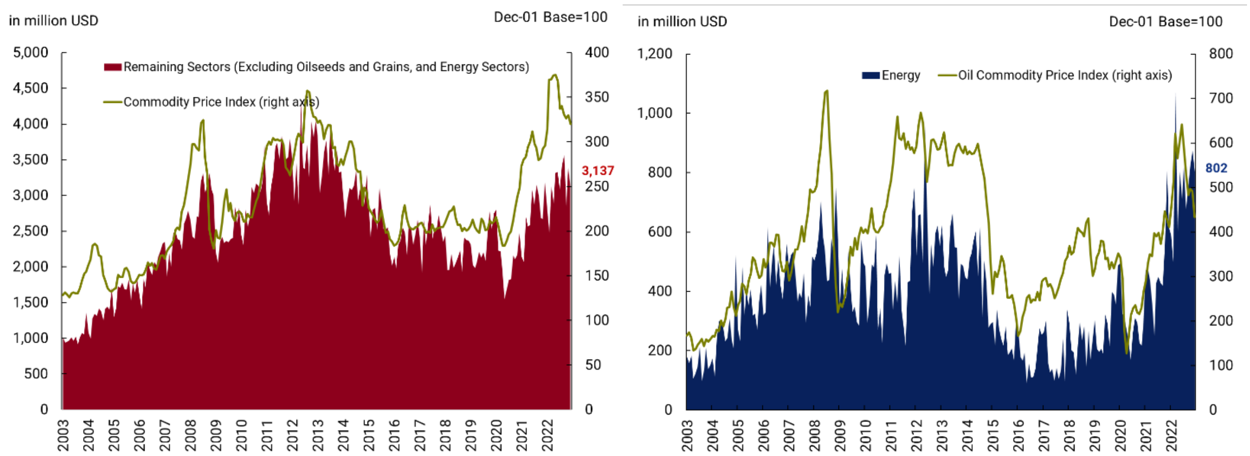


*Note: it includes Oil, Electricity and Gas Sectors

Source: BCRA

Broken down by sector, information revealed greater dynamism in December in the “Energy”[11] sector (up 30% y.o.y.). In year-to-date terms, this sector showed the highest y.o.y. increase among the main sectors (+58%), in a context of higher export prices (see Chart III.1.1.5).

Chart III.1.1.5 Foreign Exchange Balance
Collection on Exports of Goods (“Oilseeds and Grains” Sector Excluded)



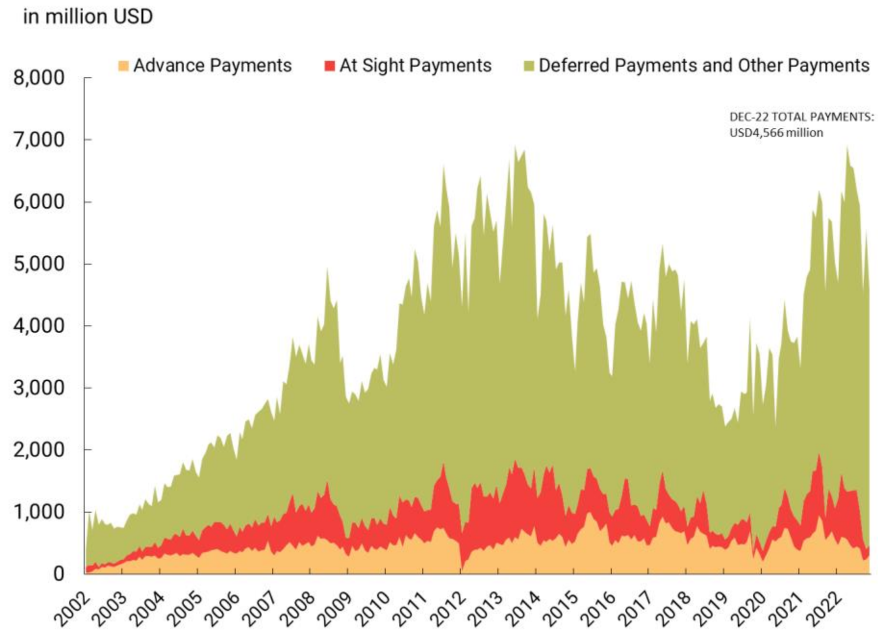
Source: BCRA

In December, payments of imports of goods totaled USD4,566 million, falling 20% y.o.y. This amount was slightly below December’s FOB imports (USD4,700 million, -19% in y.o.y. terms). This evidences significant changes in the sector’s commercial indebtedness levels or in its foreign assets.

In year-to-date terms, import payments totaled USD68,715 million, up 12% against the same period of 2021. As regards imports of goods, 90% of payments were deferred, 3% were sight payments, and the other 7% were advance payments in December (see Chart III.1.1.6).

[11] The “Energy” sector includes companies belonging to the “Oil”, “Electricity” and “Gas” sectors.

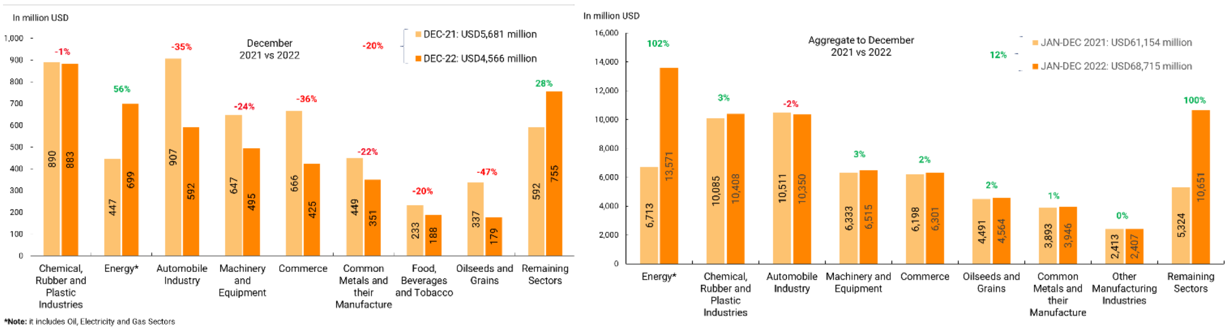
Chart III.1.1.6 Foreign Exchange Balance
Evolution of Payments for Imports of Goods by Type of Payment



Source: BCRA

Out of the total payments for imports of goods made in December, 19% corresponded to the "Chemical, Rubber and Plastic Industries" sector, followed by the "Energy" sector (15%), and the "Automotive Industry" sector (13%). The "Energy" sector showed greater dynamism with a 56% y.o.y. increase (see Chart III.1.1.7).

