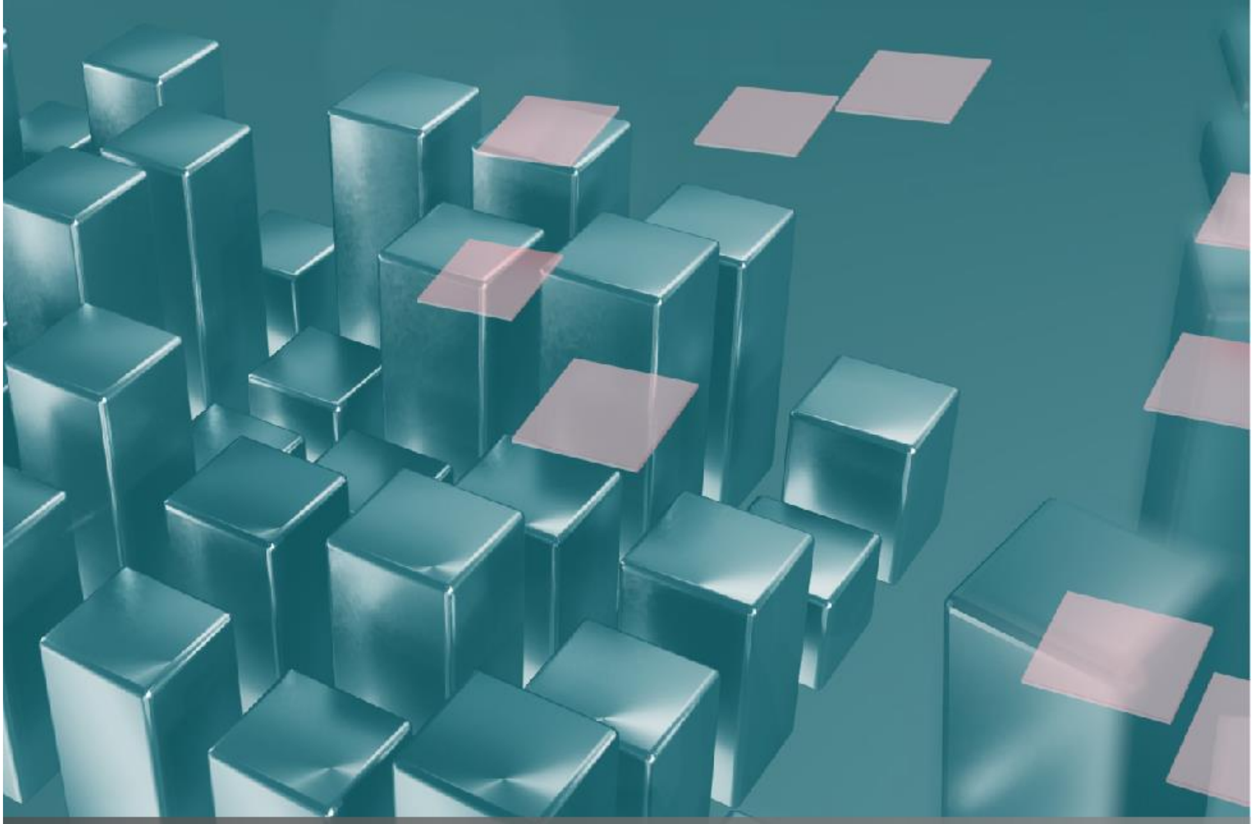
Evolution of the Foreign Exchange Market and Exchange Balance

January 2020



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Transactions in the Foreign Exchange Market and the Foreign Exchange Balance

Overview
Foreign Exchange Transactions and Foreign Exchange Balance in January 2020

- ✓ *In January, the BCRA and financial institutions purchased in the spot forex market USD783 million and USD184 million, respectively, out of which USD967 million were sold by institutions' clients.*

- ✓ *Companies in the real sector were net sellers of foreign currency for USD1,178 million.*

- ✓ *Within this group, the main sector to make net sales in historical terms ("Oilseeds and Grains") recorded net sales for USD1,639 million, down 18% y.o.y. The payment of foreign debt derived from January's advances and pre-financing of exports partly reverses the indebtedness incurred over the previous two-months.*

- ✓ *Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD460 million, particularly for the payment of debt interest and for net payments for goods and services.*

- ✓ *"Natural persons", who mainly demand foreign currency for saving and for traveling abroad, made net purchases for USD232 million (USD32 million just in exchange for banknotes, and USD200 million for their remaining transactions).*

- ✓ *"Institutional Investors and Others"—both residents and non-residents—made net sales for USD333 million in January.*

- ✓ *The foreign exchange current account, which includes the net result of foreign exchange transactions recorded as net exports of goods and services, and the primary and secondary income in line with the definitions of the Balance of Payments, had a surplus of USD50 million.*

