Foreign Exchange Market, Debt and Build-Up of Foreign Assets 2015-2019

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Foreign Exchange Market, Debt and Build-Up of Foreign Assets 2015-2019

“We all have intrepidly witnessed how the flows of dollars that should have been used for productive development financing flew out of the financial system, taking resources and leaving a debt burden. These practices are against any idea of progress. Borrowing funds for the benefit of speculators and lenders is the most harmful practice a society can face.

We must know what happened, who allowed this to happen, and who benefited from these practices. Turning a blind eye to the facts that happened in the past entails a great harm for several generations of Argentinians.

Never again saying "yes" to unsustainable indebtedness.

Never again making decisions overnight under the veil of a technocratic view and behind people's backs.

Never again pushing the dollar revolving door, taking debt and leaving behind a ravage scenario.”

Alberto Fernández | **President of the Nation**
Opening of the National Congress Regular Sessions
March 1, 2020

Contents

Executive Summary

- At the end of 2015, a huge paradigm shift in the foreign exchange, monetary and debt policy approach was set into motion towards market deregulation. As it happened in the past, extreme liberalization triggered a major crisis that affected Argentina's economy.

- During the term between December 2015 and early 2018, **about 8 out of 10 dollars that were transferred to Argentina from abroad derived from debt issue and speculative capital.** The non-cash foreign currency inflow from government and private debt, and speculative portfolio investments amounted to USD100,000 million. Upon the closure of voluntary foreign debt markets in 2018, there was a strong reversal of capital flows. Hence, the government decided to turn to the **International Monetary Fund (IMF), which granted a record loan for USD44,500 million.**

- Throughout this period, **residents' build-up of foreign assets tripled, exceeding USD86,000 million.** Even during the first phase of large capital inflows, residents' build-up of foreign assets climbed to USD41,100 million. As from May 2018 the build-up of foreign assets accelerated, escalating to USD45,100 million.

- During such period, the build-up of foreign assets was remarkably concentrated: the top 100 economic players made net purchases worth USD24,679 million, and the top 10, USD7,945 million.

- When segregating natural and legal persons: just 1% of companies that made net purchases bought USD41,124 million, and only 1% of individuals that made net purchases bought USD16,200 million.

- After a serious foreign exchange crisis, the foreign exchange control as of October 2019 proved to be a successful tool to mitigate the build-up of foreign assets within a context of extreme macroeconomic volatility.

- Against the backdrop of an economy where development has been historically limited by external constraints (that is, chronic shortage of non-cash foreign currency), more than USD86 billion were used to build up foreign assets, shrinking growth and investment, increasing unemployment and causing deterioration of income distribution.

- The dramatic adjustment process triggered in a context of deregulation evidences that the exchange rate required to balance the demand for saving—within an extreme liberalization framework—is plainly unsustainable from a political and social viewpoint. Hence, control over the capital and financial account of the balance of payments is essential for Argentina’s economic recovery, within the framework of a comprehensive development strategy.

Introduction

The serious economic and social situation faced by Argentina since early 2018 stems from a set of economic policies that had been implemented from December 2015, creating the conditions for unleashing a new crisis as a result of foreign debt overhang.

Far from being a novelty, debt crises in Argentina are a well-known phenomenon and have been studied in depth. Liberalization and indebtedness programs were applied in Argentina once and again, always obtaining the same results: serious economic crises to the detriment of people's quality of life; and reduced political sovereignty and degrees of independence for taking economic decisions.

The current crisis and its dramatic consequences are no exception. The economic model followed as from December 2015 inevitably fueled an indebtedness cycle that led to a serious balance of payment crisis, devaluation of the domestic currency, accelerating inflation, recession, and growing unemployment.

By the end of 2019 Argentina endured one of its longest contractive phases: the highest inflation rate level in the past 28 years, record number of unemployment in the past 13 years, and poverty levels over 35%.

Far from achieving growth and development, the external debt brought about neither new nor enhanced resources for production. On the contrary, it became a disproportionate burden. In 2019, the public debt stood at 90% of the gross domestic product (GDP), and its interest, over 20% of tax resources. The foreign currency debt is 5.6 times the BCRA's international reserves and 3.8 the total amount of annual exports of goods.

The other side of the phenomenal foreign debt was a huge build-up of foreign assets that benefited a small group of companies and natural persons who gained the temporary advantages of a model that offered high financial yields. Between December 2015 and October 2019, the build-up of foreign assets exceeded USD86,000 million. Only 1% of the companies purchased three fourths of the amount of foreign currency bought by legal persons to build up foreign assets, and only 1% of natural persons accounted for 22% of the build-up of foreign assets by individuals.

Within this context, the National Presidency has required the BCRA to make a detailed report on regulation, access and operation of the forex market from December 2015 to December 2019.

The BCRA's statistical resources place it in a privileged position to spotlight and analyze some of the economic and financial processes that led to the current crisis in Argentina.

It is essential to highlight the adverse effects of the set of economic policy decisions that triggered a new foreign exchange, financial, and monetary crisis. This will enable the BCRA to achieve the objectives set out in its Charter, that is, to promote monetary and financial stability, employment and economic development with social equality.

In the **First Part** of the report, there is a brief review of specialized literature on the history and dynamics of external debt crises in Latin America.

The **Second Part** describes the mechanisms of indebtedness and build-up of foreign assets which triggered the current debt crisis.

Finally, the **Third Part** introduces the main conclusions of the statistical analysis on the transactions made in the forex market in the period under study.

We expect this report will lay the foundation for discouraging the adoption of onerous policies. The President recalled Argentina—at the opening of the National Congress Regular Sessions—as a country teamed up to eradicate terror and death. In line with his speech, we say NEVER AGAIN to policies that cause poverty and pain.

1. External Debt Crisis

The foreign debt overhang crises in Latin America have been largely studied by academics (French-Davis: 2001; Frenkel: 2003; Ocampo: 2014). In light of different approaches, it is possible to point out common features in economic policies and in the dynamics and cycles that characterized them.

As a general rule, crisis episodes are preceded by a set of economic changes that facilitate capital inflows through indebtedness, triggering temporary relief in respect of the external constraints that limit the growth that affect developing economies. Upon the reversal of capital flows, the economic circumstances are aggravated, leaving behind worse conditions (Diamand: 1973, 1985).

The policies that lead to indebtedness cycles are grouped in three different types:(i) deregulation and opening of the capital and financial account of the balance of payments; (ii) foreign exchange and monetary regimes focused on reducing inflation that seek to make domestic assets' financial yields more appealing; (iii) active foreign debt policies (public or private) intended to fulfill the non-cash foreign currency needs of the economy for implementing the model (Canitrot: 1982; Frenkel: 2014; Manzanelli and et al.: 2015).

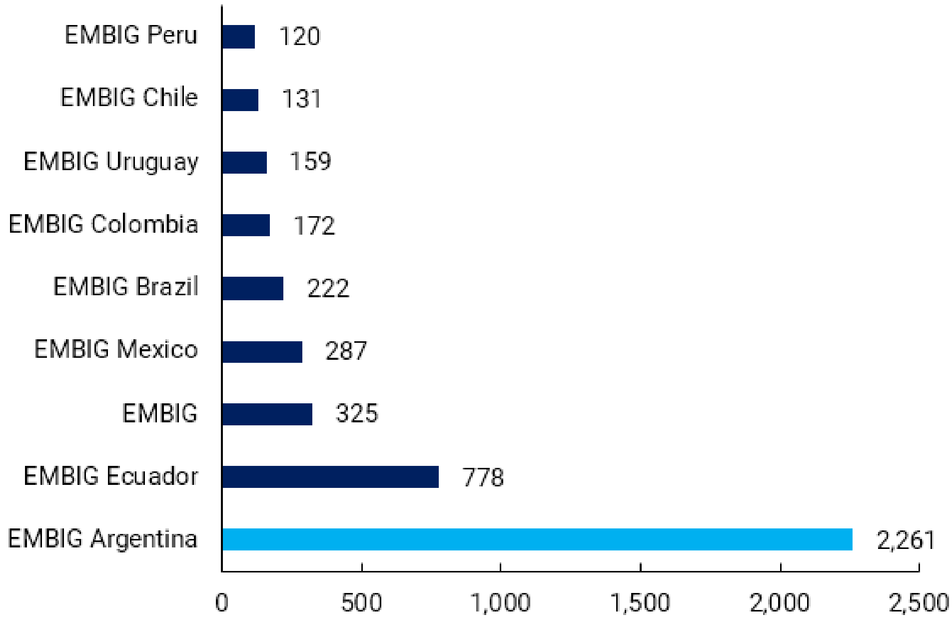
This combination of policies triggers a cycle dynamics, where the first phase involves capital inflow and economic expansion; the second one, economic contraction and increased external vulnerability; and the last one, a balance of payments crisis. These cycles were very common in the dynamics of the pendulum that characterized Argentine economy over the years of import substituting industrialization. They deepened with the emergence of financial globalization by mid-1970 (Canitrot: 1981; Damill, Frenkel and Rapetti: 2005).

Thus, financial opening and the yield spread recorded as a result of the monetary and exchange rate policies promote capital inflows that fulfill the non-cash foreign currency needs of the economy, creating trends towards exchange rate appreciation and leading to the boom of financial business and non-tradable activities. In the course of time, the needs of foreign financing increase, with regard to higher imports of goods and services, growing interest, profits and dividends, as well as the build-up of foreign assets. In this scenario, risk perception and the external vulnerability of the economy increase, causing the risk premium on debt to rise and the term for new deposits to go down. The break in the cycle may occur either gradually or suddenly when international financial conditions change. The interruption of foreign financing accelerates the build-up of foreign assets and the loss of international reserves to the point of triggering a balance of payments crisis. Adjustment occurs abruptly with sharp devaluations that have an adverse effect on price dynamics, income distribution, economic growth and employment. By the end of the cycle, the economy has been affected not only by the economic crisis but also by a burdensome external debt.