Chart III.1.1.7 Foreign Exchange Balance
Payments for Imports of Goods by Sector

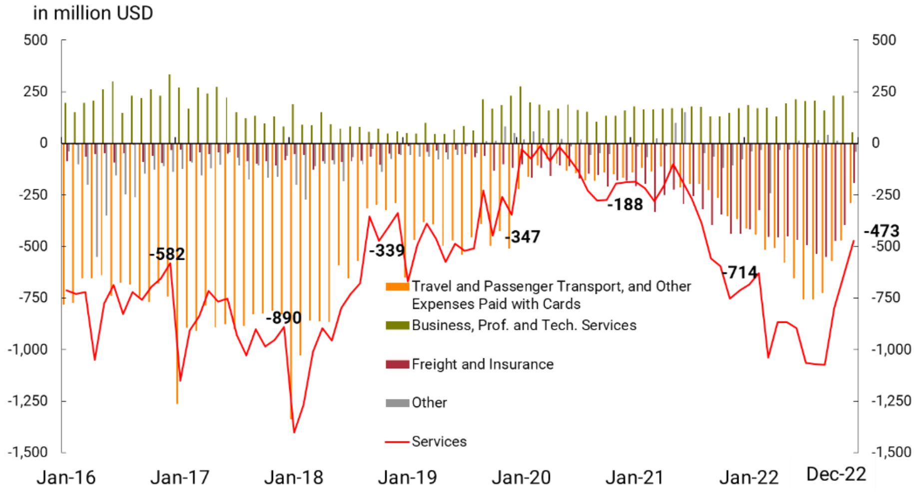


Source: BCRA

III.1.2 Services, Primary and Secondary Income

The "Services" account recorded a deficit of USD473 million in December. This result was explained by net outflows from "Travel and Passenger Transport, and Other Expenses Paid with Cards", "Freight and Insurance", and "Other Services" which amounted to USD292 million, USD193 million, and USD41 million, respectively. These transactions were partially offset by net inflows from "Business, Professional and Technical Services" for USD53 million (see Chart III.1.2.1).

Chart III.1.2.1 Foreign Exchange Balance
Net Inflows from Services



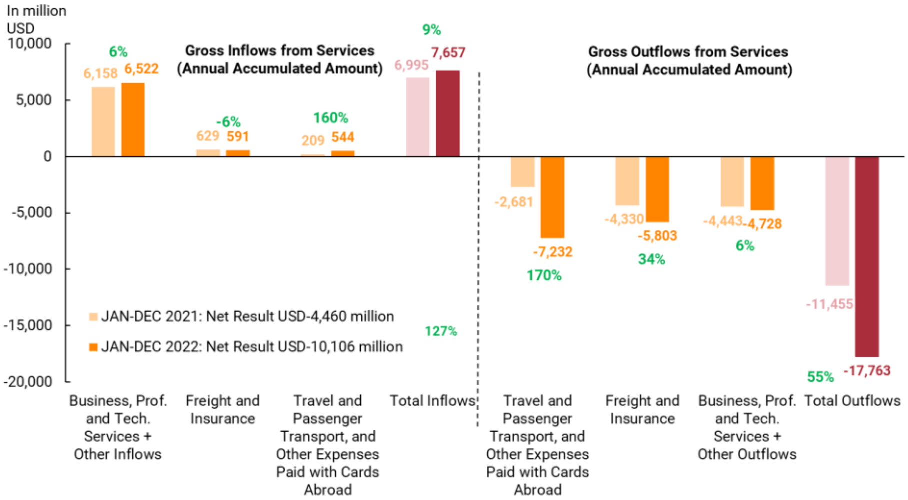
Source: BCRA

In December, gross inflows from Travel and Passenger Transport increased 78% against November, reaching the highest figure since March 2020. This increase was observed after the implementation of Communication "A" 7630, dated November 3, which set forth that any inflows arising from non-resident cards, charges of tourist services hired by non-residents and charges of non-resident passenger transport services are exempted from the requirement to settle currency in the forex market. This measure seeks to boost foreign currency inflows from inbound tourism. In addition, a higher exchange rate is charged on card consumptions of non-resident visitors.

In turn, gross outflows from travel expenses totaled USD400 million, down 25% against November, falling for four months in a row. The drop recorded in expenses from travel and payments on cards tallies with the entry into force of AFIP's General Resolution No. 5270/2022. It sets forth that, as from October 12, all monthly purchases made with cards from foreign suppliers in excess of USD300 must be charged a 25% extra amount on the official US dollar exchange rate in advance of the personal property tax. This new percentage is added up to the two already existing extra charges: 30% of the "PAIS" tax and 45% of the income tax.

Throughout 2022, the "Services" account has accumulated a deficit of USD10,106 million (up 127% compared to 2021) mainly driven by a rise in gross outflows of "Travel and Passenger Transport, and Other Expenses Paid with Cards" and, to a lesser extent, of "Freight and Insurance" in a context of higher prices for the international transport of goods. In terms of the "Travel and Passenger Transport, and Other Expenses Paid with Cards" account, it is worth pointing out that the transfers made to international credit card issuers involve both purchases made during travels abroad and those made on a remote basis. In turn, inflows also include non-resident remote purchases made with cards to Argentine suppliers.[12] (See Chart III.1.2.2).