- ✓ *The financial account of the "Non-Financial Private Sector" had a deficit of USD181 million, basically from net settlements of financial debt, partially offset by inflows of direct investments.*

- ✓ *The financial account transactions of the "Financial Sector" resulted in a surplus of USD494 million, explained by a decrease in liquid foreign assets of the institutions making up the General Exchange Position.*

- ✓ *The foreign exchange financial account of the General Government and the BCRA recorded a deficit of USD767 million, explained by the net payment of financial debt.*

- ✓ *During January, international reserves increased by USD69 million, totaling USD44,917 million by the end of the month.*

I. Introduction

This report analyses information on foreign exchange transactions made in January 2020 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 BCRA on its own account or on behalf of the National Government, and on changes in the balance of institutions' accounts.[1]

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 export or import 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).

It should be noted that, effective on September 1, 2019, the BCRA made new adjustments to the operation of the forex market with considerable impact on the information analyzed in this report.

One of the most significant provisions sets out that the foreign exchange ticket shall take the form of an affidavit and shall be signed by the ordering party, who swears that the data informed is true. The new regulations also provide that any proceeds from the export of goods and services shall be exchanged in the local market within given deadlines; any new financial debts held abroad shall also be subject to a time frame. Furthermore, a ceiling was set on purchases of foreign currency made by natural persons intended to buildup foreign assets and for personal transfers (currently up to USD200). As to legal persons, they shall be previously authorized to purchase foreign currency for saving purposes.

On the other hand, financial institutions shall require the BCRA's prior authorization to: i) purchase securities in the secondary market using foreign currency, ii) pay debts on imports of goods due as of August 31, 2019 (where monthly payments exceed USD2 million) and services to related institutions, iii) early pay financial debts; and iv) transfer profits and dividends abroad.

As from December 23, 2019, the new Social Solidarity and Productive Reactivation Act (*Ley de Solidaridad Social y Reactivación Productiva*), published on the Official Gazette, established the Tax for an Inclusive and Solidary Argentina (*Impuesto Para una Argentina Inclusiva y Solidaria*, "PAIS"). This tax implies a 30% surcharge on certain foreign currency exchange transactions including those for saving or traveling abroad.[2]

Section II analyses the result of foreign exchange transactions for January; data are broken down by sector and by heading.[3]

Section III deals with the Foreign Exchange Balance which comprises transactions carried out by institutions with clients in the foreign exchange market and those carried out by the BCRA—either on its own account or on behalf

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[1] Communication "A" 3840, as amended.

[2] To access the Social Solidarity and Productive Reactivation Act, click here.

[3] Sectors were grouped into: "Central Bank", "Institutions", "General Government", "Oilseeds and Grains", "Other Real Sectors", "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 Non-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, Livestock 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"** is a subsector of "Other Non-Financial Private Sectors"; and **"Institutional Investors and Others"** includes "Insurance" as well as the rest of the "Other Non-Financial Private Sectors".

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 displayed anew, allowing the reader to follow-up data (which has taken again the form of an affidavit) by type of transaction. However, **the evolution of the historical series shown here should be analyzed in light of the different forex regulations in force by period**.[4]

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

In January, the BCRA and the financial institutions purchased in the spot forex market USD783 million and USD184 million, respectively, out of which USD967 million were sold by institutions' clients (see Table II.1).

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

Sector	January 2020
BCRA	**-783**
National Treasury	-
Institutions	**-184**
Institutions' Clients	**967**

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

The following table is intended to analyze clients' purchases and sales through institutions in the forex market; such transactions resulted in net sales amounting to USD967 million. For readers' convenience, each sector's net foreign exchange result analyzed in this report is arranged in horizontal reading direction, and 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 US dollars abroad in December).[5]

TABLE II.2 Foreign Exchange Market
Result of Institutions' Transactions with Clients January 2020
- Equivalent in billion dollars -

Sector/Main Headings	Goods	Travel and Passenger Transport, and Others 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	**1,6**	**-0,2**	**-0,2**	**0,1**	**-0,2**	**0,2**	**-0,2**	**1,3**
Oilseeds and Grains	1,8	0,0	0,0	0,0	0,0	0,0	-0,2	**1,6**
Real Sector Non-Oilseeds and Grains	-0,1	-0,2	-0,4	0,1	0,1	-0,1	0,1	**-0,5**
Natural Persons	0,0	-0,2	0,0	0,0	-0,2	0,2	0,0	**-0,2**
Inversores Institucionales y otros	0,0	0,1	0,2	0,0	0,0	0,0	0,0	**0,3**
General Government	**0,0**	**0,0**	**-0,1**	**0,0**	**0,0**	**0,0**	**0,0**	**-0,1**
Institutions (Own Transactions)	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**-0,2**	**-0,2**
Institutions' Result with Clients	**1,6**	**-0,2**	**-0,3**	**0,1**	**-0,2**	**0,2**	**-4,0**	**1,0**
Result for Forex Transactions	**1,6**	**-0,2**	**-0,3**	**0,1**	**0,1**	**0,0**	**-0,5**	**1,0**
Result for Self-to-Self International Transfers	**0,0**	**0,0**	**0,0**	**0,0**	**-0,3**	**0,2**	**0,1**	-

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

[4]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.