The picture described above depicts a series of macroeconomic crises that struck most Latin American economies at the beginning of 1980s and between the end of 20th century and early 21st century (Ocampo: 2014).

The economic events occurred in Argentina as from December 2015 followed the same pattern. However, unlike previous experiences, this case is an exception in the regional scenario. The financial situation of neighboring economies before the COVID-19 pandemic broke out confirms that, although most Latin American economies endured economic problems, Argentina has virtually been the only country to draw on external debt overhang this period.

Chart 1 | Country Risk Premium of Latin American Countries before COVID-19



Source: Our estimations based on Bloomberg

The exceptional nature of the current crisis in the regional context shows that the lessons learned should be reflected in the operation of Argentine institutions and regulations in order to avoid new setbacks. Particularly, it is worth mentioning a series of macroprudential regulations—aimed at safeguarding the economy from destabilizing international speculative capital flows—, which are a key instrument for any development strategy at present. The series of lessons learned should accompany public policy efforts related to social inclusion, productive promotion and technological development. Indebtedness will no longer be a drawback if considered within the framework of a comprehensive development program. Only then, it will become an economic development facilitator.

2. Pillars of Foreign Debt Overhang

2.1 Foreign Exchange Opening and Deregulation

As from December 2015, economic authorities started to drive a deep paradigm shift regarding the regulation of the forex market. The new policy approach changed the regulatory and operational structure, relaxing and removing regulations. These initiatives not only retraced more than a decade of institutional learning about the forex market management and regulation, but also made changes to the reporting regimes and the BCRA's organizational scheme for supervision tasks (Feldman and Formento: 2019).

At an early stage, regulations went through a relaxation process in terms of the access to the forex market for the build-up of foreign assets. The BCRA issued Communication "A" 5850 in December 2015. It removed the consultation system with the Federal Administration of Public Revenue (*Administración Federal de Ingresos Públicos*, AFIP) and the requirement of prior consent of the BCRA for transactions up to USD2 million. The process deepened between 2016 and 2017 leading to a new framework of full liberalization, which laid down the foundations for a sharp increase of non-cash foreign currency demand for the build-up of foreign assets.

Similarly, it affected the requirements on international capital flows. In December 2015, the Ministry of Economy adopted the resolution to remove minimum reserve requirements, and to reduce the minimum terms for cross-border capital flows. Deregulation eased the inflow of short-term investment funds, which could also be used for investing in Central Bank bills (LEBAC bills). At first, these bills had been issued as monetary policy instruments, but turned into financial speculation tools over time. By 2017, regulations on the capital account of the balance of payments were removed in full, exposing the local forex market to the risk of international capital flows.[1]

As for foreign trade transactions, there has been a relaxation process in respect of the terms and settlements of non-cash foreign currency in the forex market. The first changes took place in 2016 and ended one year later with the definite removal of the obligation to transfer and settle non-cash foreign currency in the local forex market. Under the new regulation, exporters were not required to transfer non-cash foreign currency to Argentina, and their financing was relaxed. This decision weakened the stable flow of genuine non-cash foreign currency to the detriment of the growing importance of financial flows.

In 2016, fewer requirements and obligations on forex market transactions accompanied the relaxation of the Exchange Transaction Reporting System (*Régimen Informativo de Operaciones de Cambio*, RIOC)—in some cases by removing the record obligation and reducing information requirements. The change in reporting systems tended to reduce the degree of disaggregated information that the BCRA required for supervision.

The initiatives for relaxing and deregulating the forex market created the conditions for the start of a new indebtedness and financial valorization cycle. The removal of a series of regulations that aimed at

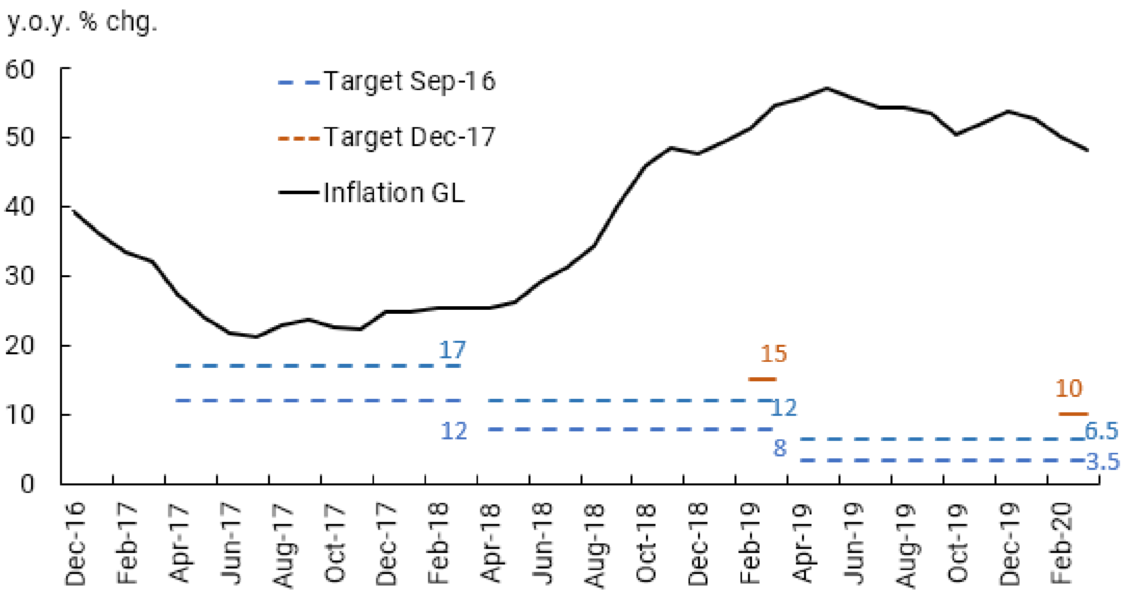
[1] Capital inflows and outflows are regulated in most countries of the region, and are included in the set of recommendations made by several international organizations (IMF, 2012).

softening the impact of capital flows on local economic variables dramatically increased Argentina's economy vulnerability in the presence of external shocks.

2.2 Monetary and Exchange Rate Policy

Since December 2015, the BCRA has redirected its monetary policy with the main objective of lowering the inflation rate, subsuming the other objectives established in its Charter.[2] To that aim, an inflation targeting scheme was implemented to define a disinflation path that would converge to 5% in 2019,[3] on the assumption that the sustained price increase was only due to monetary matters. The tough disinflation targets, self-imposed by the monetary authority, accounted for high interest rates, which became an attractive instrument for foreign capital flows.

Chart 2 | Year-on-Year Inflation Rate and Inflation Targeting



Source: Our estimations based on INDEC

In addition, in the first weeks of government administration, the abrupt liberalization of the forex market and the temporary stop to BCRA interventions caused about a 40% Argentine peso devaluation. The early foreign exchange hike and high interest rates associated with inflation targeting became extremely attractive for short-term capital inflows from abroad. As mentioned before, non-residents were allowed to invest in monetary policy instruments (LEBAC bills), including very short-term financing for international reserves accumulation, which concealed the fragility of the macroeconomic scheme for some time.

Within the framework of the monetary strategy, capital inflows generated tendencies towards foreign exchange appreciation, and favored the overuse of BCRA's debt instruments. While the BCRA relaxed

[2] See Annex I. Speech and management guidelines by the then BCRA's President http://www.bcra.gob.ar/Pdfs/Institucional/ObjetivosBCRA_2016.pdf
[3] The target was changed in December 2017 and convergence to 5% annual rate was only postponed in 2020.

regulations and operated, though indirectly, in the forex market to avoid a sharp fall in the dollar price, a monetary expansion occurred, which later had to be sterilized through BCRA's debt instruments.

Indebtedness in foreign currency made up a unique scenario. Non-cash foreign currency from external debt was transferred to Argentina and settled in Argentine pesos. Such pesos were later absorbed through BCRA's debt instruments within the framework of its monetary policy strategy. Thus, the government issued debt in dollars to cover its fiscal and foreign needs, while the BCRA issued debt to neutralize the monetary effects of the Treasury's debt. Argentina started to develop an odd strategy according to which the National State incurred debt to offset the monetary effects produced by its own issuances. At the beginning of the 2018 crisis, BCRA's remunerated liabilities were in part changed for Treasury debt by means of a broad set of new instruments, some of which were denominated in foreign currency.

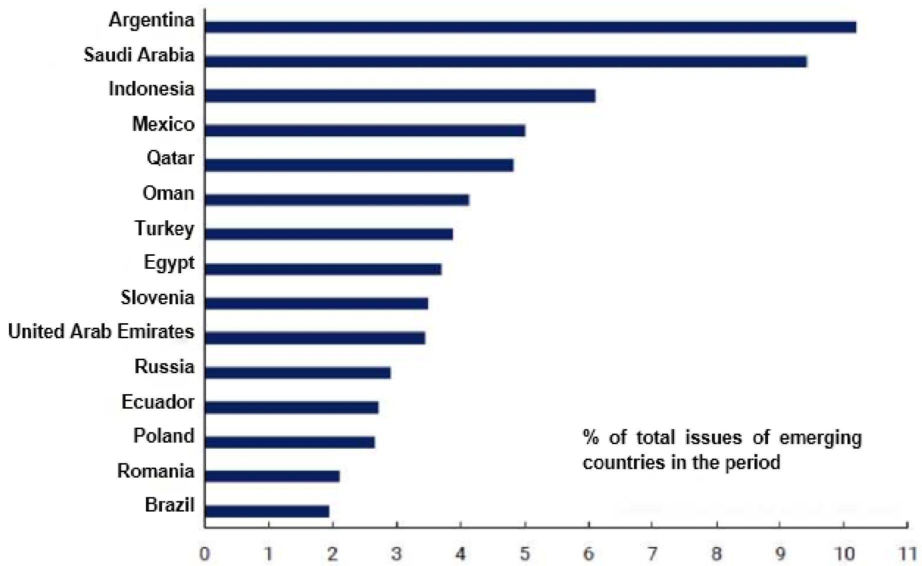
2.3 External Debt

The change in governmental administration in 2015 brought about a radical change in public debt policy. The National Treasury's financial needs were no longer fulfilled with domestic resources. They started to be met with a growing external debt—mainly in foreign currency.