Chart III.1.2.2 Foreign Exchange Balance
Net Inflows from Services



Source: BCRA

Primary income transactions recorded net outflows amounting to USD467 million in December, mainly due to net payments of "Interest" for USD428 million. As regards gross payments of interest, USD144 million were made by the "General Government and the BCRA", and USD339 million by the private sector.[13]

Finally, secondary income transactions recorded a surplus of USD1 million.

III.2 Capital Account

In December, the capital account of the foreign exchange balance recorded net inflows for USD1 million.

[12] For more information on the changes implemented to the regulations that have an impact on the comparison of the flows reported in the headings included under "Services", among others, see Section B.5. Important Regulatory Provisions that Have an Impact on Foreign Exchange Statistics of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics available at BCRA's website.
[13] The regulations on the access to the forex market for the payment of profits and dividends set out that the companies that have exchanged foreign currency from new direct investment contributions in the forex market since January 2020 can make payments of up to 30% of the accumulated amount so exchanged since that date. In turn, non-resident shareholders will be able to access the forex market for the payment of profits and dividends on foreign direct investment contributions entered and exchanged in the forex market since November 16, 2020, and allocated to finance projects under the "Plan for the Promotion of the Argentine Natural Gas Production". Effective June 2021, exporters of industrialized and extractive goods that registered an increase in their external sales over 2020, will be able to access the exchange market for the payment of profits and dividends from closed and audited balance sheets, for a percentage of that increase. See Communications "A" 6869, "A" 7168 and "A" 7301.

III.3 Foreign Exchange Financial Account

In December, the transactions carried out under the foreign exchange financial account resulted in a surplus of USD3,669 million. This result was explained by a surplus in the "General Government and BCRA" (USD3,958 million), and in "Other Net Transfers" (USD937 million), the latter associated with the typical year-end seasonal high performance of private sector deposits due to tax reasons. Both surpluses were partially offset by a deficit in the "Financial Sector" (USD1,078 million) and in the "Non-Financial Private Sector" (USD148 million) (see Table III.3.1.).[14]

Table III.3.1. Foreign Exchange Balance
Foreign Exchange Financial Account
Equivalent in million dollars

Date	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Foreign Exchange Financial Account	-1,955	-1,523	-421	5,583	-324	-644	961	-2,998	-342	-3,793	2,241	-303	3,669
Non-Financial Private Sector	-547	-399	-483	-590	-433	-624	-388	-633	-713	-564	-361	-555	-148
Financial Sector	144	-100	18	-291	360	-23	175	372	25	-616	192	14	-1,078
General Government and the BCRA	-1,399	-1,043	-187	6,738	-757	-136	1,481	-2,106	407	-2,509	2,064	91	3,958
Other Net Transfers	-153	19	231	-275	507	139	-307	-631	-61	-103	345	147	937

Source: BCRA

III.3.1. Foreign Exchange Financial Account of the Non-Financial Private Sector

The financial account of the "Non-Financial Private Sector" had a deficit of USD148 million in December, resulting basically from payments of balances in foreign currency to local institutions originated from purchases made with cards to non-resident suppliers for USD244 million (which do not involve a net demand of foreign currency in the financial account)[15]; records of inflows from self-to-self international transfers for USD120 million (largely explained by the record of the offset of Travel and Passenger Transport inflows, for more information see Section III.1.2.); and payments of loans owed to international organizations for USD58 million; partially offset by inflows from foreign direct investments for USD66 million; foreign assets for USD95 million; and financial loans and debt securities for USD114 million (see Table III.3.1.1).

Table III.3.1.1. Foreign Exchange Balance
Foreign Exchange Financial Account of the Non-Financial Private Sector
Equivalent in million dollars

Date	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Foreign Exchange Financial Account	-547	-399	-483	-590	-433	-624	-388	-633	-713	-564	-361	-555	-148
Non-Residents' Direct Investments	71	62	48	87	36	37	34	43	32	41	40	33	66
Non-Residents' Portfolio Investments	-1	2	0	2	13	2	0	2	6	0	-1	-3	1
Financial Loans, Debt Securities and Credit Lines	-122	-223	-114	-494	-101	-194	-23	-97	-286	-58	-117	-253	114
Loans from Other International Organizations and Other	-217	-15	-61	242	-26	-43	-38	-54	26	31	-5	-79	-58
Buildup of Foreign Assets by the Non-Financial Private Sector	-91	-186	-138	-18	-34	-23	-67	-178	-181	-107	13	51	95
Self-to-Self International Transfers	18	158	-22	-94	-84	-120	-46	18	31	-93	69	-41	-120
Purchase and Sale of Securities	0	0	0	0	0	0	0	0	2	0	-1	-1	-1
Payment of Credit Card Balance	-206	-197	-195	-314	-237	-282	-249	-368	-343	-379	-358	-262	-244

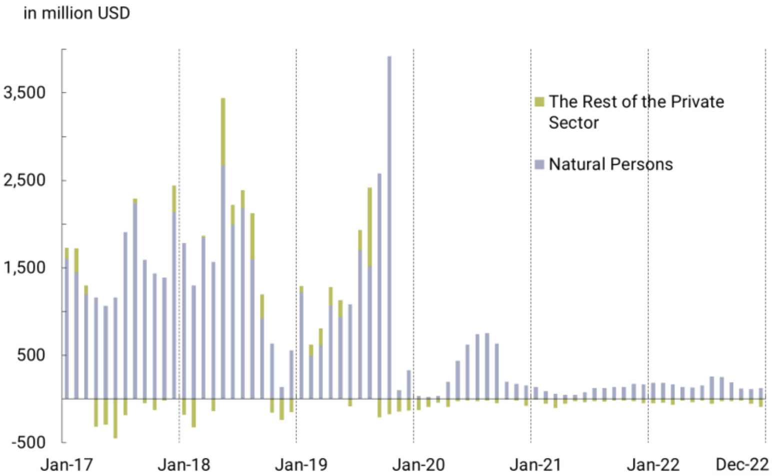
Source: BCRA

[14] For more information on the "Other Net Transfers" account of the foreign exchange balance, see Section C.4.11. of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics
[15] The demand of foreign currency due to purchases made with cards from foreign suppliers is recorded in a services account of the foreign exchange balance, under "Travel and Passenger Transport, and Other Expenses Paid with Cards".