[5] 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 by a client 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.

This type of presentation allows underscoring different behaviors.

"Oilseeds and Grains" was the main net supplier of foreign currency in the market over January. This sector recorded net inflows for USD1,639 million for virtually all 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. Thus, the sector’s net sales dropped 18% y.o.y. It should be noted that the sector's net sales totaled USD4,600 million in November and December, up 84% y.o.y., mainly explained by the increase in inflows from advances and pre-financing from abroad (for further information, see Section III.1.1).

Companies in the “Real Sector Non-Oilseeds and Grains” made net purchases totaling USD460 million, particularly to pay debt interest for USD417 million, and to make net payments for goods and services for USD54 million and USD127 million, respectively.

“Natural persons” made foreign currency net purchases totaling USD232 million, basically for expenses paid on cards for consumption abroad (USD208 million), and for saving purposes (USD32 million). Furthermore, they transferred USD240 million to their own accounts abroad from local accounts in foreign currency (“Self-to-Self International Transfers”); albeit it produced a neutral result in the forex market.

“Institutional Investors and Others” comprises investment funds, pensions funds, hedge funds, insurance companies, and other legal persons not included in the previous classifications—both residents and non-residents—who recorded net inflows for USD333 million.

The “General Government” made net purchases in the forex market through licensed financial institutions for USD149 million, particularly to make net payments of debt for USD100 million and payments for services for USD40 million.[6]

Finally, institutions used their own funds (USD162 million) to pay financial debt and interest.

III. Foreign Exchange Balance

The Foreign Exchange Balance comprises transactions carried out by institutions with 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

The transactions from the current account in the foreign exchange balance evidenced a surplus of USD50 million in January, resulting from the net sales in “Goods”, and “Secondary Income”, which were partially offset by the net outflows from “Primary Income” and “Services”.

[6] These records exclude inflows from subscribing securities in the primary market or outflows from the payment of principal or interest through accounts of the National Treasury at the BCRA, given that these transactions are not carried out through institutions in the forex market. These transactions are analyzed in Section III below.

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

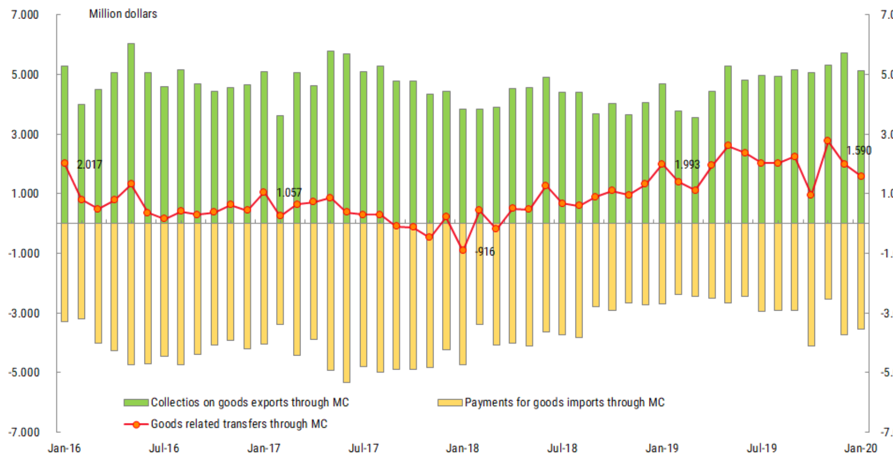
Fecha	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Exchange Current Account	**44**	**448**	**245**	**219**	**236**	**933**	**498**	**820**	**1.422**	**-515**	**1.350**	**576**	**50**
Goods	1.993	1.392	1.124	1.945	2.610	2.381	2.021	2.024	2.248	952	2.759	1.995	1.590
Services	-686	-505	-416	-487	-581	-498	-529	-513	-224	-438	-259	-346	-26
Primary Income	-1.302	-463	-478	-1.253	-1.792	-967	-1.017	-644	-627	-1.051	-1.171	-1.096	-1.526
Secondary Income	39	25	15	15	-1	17	24	-46	25	21	21	23	12

III.1.1 Goods

Broadly, the "Goods" section of the foreign exchange balance includes the sales and purchases of foreign currency through the foreign exchange market arising from "collections on exports of goods" and "payments for imports of goods" as clients informed their financial institutions.[7]

In January, transfers for "Goods" on the foreign exchange balance exhibited net inflows for USD1,590 million, resulting from collections on exports for USD5,132 million and payments of imports for USD3,542 million (see Chart III.1.1.1).