The debt policy was developed early in December 2015 and involved the subscription of a set of securities that would be used to face the Argentine lawsuit held in New York over vulture funds. Nearly USD13,700 million of debt issued under foreign law with maturity dates in 2022, 2023, and 2025 gave the public sector open access to international financial markets.

From then on, the debt—mainly that denominated in foreign currency—shot up. The amount and pace of indebtedness increased rapidly after just two years of central administration. Argentina turned out to be the leading issuer of sovereign bonds in international markets between January 2016 and April 2018, even above countries with substantially higher population and GDP levels.

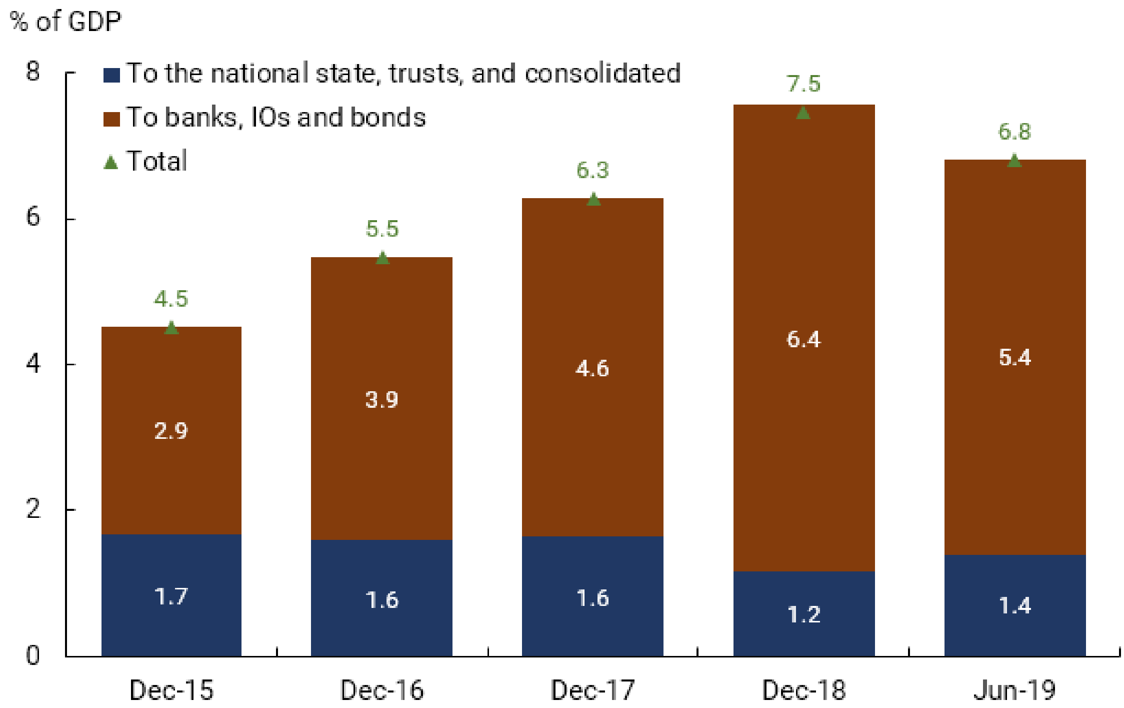
Chart 3 | Leading Sovereign Bond Issuers in International Markets. Jan 2016-Apr 2018



Source: BCRA

Simultaneously, several provinces followed the national strategy, financing their fiscal deficits by issuing debt in foreign currency in international markets. Indeed, the aggregate provincial debt rose from 4.5% of GDP as of end-2015 to 6.8% of GDP as of June 2019 (latest data available). That is to say, the weight of provincial debt in GDP rose by more than 50% in less than 2 years.

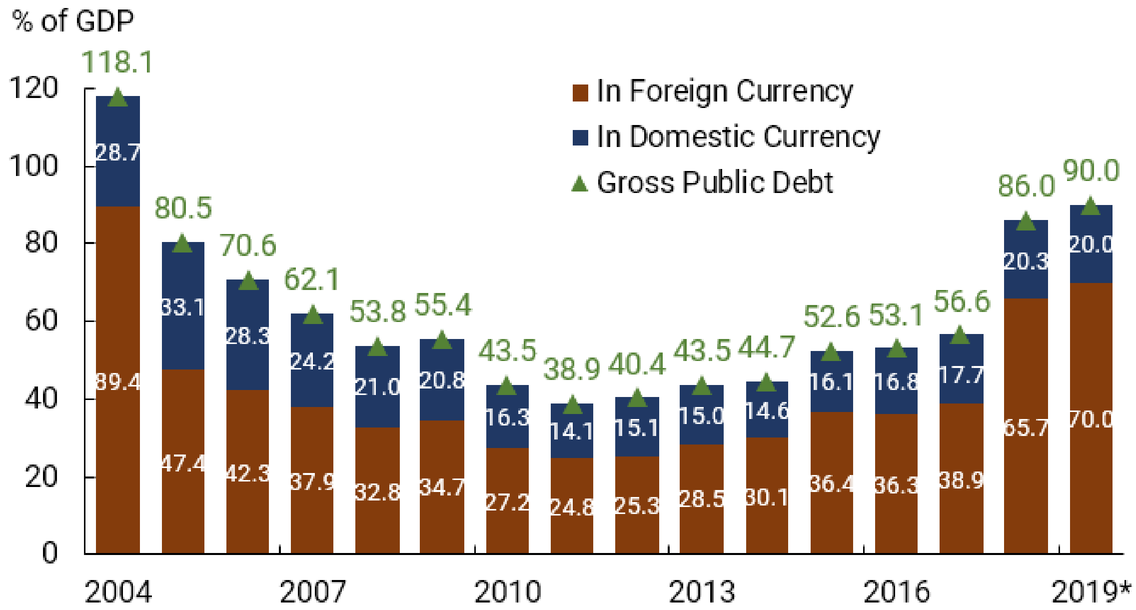
Chart 4 | Provincial Public Debt



Source: Own estimation based on INDEC and Ministry of Economy

Upon the first episodes of the foreign exchange crisis, there was a great leap in the national public indebtedness mainly fueled by enormous and hasty issuances in foreign currency. Public debt climbed from 52.6% of GDP as of end-2015 to 90% four years later. The debt in foreign currency in terms of GDP virtually doubled in the same period, from 36.4% to 70%.

Chart 5 | National Gross Public Debt by Currency



*Estimation as of the end of Dec-19 with GDP projection
Source: Ministry of Economy and INDEC

At the end of December 2019, the stock of national public debt was USD323.2 billion, 60% of which represented government securities; 25%, loans; and 10%, short-term instruments (bills).

Table 1 | National Public Debt (in million USD)

	Dec-19	%
A - GROSS DEBT (I + II + III)	**323,177**	**100.00%**
B- GROSS DEBT (EXCLUDING ELIGIBLE DEBT PENDING RESTRUCTURING) (I + II)	**320,742**	**99.25%**
I - PERFORMING DEBT	**320,638**	**99.21%**
GOVERNMENT SECURITIES	**194,153**	**60.08%**
- Domestic currency	38,723	11.98%
- Foreign currency	155,416	48.09%
- Summary proceedings *(amparos)* and defenses	15	0.00%
TREASURY BILLS	**31,340**	**9.70%**
- Domestic currency	13,097	4.05%
- Foreign currency	18,243	5.65%
LOANS	**80,907**	**25.03%**
SECURED LOANS	640	0.20%
INTERNATIONAL ORGANIZATIONS	67,897	21.04%
OFFICIAL AGENCIES	5,392	1.67%
COMMERCIAL BANKING	2,868	0.89%
TREASURY NOTES	1,623	0.50%
GUARANTEES	2,397	0.74%
BCRA TEMPORARY ADVANCES	**14,237**	**4.41%**
II - DEFERRED PAYMENT DEBT	**104**	**0.03%**
III - ELIGIBLE DEBT PENDING RESTRUCTURING	**2,435**	**0.75%**

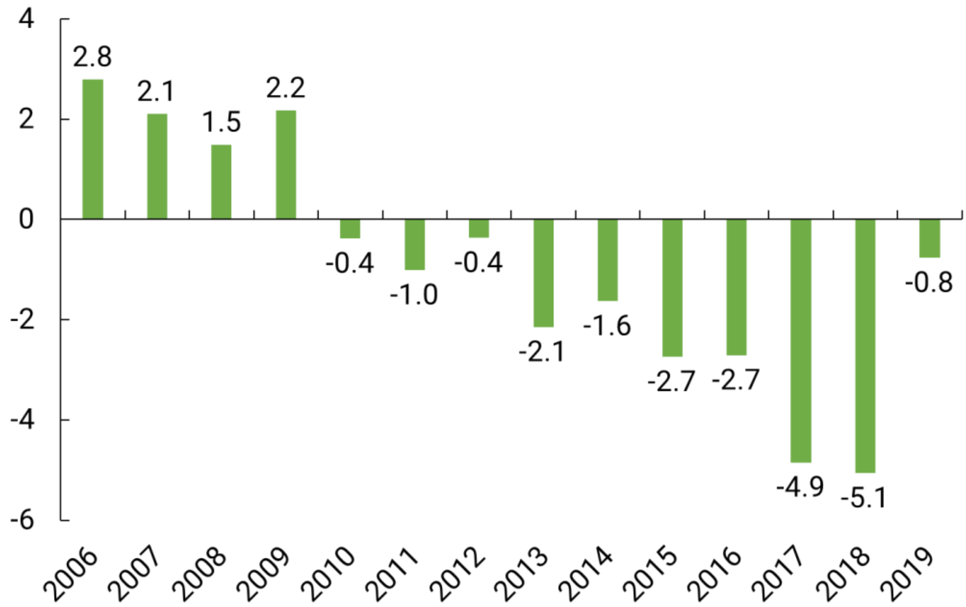
Source: Ministry of Economy

3. Cycle of Debt and Build-up of Foreign Assets

3.1 Financial Speculation and Build-Up of Foreign Assets: Two Stages

From late 2015 to early 2018, Argentina went through one of the largest and fastest indebtedness processes ever staged in the history of the country. As a result of the rapid growth in debt, the other side of economic recovery was a dramatic worsening of external accounts for slightly more than a year.