Non-financial private sector residents' foreign assets resulted in net inflows amounting to USD95 million—i.e., net inflows of foreign currency (USD129 million) minus net purchases of banknotes (USD34 million).

This outcome reflects net purchases for USD127 million made by "Natural Persons", partially offset by net sales for USD93 million made by legal persons and others (see Chart III.3.1.1).

Chart III.3.1.1 Foreign Exchange Balance
Net Purchases of Banknotes by Sector

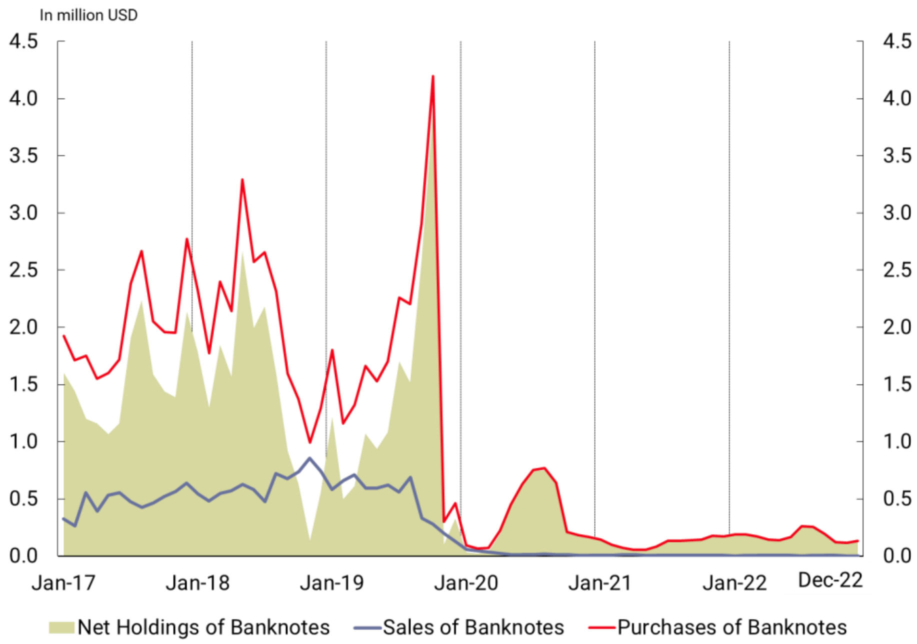


Source: BCRA

In December, "Natural Persons" purchased banknotes for USD131 million–up 15% against November–and sold USD4 million (see Chart III.3.1.2).[16]

[16] These transactions were made in the context of the regulatory changes introduced in mid-September 2020, as under Communication "A" 7105 (introducing controls and monitoring mechanisms for ensuring that clients' financial and income capacity make them eligible to open savings accounts in foreign currency; as well as limits to co-owners' access to purchase foreign currency for building up foreign assets), and Communication "A" 7106 (establishing that any payments made in foreign currency on credit or debit cards will count as part of the USD200 monthly quota per person, and that beneficiaries under paragraph 4 of Communication "A" 6949, as supplemented, and/or Section 2 of Decree No. 319/20 may not access the forex market until benefits are over). As from September 16, 2020, the Federal Administration of Public Revenue (AFIP) will collect a 35% contribution in advance of income and personal property taxes from natural persons applying for foreign currency to build up foreign assets, or pay their debit and/or credit card bills (General Resolution 4815/2020).

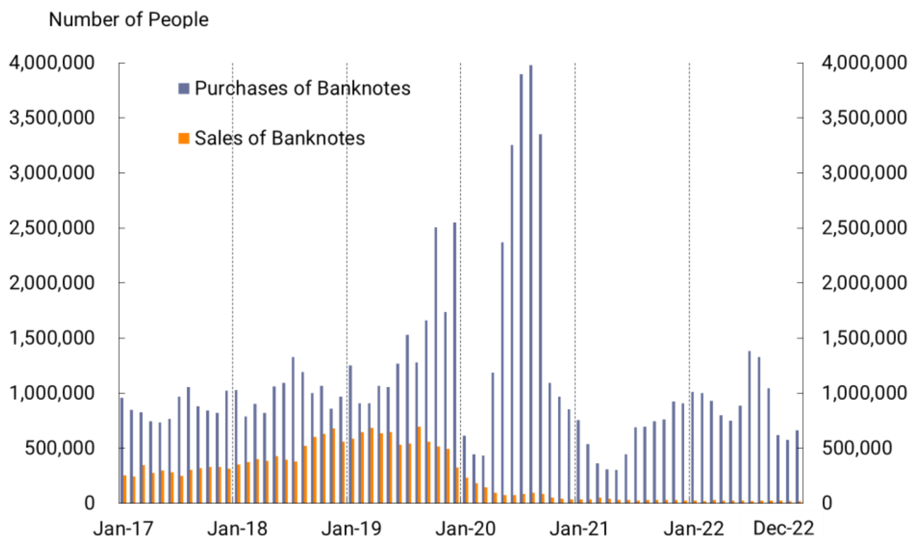
Chart III.3.1.2 Foreign Exchange Balance
Natural Persons. Banknotes



Source: BCRA

In terms of traders, 662,000 individuals purchased banknotes, while sellers amounted to about 18,000—per capita purchases and sales amounting to USD198 and USD220, respectively (see Chart III.3.1.3).