Chart III.1.1.1 Foreign Exchange Balance Transfers for Goods



The "Oilseeds and Grains" sector recorded foreign currency sales for collections on exports for USD1,835 million, down 11% y.o.y.

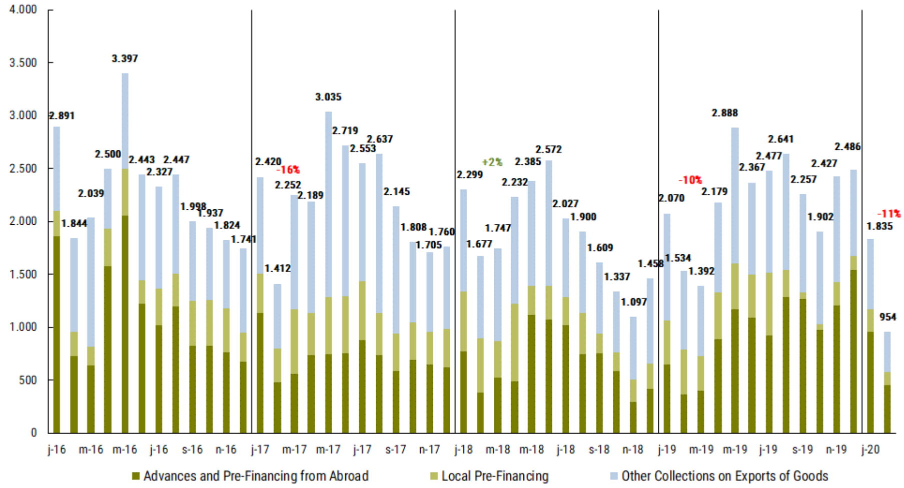
It should be noted that in November and December 2019, the sector reported collections on exports of goods for an amount that exceeded by about USD600 million the exports of the two-month period (up 92% y.o.y.), which would imply an unusual indebtedness for this time of the year resulting from advances and pre-financing. In those

[7] Since the obligation to enter the proceeds from the export of goods into the country and to exchange them in the forex market was removed, and prior to September 2019's regulatory changes, companies in the real sector carrying out transactions abroad opted for not entering all their collections on exports into the local market and keeping a part of such amount in accounts held abroad to pay their foreign liabilities, including imports (thereby reducing transaction costs). On the other hand, once it was possible to transfer, once again, funds to own accounts held abroad, and up to September 2019, importers started to make their payments under the headings included in "Goods" and to fund their accounts abroad for future payments of imports (this led to less administrative burden when compared to reporting if they were paying imports). These two factors affected the gross flows for "Goods" until the changes introduced in September 2019, which reinstated the obligation to exchange the proceeds from the export of goods and services, and to render foreign exchange tickets as affidavits.

months, there was a dramatic y.o.y. increase in the number of affidavits of sales abroad (a determining factor in defining withholding payments): 433% in November, and 175% in December, whereas a 77% y.o.y. decrease was recorded in January.

January's exports were estimated at about USD2,300 million (up 10% y.o.y.). They exceeded by about USD500 million the collections on exports of goods, which implies a reduction of the sector's debt; thus reversing, in part, the trend observed in the previous two-month period.

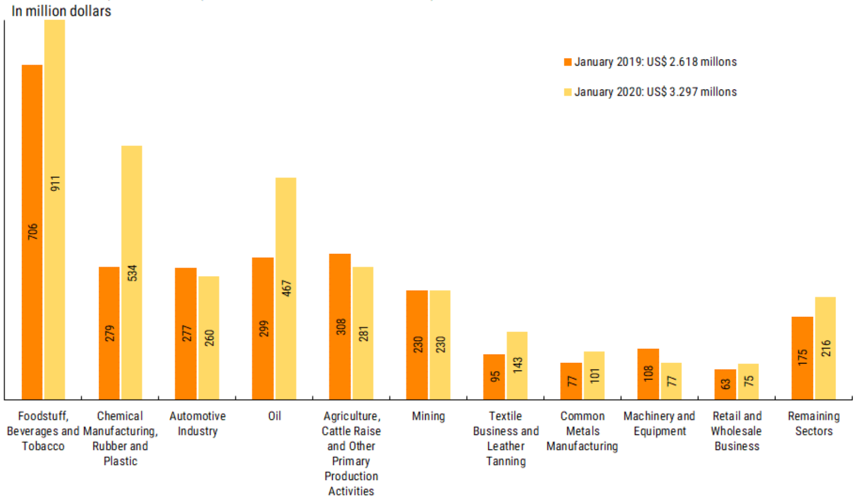
Chart III.1.1.2 Foreign Exchange Balance
Collection on Exports of Goods from the "Oilseeds and Grains"
Million dollars



In line with the scenario above, there was a slowdown in the local trade of soybean and corn against December (74% and 40%, respectively). However, the level of purchases remained above the average of the past 5 harvest seasons.