Chart 6 | Current Account, as a Percentage of GDP



Source: INDEC

In early 2018, the crisis broke out amid a record high imbalance in external accounts and a change in the mood of international markets, and the government turned to the IMF to avoid an impending default. Such a decision evidenced that the debt commitments taken were already impossible to honor without new financing.

The inflows of dollars—obtained from bond issues up to early 2018 and from the IMF afterwards—prompted financial speculation, which ended up in a severe crisis: debt overhang, devaluation of the domestic currency, acceleration in inflation, deep recession, unemployment, growing poverty and deterioration in income distribution.

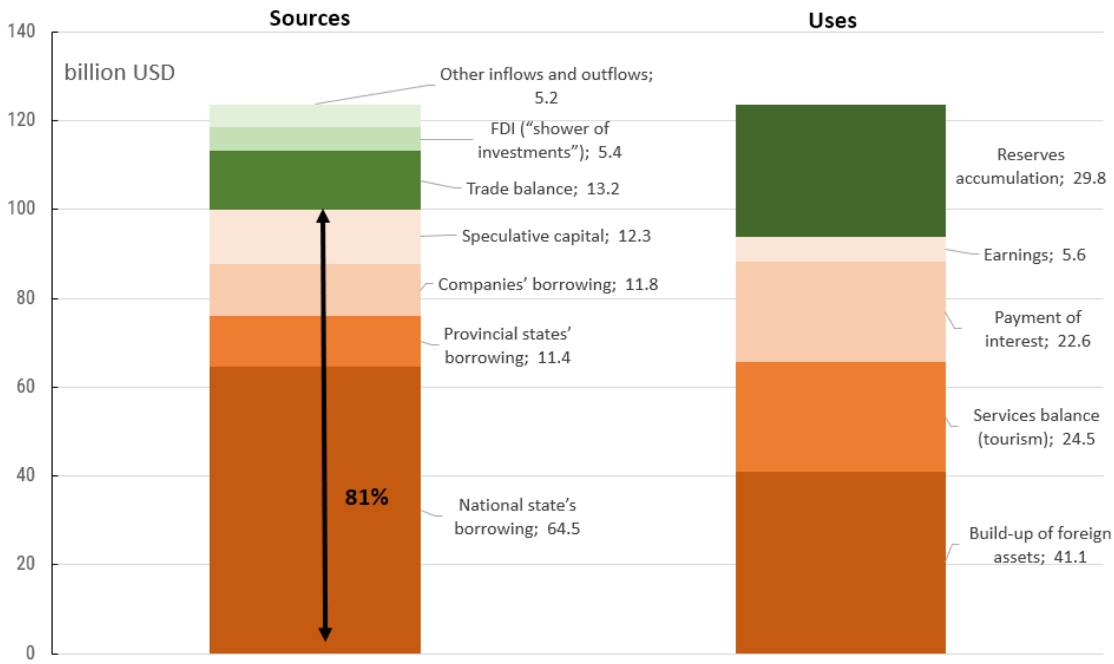
In the **first stage**, international debt markets were the main source of financing for the public and private sectors. Between January 2016 and April 2018, the inflow in non-cash foreign currency from public and private debt together with portfolio speculative investments for USD100,000 million fueled the cycle of indebtedness and financial valorization.

Eighty-one percent of non-cash foreign currency inflows into the forex market involved, on the one hand, issuances by the national public sector (USD64.5 billion), provinces (USD11.4 billion), and companies (USD11.8 billion), and, on the other, speculative capital[4] (USD12.3 billion) lured by high interest rates.

In turn, foreign direct investment (FDI) did not stand out in spite of the expected "shower of investments". Indeed, such a "shower" barely accounted for 4.3% (USD5.3 billion) of total capital inflows in this period.

[4] Non-Residents' Portfolio Investments.

Chart 7 | Foreign Exchange Balance. Jan 2016-Apr 2018



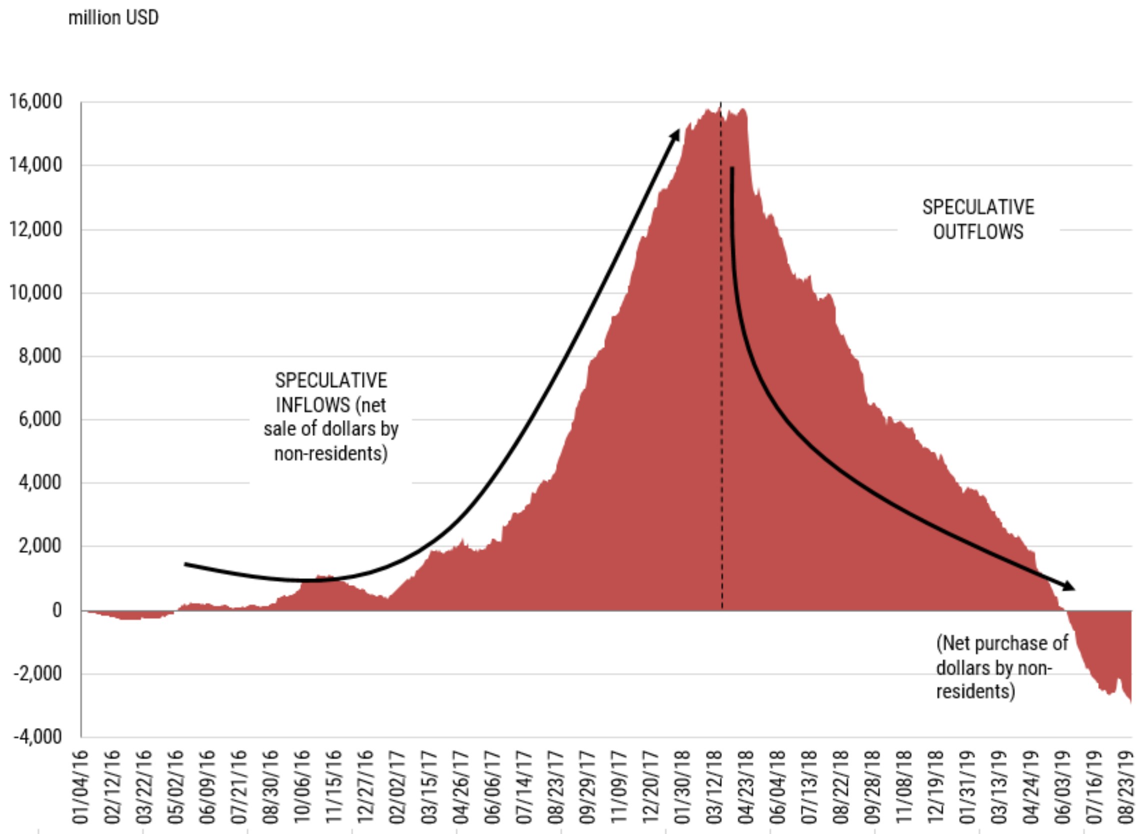
Source: BCRA

The inflows of non-cash foreign currency were channeled to finance the build-up of foreign assets (which totaled USD41.1 billion from January 2016 to April 2018 with a monthly average of USD1,500 million), the deficit in the services balance (USD24.5 billion, especially related to tourism), and the increasing payment of interest (USD22.6 billion).

Although the debt policy led to an increase in international reserves (USD29.4 billion) in the first period, it did not take long before warning alerts started to arise. Almost 70% of financial inflows of dollars that were transferred to Argentina left the system in that period for the build-up of foreign assets by the private sector and the payment of interest and earnings.

The macroeconomic program was clearly unsustainable in the face of Argentina's lack of resources, refinancing being virtually locked out by international markets in early 2018. The **second stage** was characterized by foreign exchange instability, speculative capital outflows, accelerated build-up of foreign assets, and loss of international reserves.