Chart III.3.1.3 Foreign Exchange Balance
Natural Persons. Banknotes



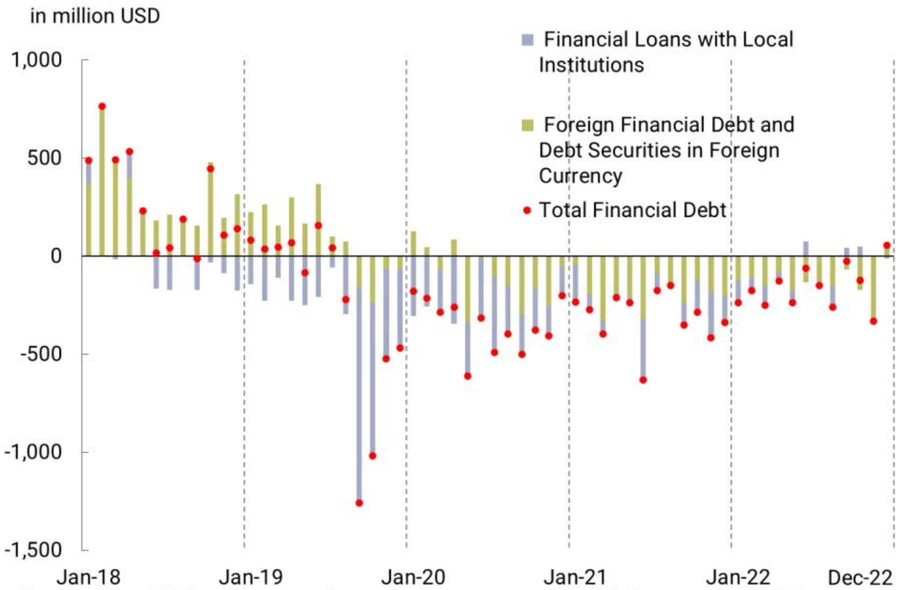
Source: BCRA

In turn, in December, this sector made net transfers from their own accounts abroad (USD129 million). In December, the "Real Sector Excluding Oilseeds and Grains" received transfers for USD59 million, "Natural

Persons" for USD59 million, "Institutional Investors and Others" for USD10 million, and the "Oilseeds and Grains Sector" for USD2 million.[17]

Net inflows of financial debts from the non-financial private sector, including loans from international organizations and local financial loans, reached USD56 million in December, making it the first month with a positive result since July 2019. This amount involves net inflows from financial loans held abroad and loans owed to international organizations (USD70 million), with inflows from the "Construction" sector standing out (about USD323 million), partially offset by payments of loans granted by local institutions (USD14 million). The total amount excludes purchases of foreign currency to pay card bills for expenses incurred abroad (USD244 million), which do not imply a net demand within the whole system, i.e., the ensemble of financial institutions and the BCRA. Instead, they were calculated under the heading "Travel, and Other Expenses Paid with Cards" at the time of the transfer abroad (see Chart III.3.1.4).[18]

Chart III.3.1.4 Foreign Exchange Balance
Non-Financial Private Sector. Financial Debt



Note: Local financial debt excludes the purchases of foreign currency to pay card bills for expenses incurred abroad, which do not imply a net demand within the forex market.

Source: BCRA

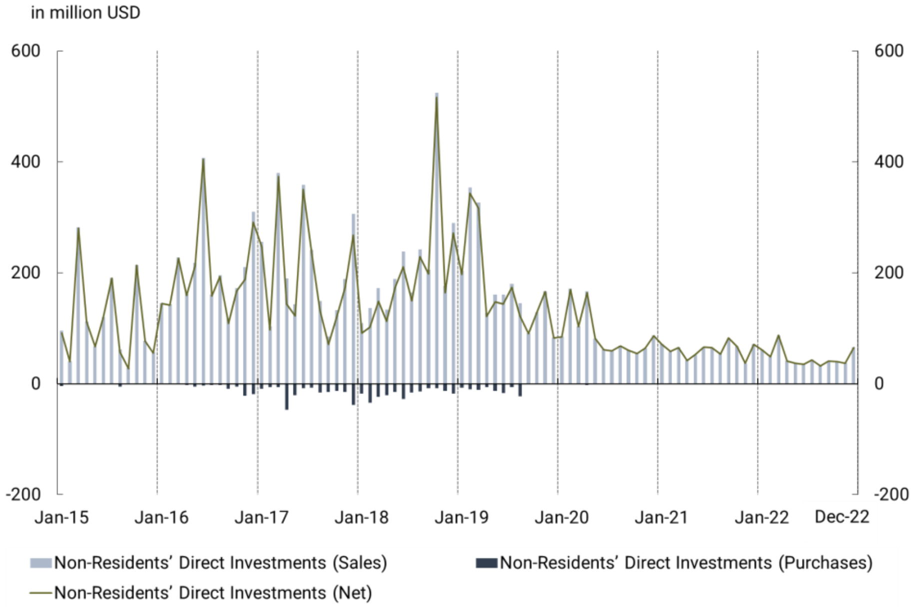
Direct investments made by non-residents in the non-financial private sector reached USD66 million (net inflows) in December, resulting basically from inflows from the "Mining" (USD11 million), and "Food, Beverages and Tobacco" (USD8 million) sectors (see Chart III.3.1.5).

---

17 Prior to October 2019, a part of the funds transferred by the "Real Sector" to accounts abroad was used to pay their foreign liabilities through such accounts, whether commercial or financial, such as payments for imports of goods and services, primary income, debt securities or loans. Based on the regulatory changes introduced by Communication "A" 6770, purchases by legal persons to make transfers to their own accounts abroad now require the prior authorization of the BCRA.

18 As from September 16, 2020, through Communication "A" 7106, the sovereign debt restructuring process in foreign currency was successfully carried out by the National State. In symphony with this measure, the BCRA set out guidelines for private sector companies to refinance their foreign financial debts or local debt securities in foreign currency, so that they may be aligned to the new requirements, thus ensuring the smooth functioning of the forex market.