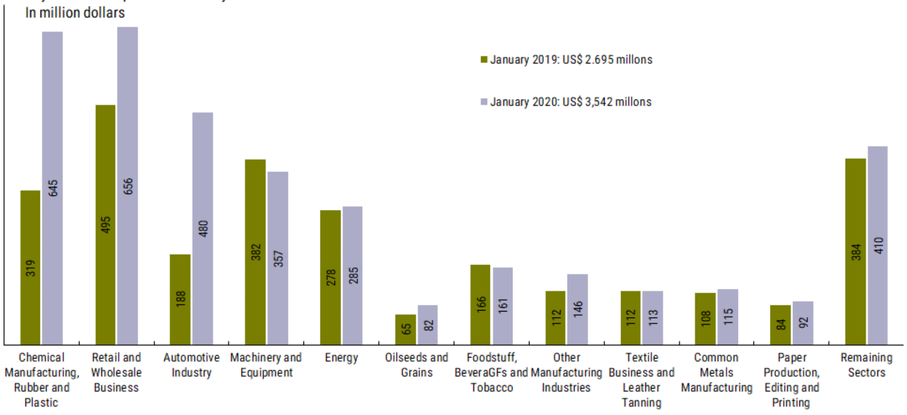
In turn, the collections on exports of goods from the remining sectors amounted to USD3,297 million, out of which 58% was concentrated in the "Food, Beverages and Tobacco", "Automobile Industry" and "Oil" sectors (see Chart III.1.1.3).

Chart III.1.1.3 Foreign Exchange Balance
Collection on Exports of Goods ("Oilseeds and Grains" Sector Excluded)
In million dollars



Purchases recorded as payments for imports of goods totaled USD3,542 million, out of which 60% corresponded to payments made by the "Chemical, Rubber and Plastic Industries", "Automobile Industry", "Energy" and "Commerce" sectors (see Chart III.1.1.4).[8]

Chart III.1.1.4 Foreign Exchange Balance
Payments for Imports of Goods by Sectoror
In million dollars



***Note:** it includes Oil, Electricity and Gas Sectors

When breaking down payments by the method used, advance and cash payments shared 9% and 6% in total payments for imports in January, respectively; while deferred and other payments accounted for the remaining 85%.

III. 1.2. Services, Primary and Secondary Income

The "Services" account recorded a deficit of USD26 million, mainly explained by net outflows from "Travel and Passenger Transport, and Other Expenses Paid with Cards" which amounted to USD221 million, followed by "Freight and Insurance" for USD102 million. These transactions were partially offset by net inflows from "Business, Professional and Technical Services" for USD276 million (see Chart III.8).[9]

It should be noted that the regulatory changes introduced last September have a direct impact on the figures shown in the "Services" account, mainly due to exporters' obligation to enter the proceeds from their collections into the country, and to exchange them in the forex market; and institutions' obligation to record those sales and keep the client's affidavit with a description of the type of transaction made. Prior to September, a large part of this type of inflow was reported as repatriation of funds from clients' accounts held abroad (included in the Foreign Exchange Financial Account) and clients could even choose not to include a description of the type of transaction made.

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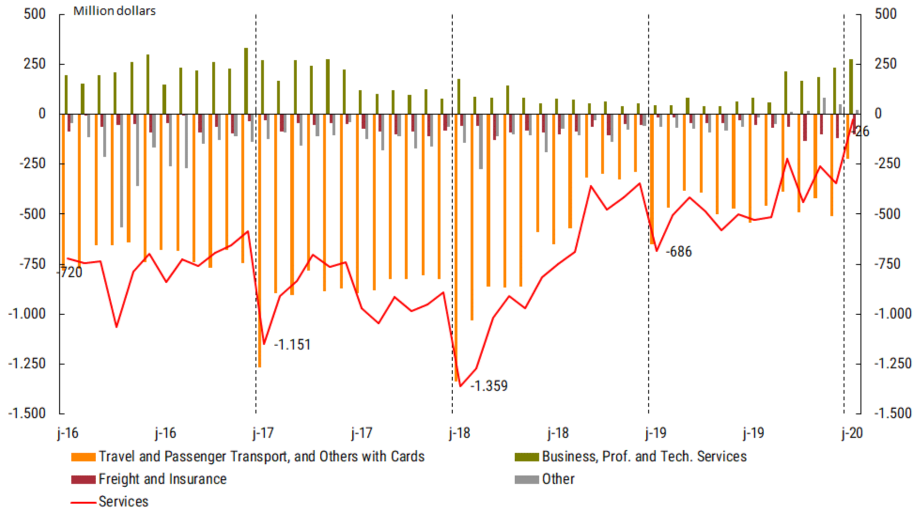
[8] The "Energy" sector includes companies belonging to the "Oil", "Electricity" and "Gas" sectors.