Chart 8 | Cumulative Daily Evolution of Funds from "Non-Residents" and Securities in the Secondary Market

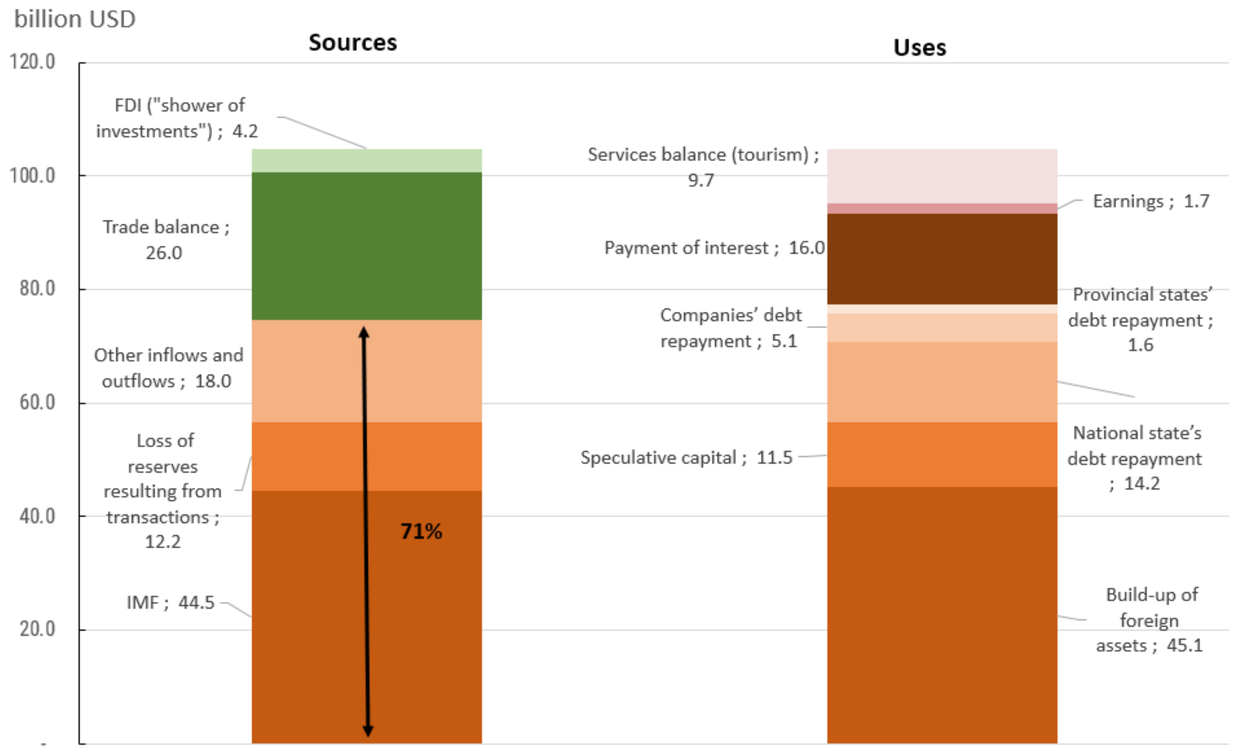


Source: BCRA

The IMF's loan turned out to be the main source of new financing from May 2018 to October 2019. Argentina was facing a rising demand of non-cash foreign currency for residents' saving purposes, speculative capital outflows and debt payments.

Between May 2018 and October 2019—when stricter exchange controls had been imposed—, disbursement reached about USD44.5 billion of the total amount agreed with the IMF. These funds together with the Central Bank´s international reserves ended up in the build-up of foreign assets (USD45.1 billion) by the private sector, speculative capital outflows (USD11.5 billion), and debt servicing—both public and private—(USD36.9 billion).

Chart 9 | Foreign Exchange Balance. May 2018-Oct 2019



Source: BCRA

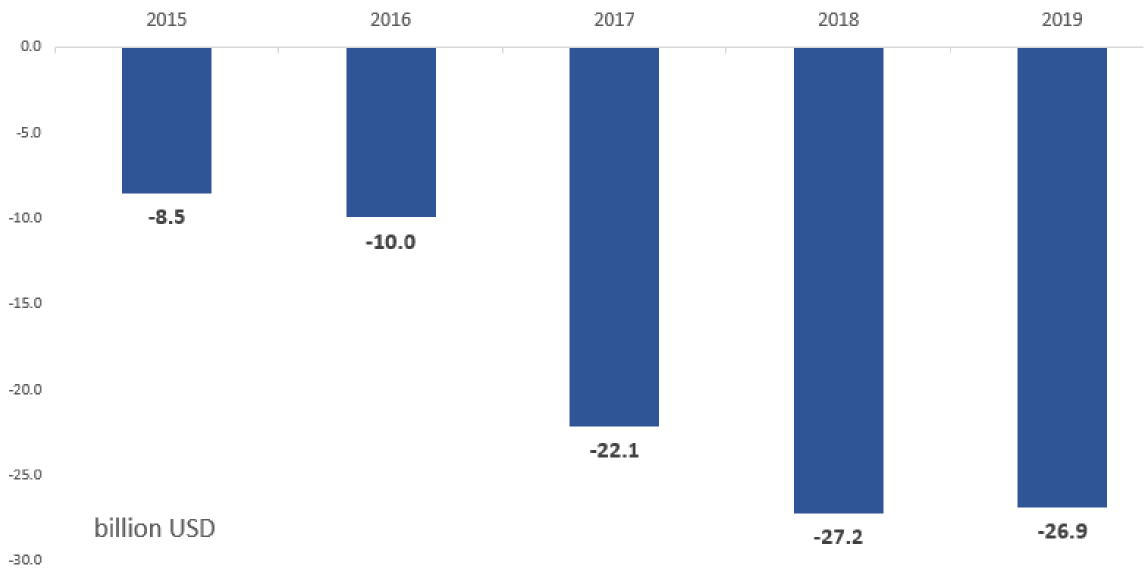
3.2 Build-Up of Foreign Assets by Residents

The build-up of foreign assets from January 2016 to October 2019 reached USD86.2 billion.[5] During the first stage of the cycle of indebtedness and financial valorization, residents' build-up of foreign assets reached USD41.1 billion, whereas the remaining USD45.1 billion accumulated during the acceleration cycle.

The evolution of build-up of foreign assets, which had virtually no restrictions from 2016, tripled in four years from USD8.5 billion in 2015 to around USD27 billion in 2018 and 2019.[6]

[5] It is worth pointing out that the data on foreign exchange transactions were not provided in the form of an affidavit, the reason lying behind each transaction being recorded for statistical purposes only within the framework of amendments to the forex market from July 1, 2017 to August 31, 2019.On September 1, 2019, Communication "A" 6770 (as supplemented) became effective: the foreign exchange ticket was reinstated and data provided on it was taken again as an affidavit.
[6] In late October 2019, the government finally tightened the limits of foreign exchange controls after the presidential election.

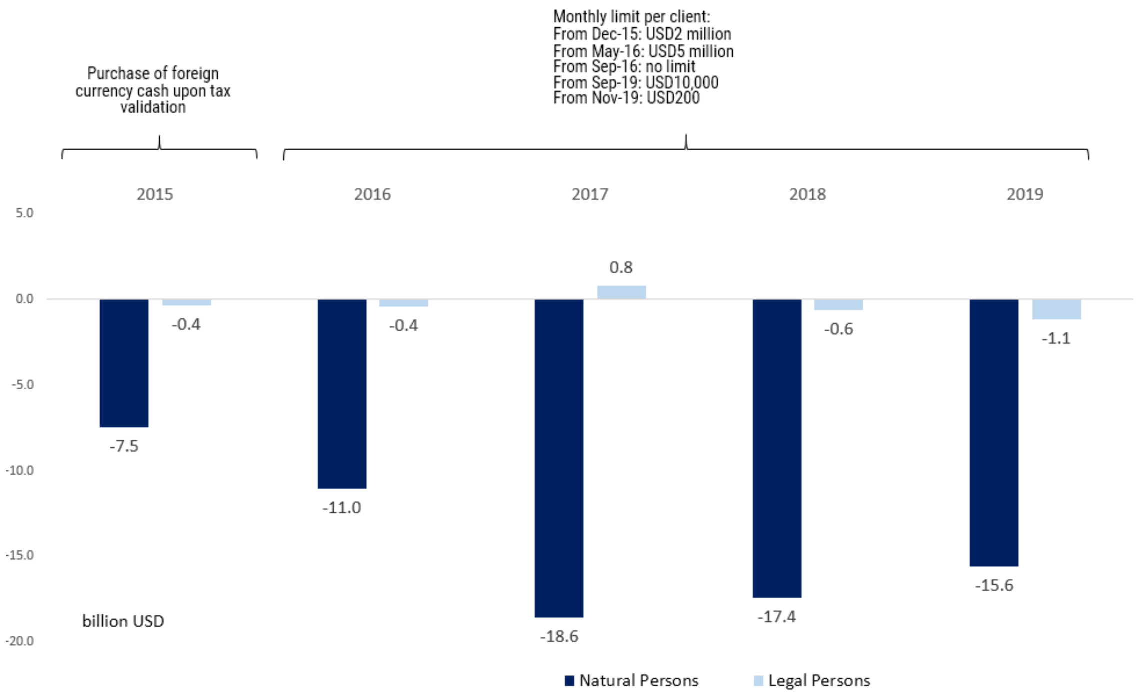
Chart 10 | Build-Up of Foreign Assets by the Non-Financial Private Sector



Source: BCRA

Foreign exchange statistics break down transactions into those involving physical movement of money (foreign currency cash) and those that do not (non-cash foreign currency). Seventy-four percent of the net demand of foreign assets in the period was explained by transactions with foreign currency cash, made by natural persons in nearly all cases. Between 2016 and 2019, the net purchase of foreign currency cash by natural persons was over USD62.6 billion.