Chart III.3.1.5 Foreign Exchange Balance
Non-Residents' Direct Investments. Private sector



Source: BCRA

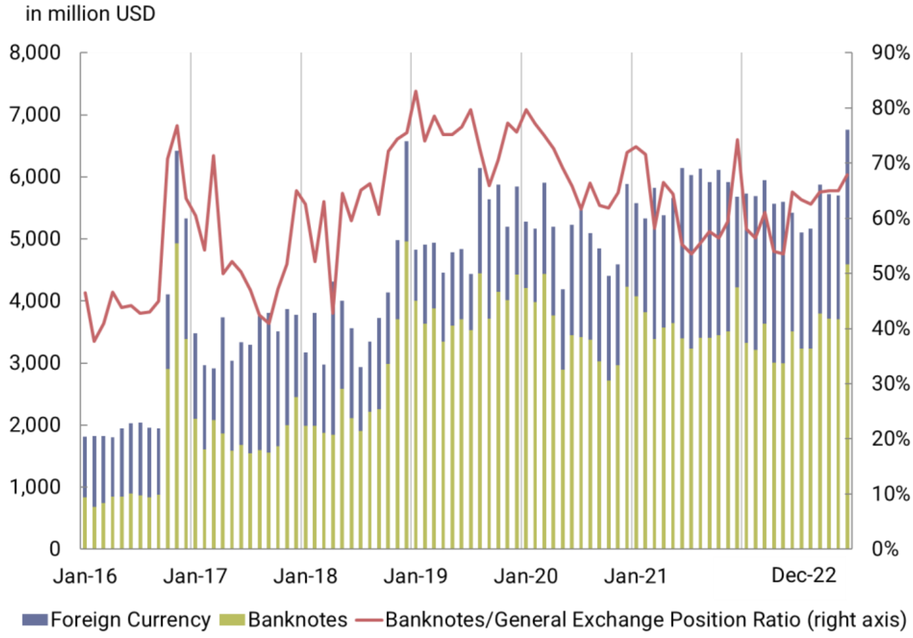
III.3.2. Foreign Exchange Financial Account of the Financial Sector

In December, the transactions carried out under the foreign exchange financial account of the "Financial Sector" ran up a deficit of USD1,078 million. This result is explained by the increase of USD1,063 million in liquid foreign assets of financial institutions' General Exchange Position, outflows from financial loans and credit lines of USD11 million, and the purchase and sale of securities of USD5 million, respectively.[19]

Financial institutions' General Exchange Position amounted to USD6,761 million at the end of December, up 19% against the end of November. This result was explained by increases in holdings of banknotes (USD881 million), and foreign currency (USD182 million), the latter associated with the typical year-end seasonal high performance of private sector deposits due to tax reasons. Holdings of foreign currency banknotes totaled USD4,586 million by the end of the month. This stock accounted for 68% of the total General Exchange Position, and it is allocated by institutions to cover local foreign currency deposit transactions and foreign exchange market needs (see Chart III.3.2.1).

[19] The General Exchange Position is defined in Section C.4.7. of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics.

Chart III.3.2.1 Foreign Exchange Balance
Institutions' General Exchange Position



Source: BCRA

On another note, the ensemble of financial institutions ended December with a forward short position in foreign currency of USD921 million, recording a drop of USD121 million against the end of November. They sold USD126 million in regulated markets and purchased USD247 million from their clients directly (Forwards) over the month (see Chart III.3.2.2).

Foreign-capital institutions ended December with a net short position of USD516 million, recording a drop of USD202 million compared to November. In turn, national-capital institutions sold USD81 million, intensifying their net short position of November and reaching USD405 million (see Chart III.3.2.3).

Chart III.3.2.2 Forward Market
EOM Institutions' Forward Position

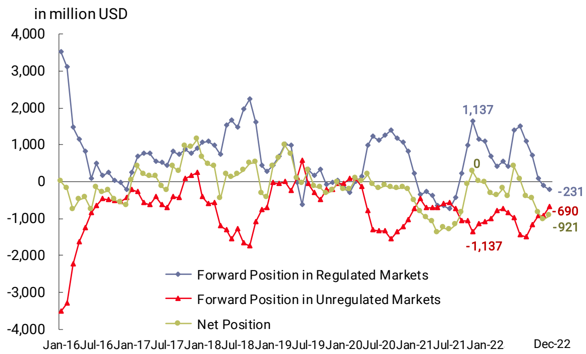
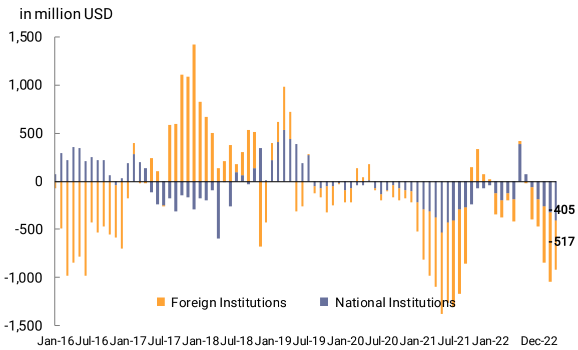