[9] It is worth pointing out that the transfers made to international credit card issuers include purchases made by Argentine residents either during their stay abroad or on a remote basis. In turn, inflows of foreign exchange include non-resident remote purchases from Argentine suppliers.

Chart III.1.2.1 Foreign Exchange Balance
Net Inflows from Services



Primary income transactions recorded net outflows amounting to USD1,526 million in January, basically due to net payments of "Interest", whereas no transfers of "Profits and Dividends" were made (as a result of the requirement to obtain prior authorization from the BCRA since September 2019). Finally, 70% of the net payments of interest for the period were made by the "General Government and the BCRA".

III. 2. Capital Account

In January, the capital account of the foreign exchange balance evidenced a surplus of USD28 million, resulting from net inflows from the "Non-Financial Private Sector".

III. 3. Foreign Exchange Financial Account

In January, net outflows for the foreign exchange financial account totaled USD258 million. The transactions of the "General Government and the BCRA" recorded a deficit of USD767 million, followed by net outflows from the "Non-Financial Private Sector" which amounted to USD181 million. These outflows were partially offset by net inflows from the "Financial Sector" for USD494 million and from "Other Net Transfers" for USD196 million.[10]

Table III.3.1 Foreign Exchange Balance
Foreign Exchange Capital and Financial Account
In millons of dollars

Fecha	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-20
Foreign Exchange Capital and Financial Account	**-417**	**217**	**-2.453**	**4.831**	**-7.150**	**-2.521**	**2.385**	**-14.568**	**-6.659**	**-5.402**	**-944**	**84**	**-258**
Financial sector	-3.185	-1.738	-2.319	-2.688	-3.749	-3.219	-4.031	-4.431	-3.339	-4.520	-529	-626	-181
Non-Financial Private Sector	1.563	-440	4	-313	-1.132	-994	-84	-1.982	477	-311	532	-728	494
Public Sector and BCRA	1.431	1.816	-693	7.661	-4.033	1.036	5.123	-4.956	-901	181	-564	-493	-767
Other Net Movements	-226	579	555	172	1.764	656	1.377	-3.199	-2.896	-751	-383	1.931	196

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

The regulatory changes implemented since September 2019 have significantly impacted on the flows of this account. The main changes were related to the ceiling set by the BCRA for natural persons that intend to buildup foreign assets (USD200 per month), and to the need to obtain the BCRA's prior authorization: i) for legal persons

[10] The "Other Net Transfers" account of the foreign exchange balance is made up of transfers that may have an impact on the level of the BCRA's international reserves—although they are not foreign exchange transactions or direct inflows/outflows of the BCRA or the National Government.

to buildup foreign assets, ii) for investment transactions made by non-residents, and iii) for the purchases of securities by institutions in the secondary market using foreign currency (see Table III.3.1.1).

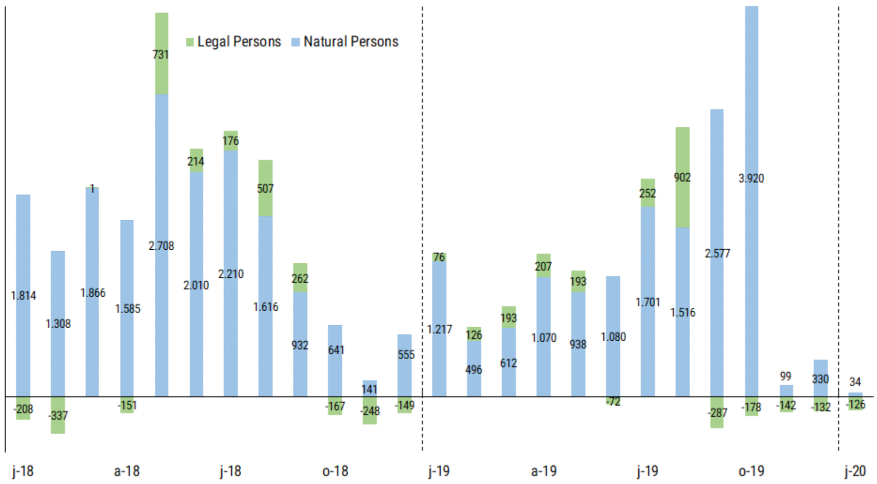
The financial account of the "Non-Financial Private Sector" had a deficit of USD181 million, basically from net settlements of financial debt, partially offset by inflows of direct investments.