Chart 11 | Build-Up of Foreign Assets by the Non-Financial Private Sector. Foreign Currency Cash

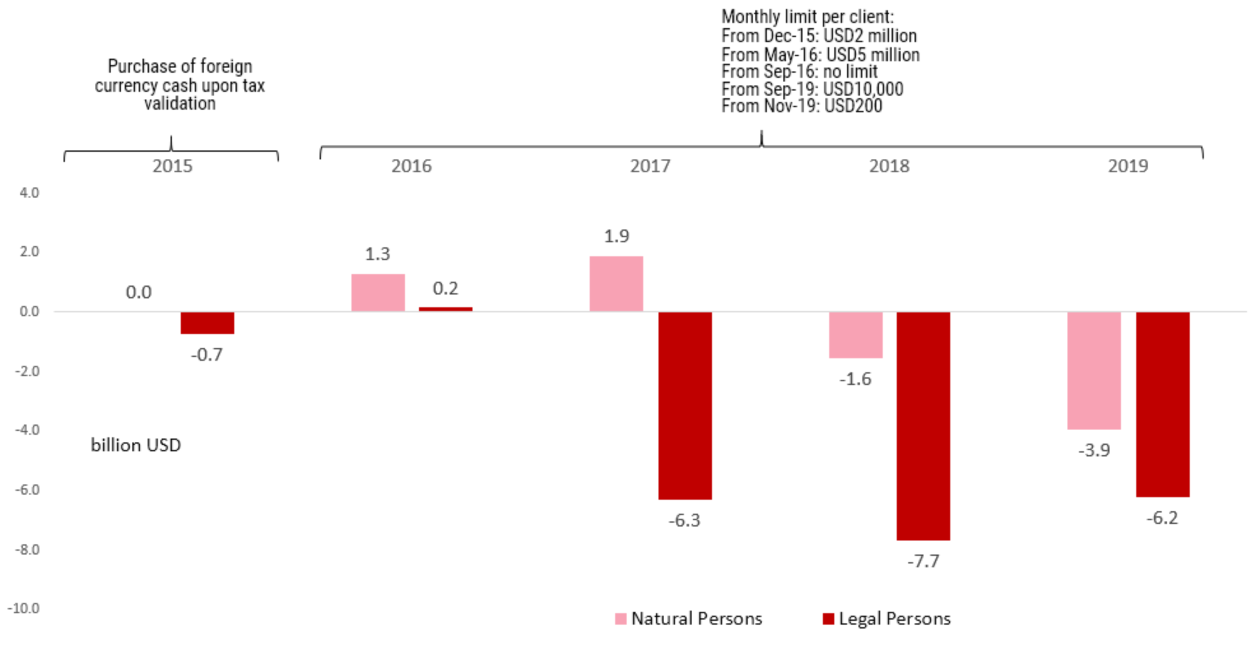


Source: BCRA

In turn, net transfers to foreign accounts (non-cash foreign currency) were mostly made by legal persons and others (companies and mutual funds).[7] However, natural persons' build-up of foreign assets in the form of net purchases of non-cash foreign currency accelerated in 2019, climbing to USD4 billion.

[7] This total may include payments of foreign liabilities, both commercial and financial.This is because, as it was mentioned above, the requirements of data to be provided by clients to financial agents were "relaxed" during the period under study.

Chart 12 | Build-Up of Foreign Assets by the Non-Financial Private Sector. Non-Cash Foreign Currency



Source: BCRA

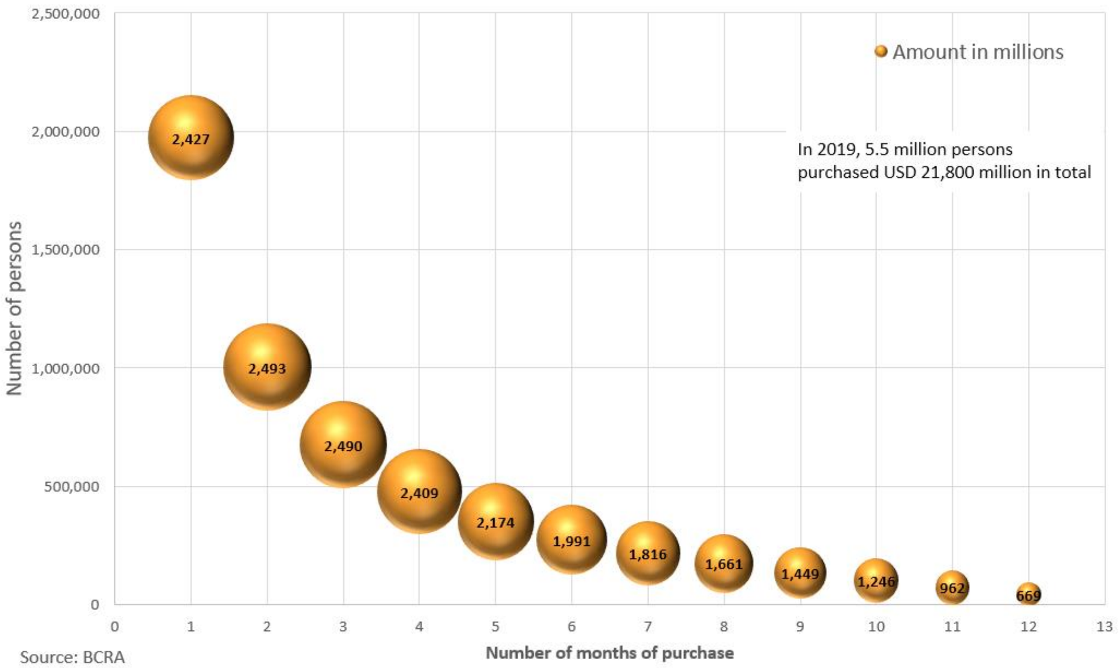
In turn, the number of natural persons who accessed the forex market remained at a level close to 4 million between 2016 and 2018. In contrast, 5.5 million natural persons accessed the market in 2019 to purchase foreign currency cash for around USD3,900 per capita.

Chart 13 | Natural Persons Purchasing Foreign Currency Cash

Source: BCRA

As regards the number of natural persons who operated in the forex market (on a monthly basis), more than half of them bought foreign currency cash at most in 2 months. The amount so purchased represented 23% of total gross purchases of foreign currency cash. At the other end, fewer than 1,000 natural persons purchased foreign currency in more than 10 months of 2019.

Chart 14 | Gross Purchase of Foreign Currency Cash by Natural Persons



Source: BCRA

The build-up of foreign assets was highly concentrated along the period. The top 100 buyers demanded USD24,679 million from December 2015 to October 2019. Top 10 buyers' transactions for the build-up of foreign assets along the period reached USD7,945 million.[8]

[8] Refer to the Annex for the top net buyers broken down into natural and legal persons.

Table 2 | Private Sector Net Buyers of Foreign Assets (Cash and Non-Cash Foreign Currency) from December 17, 2015 to October 27, 2019[9]

Ranking	Total (in million USD)	Cumulative Share in the Total
Top 10	7,945	6.1%
Top 50	19,153	14.8%
Top 100	24,679	19.1%
Top 200	30,353	23.5%
Top 300	33,619	26.0%
Top 500	37,644	29.1%
Top 1,000	42,338	32.7%
Top 2,500	47,705	36.9%
Top 5,000	51,305	39.7%
Top 10,000	54,879	42.4%
Build-up of Foreign Assets by Net Buyers	**129,376**	

Source: BCRA

A close analysis of concentration of net purchases exclusively made by natural persons revealed that just 10% of those with a positive net build-up of foreign assets concentrated around 63.8% of net purchases made by such group of persons (USD47,006 million). In contrast, if only 1% of natural persons with the highest net purchases are considered, just 66,639 of them demanded USD16,206 million for the build-up of foreign assets, which accounts for 22% of the total.[10]

[9] The build-up of foreign assets by net buyers (USD129,376 million) exceeds the figures of build-up of foreign assets in the period (USD86,198 million), as the latter include the transactions made by agents that turned out to be net sellers.
[10] The natural person who bought more US dollars over this period carried out transactions for USD40.5 million (net amount).For more information on the share of cash and non-cash foreign currency purchased by natural and legal persons, see Annexes.

Table 3 | Build-up of Foreign Assets (Cash and Non-Cash Foreign Currency) by Natural Persons Who were Net Buyers between December 17, 2015 and October 27, 2019

	Decile	Range of Net Purchases		Number of Natural Persons		Net Purchases of Foreign Assets in the Forex Market		
		From	To	Number per Decile	Percentage of Number of Natural Persons	Total per Decile	Percentage of Total Net Purchases	Average Net Purchases per Decile
		USD	USD	Units	%	Million USD	%	USD
Deciles	1	1	200	669,361	10	67	0.1	100
	2	200	500	669,360	10	234	0.3	350
	3	500	973	669,361	10	472	0.6	705
	4	973	1,539	669,360	10	800	1.1	1,196
	5	1,539	2,518	669,361	10	1,352	1.8	2,019
	6	2,518	4,190	669,360	10	2,206	3.0	3,295
	7	4,190	6,969	669,361	10	3,631	4.9	5,424
	8	6,969	12,002	669,360	10	6,177	8.4	9,228
	9	12,002	25,403	669,361	10	11,695	15.9	17,472
	10	25,403	40,540,001	669,360	10	47,006	63.8	70,226
Percentiles of the 10th Decile	91	25,403	28,098	66,936	1	1,788	2.4	26,716
	92	28,098	31,266	66,936	1	1,985	2.7	29,651
	93	31,266	35,252	66,936	1	2,222	3.0	33,199
	94	35,252	40,191	66,936	1	2,520	3.4	37,655
	95	40,191	46,700	66,936	1	2,898	3.9	43,301
	96	46,700	55,389	66,936	1	3,402	4.6	50,820
	97	55,389	67,576	66,936	1	4,090	5.6	61,105
	98	67,577	86,106	66,936	1	5,094	6.9	76,095
	99	86,106	122,423	66,936	1	6,801	9.2	101,610
	100	122,423	40,540,001	66,936	1	16,206	22.0	242,105
	Total			**6,693,605**		**73,640**	**100.0**	**11,002**

Note: Provisional data subject to revision based on the Foreign Exchange Transaction Reporting System

In the case of legal persons and others (mainly companies and mutual funds), the concentration of built-up foreign assets in just a few players is even deeper. Ten percent of the biggest buyers (8,527 companies) required USD51,742 million to build up foreign assets (92.9% of the total amount purchased by companies). In turn, 1% of the biggest buying companies (853 companies) purchased non-cash foreign currency amounting to USD41,124 million (i.e. 73.8% of the companies' net purchases).[11]

[11] The legal person which bought more US dollars over the this period carried out transactions for USD1,200 million.