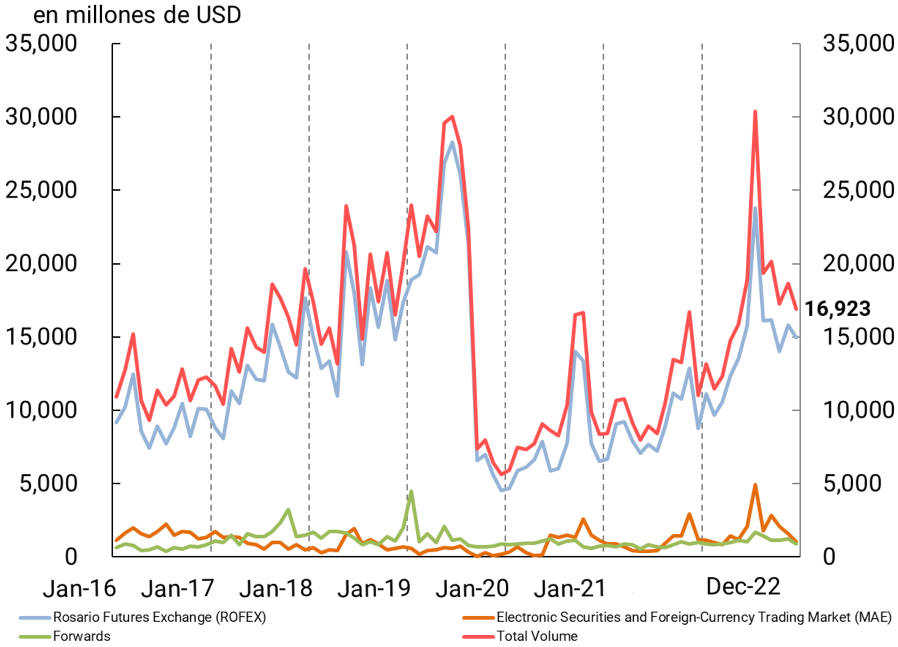
Chart III.3.2.3 Forward Market
EOM Institutions' Forward Position



Source: BCRA

The volume traded in forward markets totaled USD16,923 million in December, i.e.: USD846 million daily on average. Transactions carried out in the Rosario Futures Exchange (ROFEX) continued to stand out, with an 88% share in the total volume traded in the forward market (see Chart III.3.2.4).[20]

Chart III.3.2.4 Forward Market
Total Volume Traded in the Forward Market



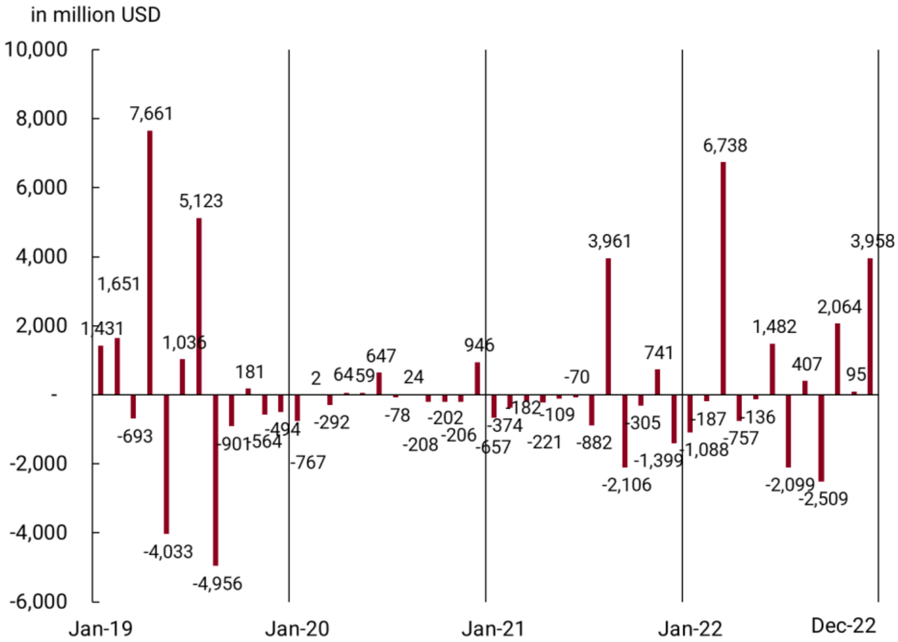
Source: BCRA

III.3.3. The Foreign Exchange Financial Account of the General Government and the BCRA

In December, the transactions carried out under the foreign exchange financial account of the "General Government and the BCRA" resulted in a surplus of USD3,958 million (see Chart III.3.3.1), due to gross disbursements from the International Monetary Fund for USD5,994 million (SDR4,500 million), and gross payments of principal for USD2,684 million (SDR2,014 million), net disbursements of "Loans from Other International Organizations and Other Organizations" for USD723 million, and inflows from "Financial Loans and Credit Lines" for USD25 million, partially offset by records of inflows from self-to-self international transfers for USD18 million and the "buildup of foreign assets" for USD82 million.

[20] The chart includes the total volume traded in the ROFEX, the transactions arranged by institutions in the Electronic Securities and Foreign Currency Trading Market (MAE), and with Forwards. This information comes from the Forward Transactions Reporting Scheme (Communication "A" 4196, as amended) and postings on the websites of MAE and ROFEX.

Chart III.3.3.1 Foreign Exchange Balance
Foreign Exchange Financial Account of the General Government and the BCRA