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

Date	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Foreign Exchange Financial Account	**-3.185**	**-1.738**	**-2.319**	**-2.688**	**-3.749**	**-3.219**	**-4.031**	**-4.431**	**-3.339**	**-4.520**	**-529**	**-626**	**-181**
Non-Residents' Direct Investments	197	344	316	121	148	144	174	123	91	128	166	83	84
Non-Residents' Portfolio Investments	-227	175	-243	-138	-858	-1.410	-850	-974	3	3	0	6	2
Financial Loans and Credit Lines	-93	-218	-180	-137	-309	-41	-162	-454	-1.379	-1.102	-695	-646	-452
Loans from Other International Organizations and Other	7	-8	-12	12	-7	-2	-2	19	-59	-67	-38	-41	64
Buildup of Foreign Assets by the Non-Financial Private Sector	-1.958	-965	-1.771	-2.341	-2.496	-1.349	-2.951	-5.909	-3.013	-4.125	-144	153	-60
Self-to-Self International Transfers	-319	-440	252	428	714	-451	95	3.403	1.039	624	187	-182	185
Purchase and Sale of Securities	-792	-625	-680	-634	-941	-111	-335	-638	-20	19	-4	1	-5
Heading Not Informed by the Client (Net)	686	566	550	491	502	646	745	533	1	0	0	0	0

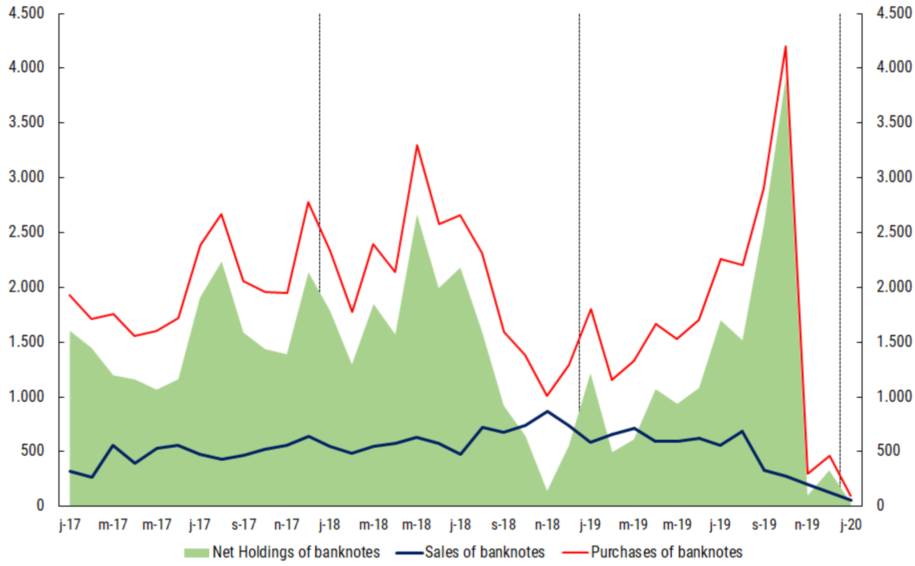
In January, net purchases of foreign currency made by residents intended to buildup foreign assets amounted to USD60 million, which can be broken down into net sales of banknotes for USD92 million and net transfers for USD153 million. Likewise, the result of banknotes was explained by the net sales of companies for USD125 million ("Real Sector" for USD103 million and "Institutional Investors and Others" for USD22 million), while "Natural Persons" recorded net purchases for USD32 million (see Chart III.3.1.1).