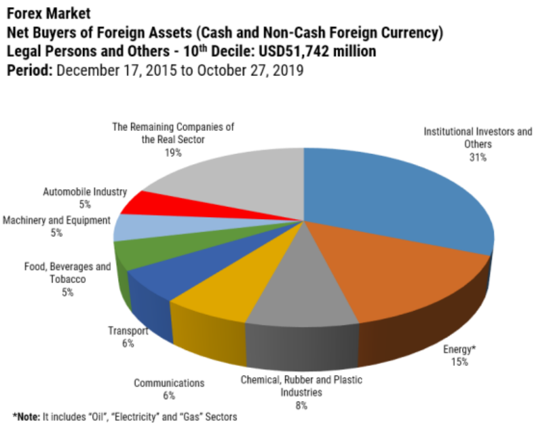
Table 4 | Build-up of Foreign Assets (Cash and Non-Cash Foreign Currency) by Legal Persons and Others Which were Net Buyers between December 17, 2015 and October 27, 2019

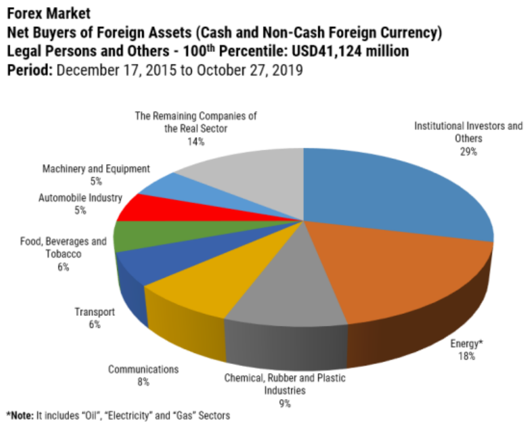
	Decile	Range of Net Purchases		Number of Natural Persons		Net Purchases of Foreign Assets in the Forex Market		
		From	To	Number per Decile	Percentage of Number of Natural Persons	Total per Decile	Percentage of Total Net Purchases	Average Net Purchases per Decile
		USD	USD	Units	%	Million USD	%	USD
Deciles	1	1	1,182	8,528	10	5	0.0	535
	2	1,183	3,500	8,528	10	19	0.0	2,248
	3	3,500	7,200	8,528	10	44	0.1	5,186
	4	7,200	13,017	8,528	10	86	0.2	10,026
	5	13,018	23,250	8,528	10	153	0.3	17,904
	6	23,250	40,703	8,528	10	267	0.5	31,263
	7	40,707	75,000	8,528	10	476	0.9	55,817
	8	75,000	148,000	8,528	10	905	1.6	106,126
	9	148,000	390,000	8,528	10	2,040	3.7	239,208
	10	390,000	1,248,233,482	8,527	10	51,742	92.8	6,068,020
Percentiles of the 10th Decile	91	390,000	445,911	853	1	356	0.6	417,049
	92	445,958	517,094	853	1	409	0.7	479,050
	93	517,144	616,207	853	1	482	0.9	565,209
	94	616,305	743,780	852	1	577	1.0	676,706
	95	744,274	938,800	853	1	713	1.3	835,629
	96	938,865	1,242,257	853	1	915	1.6	1,073,035
	97	1,243,714	1,796,421	852	1	1,270	2.3	1,490,308
	98	1,799,060	3,041,517	853	1	1,977	3.5	2,318,274
	99	3,043,202	7,126,987	853	1	3,919	7.0	4,594,700
	100	7,132,095	1,248,233,482	852	1	41,124	73.8	48,268,027
	Total			**85,279**		**55,736**	**100.0**	**653,570**

Note: Provisional data subject to revision based on the Foreign Exchange Transaction Reporting System

Broken down by sector, the first decile in the build-up of foreign assets over the period was led by Institutional Investors and Others, together with companies from the Energy sector. Next were the Chemical, Rubber and Plastic Industries, Communications, Transport, Food, Beverages and Tobacco, Machinery and Equipment, and the Automobile Industry. This distribution pattern is observed both in the decile of bigger purchases, as well as in the 1% gathering the biggest transactions.

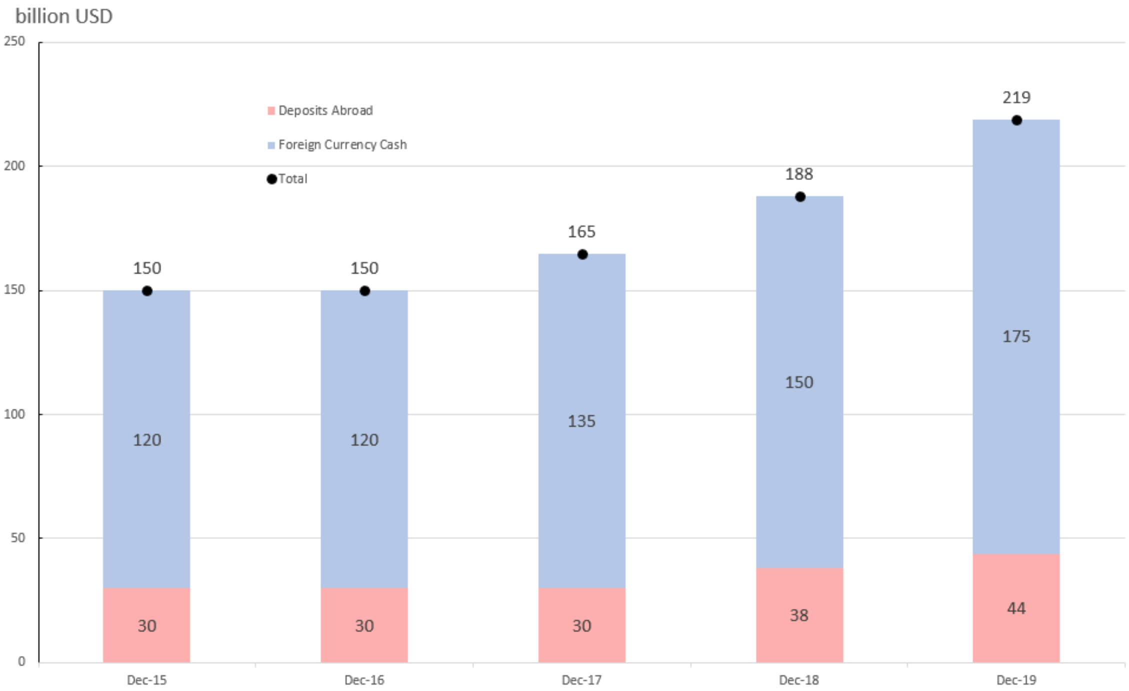
Chart 15 | Distribution of the Main Buyers by Sector (%)





Most of the transactions to build up foreign assets were made outside the local financial system. The stock of foreign currency cash held by the private sector outside the financial system (known as “money stashed under the mattress”) ended 2019 with USD175 billion (up USD55 billion against December 2015) and deposits held abroad reached USD44 billion, up USD14 billion against December 2015.

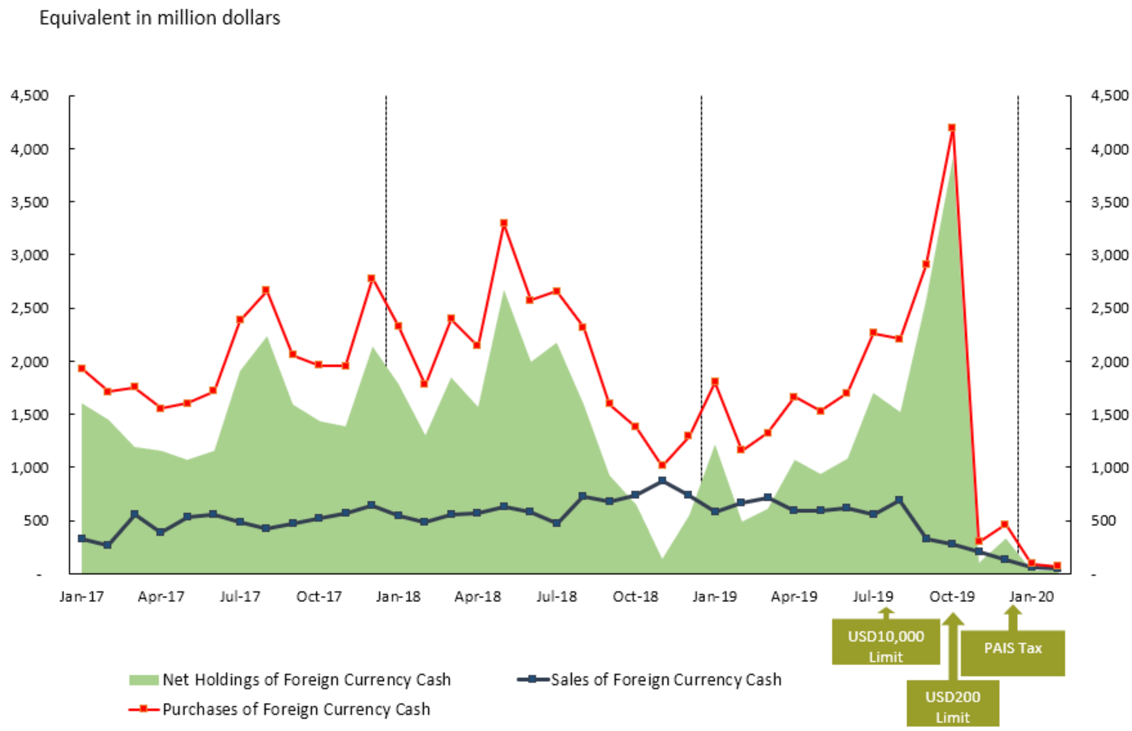
Chart 16 | International Investment Position. Non-Financial Private Sector