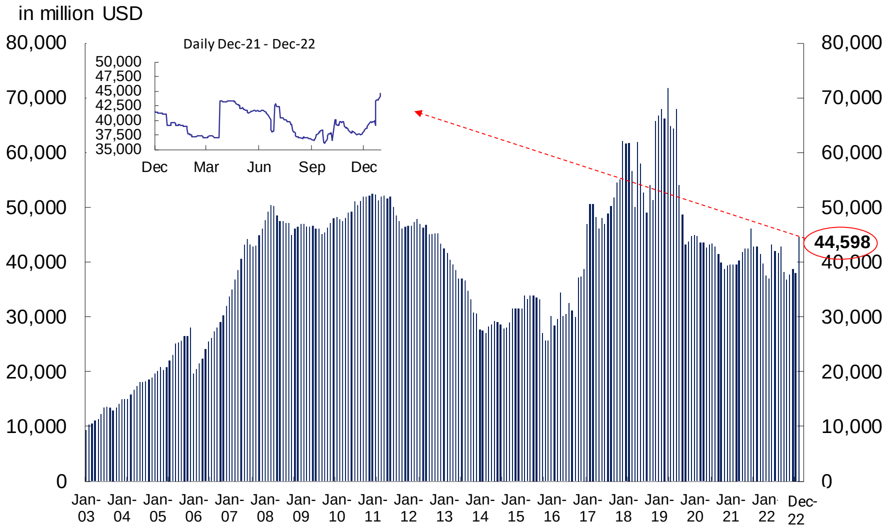


Source: BCRA

IV. BCRA’s International Reserves

During December, BCRA’s international reserves increased USD6,588 million, totaling USD44,598 million by the end of the month. This increase was mainly explained by the purchases made by the BCRA in the forex market, net inflows from disbursements from the International Monetary Fund and other international organizations for USD3,960 million (IMF's net disbursements amounted to USD3,298 million, SDR2,486 million), and the increase in the US dollar exchange rate of foreign exchange reserves by USD698 million, which were partially offset by net payments made by the BCRA through the Local Currency Payment System for USD67 million (see Chart IV.1).

Chart IV.1 BCRA's International Reserves



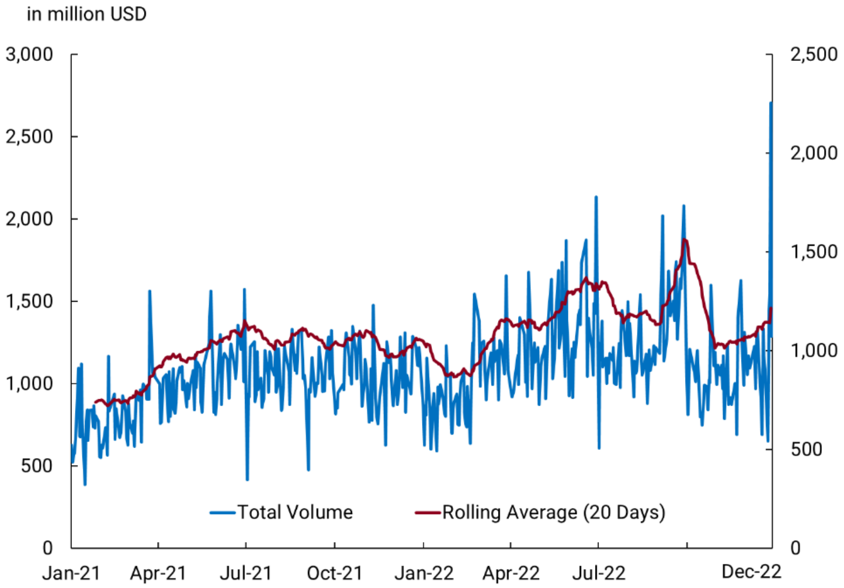
Source: BCRA

V. Volumes Traded in the Foreign Exchange Market

In December, the volume traded in the forex market totaled USD24,457 million, up 16% y.o.y. The average daily volume traded was USD1,223 million (see Chart V.1). The y.o.y. increase in volume was explained by a 38% rise in transactions between the institutions (+USD1,409 million), a 111% increase in transactions between the institutions and the BCRA (+USD1,248 million), and a 4% rise in transactions between the institutions and their clients (+USD638 million).[21]

[21] In BCRA's website there is a quarterly ranking of volumes traded with clients in the forex market broken down by institution (to access the ranking, click here).

Chart V.1 Foreign Exchange Market Volume Traded Daily Evolution



Source: BCRA

Foreign exchange transactions between institutions and their clients accounted for 69% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 21%; in turn, transactions between institutions and the BCRA stood for the remaining 10% (see Chart V.2).[22]

In December, 123 institutions traded in the market involving 47 foreign currencies.

Thus, most of the volume traded between licensed institutions and their clients was highly concentrated in a few number of institutions (out of the already mentioned 123 institutions, the first ten accounted for 90% of such volume) and in the currency used; USD-denominated transactions had a 95% share in the total traded with clients, followed by Euros, which accounted for 4% of the total, and the remaining currencies concentrated 1% of the total volume traded (see Chart V.3).

[22] The volume traded between licensed institutions and their clients excludes the following items: the underwriting of LEBAC bills, self-to-self international transfers (around USD1,474 million in December 2022), the record of deposits in foreign currency allocated for the payment of financial debt service for about USD40 million, and purchases of foreign currency to pay card bills for expenses incurred abroad (around USD240 million for the month under study).

Chart V.2 Foreign Exchange Market
Total Volume and Share - December 2022

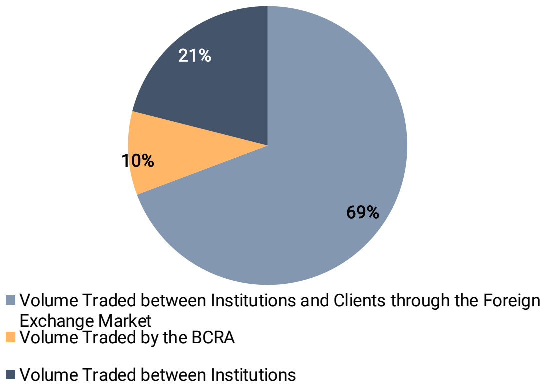
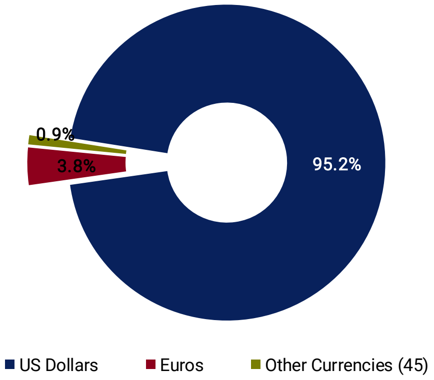


Chart V.3 Foreign Exchange Market
Volume with Clients by Currency - December 2022



Source: BCRA

Finally, 89% of foreign exchange transactions between financial and foreign exchange institutions and their clients were channeled through private financial institutions, while public banks accounted for the remaining 11% of transactions.