Source: BCRA based on data provided by INDEC

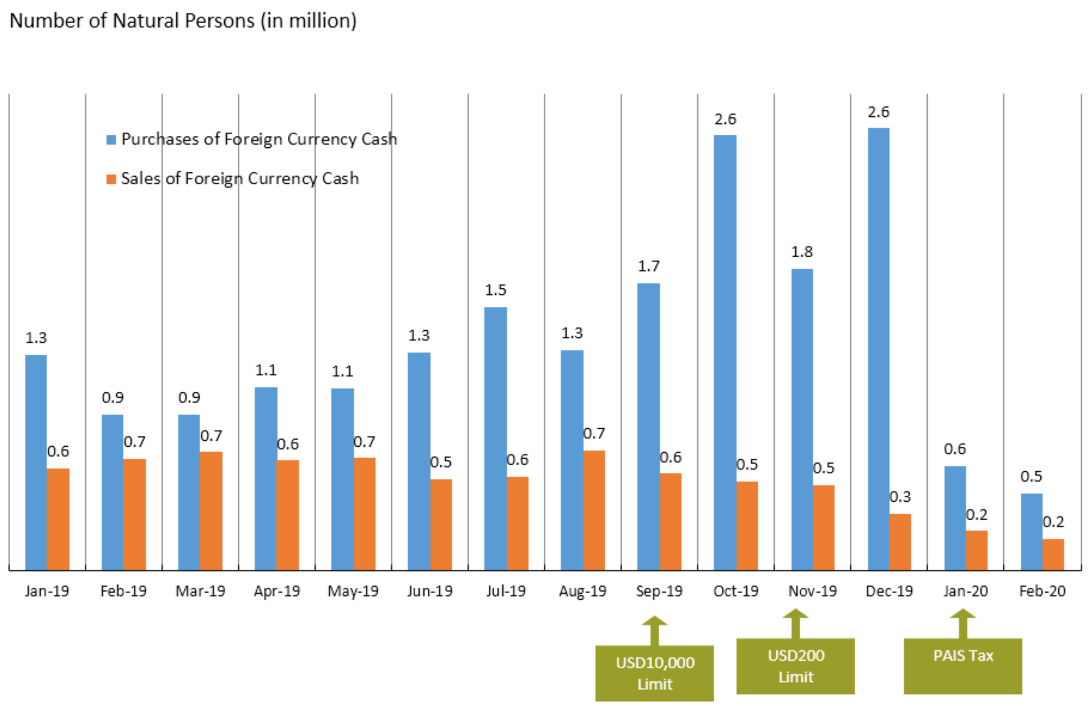
The speed and extent of foreign asset build-up decreased once forex market access controls were reinstated. Net purchases of foreign currency cash decreased from a monthly average of USD1,513 million to only USD214 million per month in the last two months of the year. Between January and February 2020, purchases and sales of foreign currency cash made by natural persons almost offset each other.

Chart 17 | Sale and Purchase of Foreign Currency Cash by Natural Persons



The number of natural persons that purchased foreign currency cash in the market plummeted after the application of the Tax for an Inclusive and Solidary Argentina (*impuesto Para una Argentina Inclusiva y Solidaria*, PAIS). The number of natural persons buying US dollars in the forex market peaked at 2.6 million per month last October and December. This figure dropped to only 500 thousand in the last few months.

Chart 18 | Number of Natural Persons Buying and Selling Foreign Currency Cash



4. Closing Remarks

Argentina's economic cycle is heavily marked by the external constraints to growth. The major crises in history usually stem from tough adjustments resulting from the accumulation of balance of payments imbalances, which in turn are affected by structural factors such as technological and financial dependency.

In this context, the external debt usually plays an ambiguous role. Within the framework of a comprehensive economic strategy aimed at enhancing the technological and productive capacity required to overcome the country's structural constraints, debt may become a tool in the development process. Alternatively, history shows that, in a context of liberalization and deregulation programs, debt only postpones and deepens the adjustment cycles of external accounts.

The events that took place between the end of 2015 and 2019 are a clear example of the second scenario mentioned above. The reforms adopted in the period tended to increase the external imbalance of the Argentine economy, while promoting short-term speculative businesses financed by a massive external debt burden. This situation ended up triggering a serious crisis in the first half of 2018, which unleashed, like so many times before, drastic social conditions and a debt overhang.

Statistics on forex market developments confirm that the enormous external debt incurred in the period was hand-in-hand with a heavy build-up of foreign assets. Far from being used to overcome the country's structural problems, foreign currency was mainly channeled to finance a system of speculation and financial appreciation.

The build-up of foreign assets for more than USD86 billion entails, in an economy in need of non-cash foreign currency, a significant sacrifice to the detriment of growth, investment, and job opportunities. The build-up of foreign assets over the period equals the expenditure on imports of capital goods and inputs of widespread use over more than 3 and a half years. Lost resources due to the build-up of foreign assets conditioned in the past and will condition in the future the potential economic development of our country.

The implications of the borrowing and build-up of foreign assets model adopted by the previous government are not limited to the adverse effect exerted on the level of economic activity and employment; they are also observed in terms of distribution. As inferred from the information for the period, a few natural persons and companies concentrated most of the demand for dollars. Moreover, the regime of financial liberalization and borrowing triggered a macroeconomic crisis with disastrous effects on the incomes of the vast majority of the population, resulting in a significant increase in the levels of inequality and poverty.

Developments in the 2018-2019 period further show that the exchange rate required to balance the supply and demand of non-cash foreign currency—in contexts of full liberalization of the capital and financial account of the balance of payments—is politically and socially unsustainable. Abrupt changes in the exchange rate under the free-floating regime tended to exacerbate demand for non-cash foreign currency to build up foreign assets rather than curb it, having burdensome consequences for the dynamics of prices and wages. Despite mega devaluations, demand for the build-up of foreign assets continued to rise in a context where the crisis became increasingly unbearable for the majority of the population.

Exchange rate controls and regulations along with those on the capital and financial account of the balance of payments are therefore an essential part of a development strategy for Argentina to overcome historic structural constraints on sustained growth with equality and to wisely integrate itself in an ever-changing financial globalization process.

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6. Annexes

A) Foreign Exchange Flows 2016-2019

In billion dollars

(+):Sources of funds; (-) Uses of funds

Accounts	2016	2017	2018	2019	Total
Private Foreign Exchange Current Account	-3.6	-9.1	-2.0	16.3	**1.6**
Public Foreign Exchange Current Account	-11.9	-8.0	-9.4	-10.0	**-39.3**
Private Deposits	11.8	4.0	2.5	-9.5	**8.8**
Government Securities and the BCRA	32.2	42.4	-3.7	-26.2	**44.7**
IMF and Other International Organizations	-2.1	-0.1	38.4	16.1	**52.3**
Build-up of Foreign Assets by the Non-Financial Private Sector	-10.0	-22.1	-27.2	-26.9	**-86.2**
The Remainder of the Private Foreign Exchange Financial Account	-2.7	8.7	12.1	19.2	**37.3**
BCRA's International Reserves	-13.7	-15.7	-10.8	21.0	**-19.2**

Note: *Preliminary information subject to review*

List of included accounts:

Private Foreign Exchange Current Account: mainly, net inflows from trade balance of goods net of expenses from travels and payment of interest, profits and dividends
Public Foreign Exchange Current Account: mainly, interest payments on debt securities and debt held with international organizations
Private Deposits: changes in balances recorded in foreign currency in the local financial system
Government Securities and the BCRA, and IMF and Other International Organizations: net disbursements of principal payments
Build-up of Foreign Assets by the Non-Financial Private Sector: net purchases of foreign currency cash for saving purposes, and to make self-to-self transfers abroad
The Remainder of the Private Foreign Exchange Financial Account: mainly FDI, financial debt, items not reported, and "self-to-self transfers"

B) Private Sector Net Buyers of Foreign Assets (Cash and Non-Cash Foreign Currency)

Legal Persons and Others

Period: December 17, 2015 to October 27, 2019

Ranking	Total (in million USD)	Cumulative Share in the Total
Top 10	7,945	14.3%
Top 50	19,153	34.4%
Top 100	24,679	44.3%
Top 200	30,352	54.5%
Top 300	33,602	60.3%
Top 500	37,575	67.4%
Top 1,000	42,082	75.5%
Top 2,500	46,915	84.2%
Top 5,000	49,831	89.4%
Total Purchases by Net Buyers	**55,736**	

C) Private Sector Net Buyers of Foreign Assets (Cash and Non-Cash Foreign Currency)

Natural persons

Period: December 17, 2015 to October 27, 2019

Ranking	Total (in million USD)	Cumulative Share in the Total
Top 10	217	0.3%
Top 50	559	0.8%
Top 100	823	1.1%
Top 200	1,159	1.6%
Top 300	1,388	1.9%
Top 500	1,740	2.4%
Top 1,000	2,355	3.2%
Top 2,500	3,510	4.8%
Top 5,000	4,756	6.5%
Top 10,000	6,500	8.8%
Top 50,000	13,991	19.0%
Top 100,000	19,860	27.0%
Total Purchases by Net Buyers	**73,640**	

D) Forex Market: Legal Persons and Others - 10th Decile

Private Sector Net Buyers of Foreign Assets (Cash and Non-Cash Foreign Currency)

Period: December 17, 2015 to October 27, 2019

Sector	Number of Natural Persons (in units)	Amount (in million USD)	Share by Amount
Institutional Investors and Others	3,516	16,114	31%
Energy*	209	7,736	15%
Chemical, Rubber and Plastic Industries	400	4,176	8%
Communications	72	3,269	6%
Transport	400	2,980	6%
Food, Beverages and Tobacco	266	2,624	5%
Machinery and Equipment	330	2,577	5%
Automobile Industry	163	2,475	5%
The Remaining Companies of the Real Sector	3,171	9,790	19%
TOTAL	**8,527**	**51,742**	

E) Forex Market: Legal Persons and Others - 100th percentile

Private Sector Net Buyers of Foreign Assets (Cash and Non-Cash Foreign Currency)

Period: December 17, 2015 to October 27, 2019

Sector	Number of Natural Persons (in units)	Amount (in million USD)	Share by Amount
Institutional Investors and Others	314	11,839	29%
Energy*	84	7,442	18%
Chemical, Rubber and Plastic Industries	63	3,634	9%
Communications	21	3,179	8%
Transport	54	2,449	6%
Food, Beverages and Tobacco	35	2,278	6%
Automobile Industry	24	2,251	5%
Machinery and Equipment	44	2,203	5%
The Remaining Companies of the Real Sector	213	5,848	14%
TOTAL	**852**	**41,124**	