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



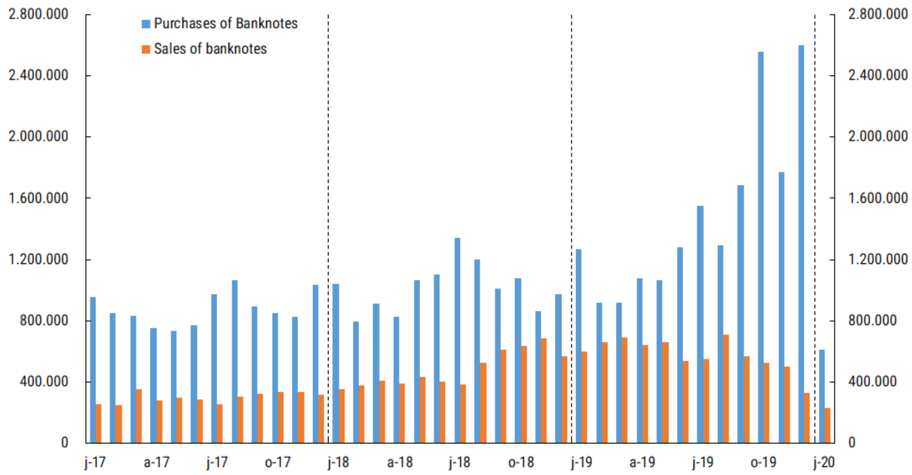
Gross purchases made by "Natural Persons" totaled USD92 million, falling by about USD370 million compared to the total amount recorded in December. This could be explained by the impact of the implementation of the provisions set forth in the "PAIS" tax law (see Chart III. 3.1.2). Moreover, the number of buyers decreased by 2,000,000; totaling around 600,000 in January (see Chart III.3.1.3).

Chart III.3.1.2 Foreign Exchange Balance
Natural Persons. Banknotes
Equivalent in million dollars



Sales of banknotes by "Natural Persons" evidenced, as well as purchases, a decrease compared to December, both in terms of amount (about USD70 million) and number of clients (about 100,000); totaling USD60 million and 230,000 clients, respectively.

Chart III.3.1.3 Foreign Exchange Balanceo
Natural Persons. Banknotes
Number of People



In turn, net transfers to their own accounts abroad totaled USD153 million. The transfers made by "Natural Persons", mostly from funds deposited in their accounts, amounted to USD241 million ("self-to-self international transfers"). On another note, legal persons included in the "Real Sector" and "Institutional Investors and Others" repatriated funds from abroad totaling USD50 million and USD38 million, respectively.[11]

It is worth pointing out that prior to September 2019, a large part of the funds transferred by the companies of the "Real Sector" was used to pay their foreign liabilities from the accounts abroad, whether commercial or financial, such as payments for imports of goods and services, primary income, debt securities or loans. Based on the

[11] For further clarifications on the definition of "self-to-self international transfers", see note 5.

regulatory changes introduced by Communication "A" 6770, these transactions now require the prior authorization of the BCRA.

Net payments of financial debts totaled USD178 million[12]: net inflows from foreign debts for USD125 million, and net local debt payments for USD305 million. Inflows from foreign debts were mainly observed in the sectors related to "Energy" production and distribution.

Chart III.3.1.4 Foreign Exchange Balance
Non-Financial Private Sector. Financial Debt and Debt Securities (Local and Foreign)
Equivalent in million dollars

Note: Local financial debt excludes the purchases of foreign currency to pay card bills for expenses incurred abroad

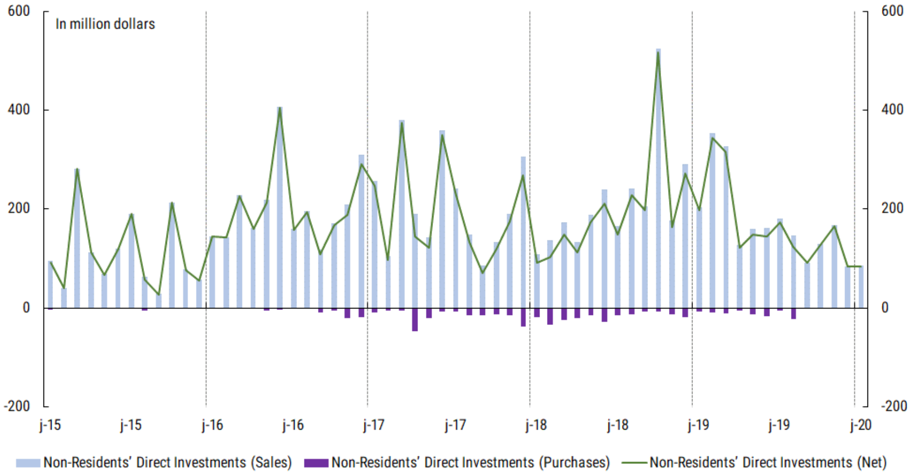
Investments made by non-residents recorded net inflows for USD87 million, basically accounted for by net inflows from direct investments (USD84 million).[13]

The new direct investments were mainly aimed to the "Mining" (USD27 million), "Oil" (USD17 million) and "Commerce" (USD9 million) sectors, all of which concentrate 64% of inflows.

[12] Net payments exclude purchases of foreign currency to pay card bills for expenses incurred abroad for an amount of USD210; they do not imply a net demand in the whole system, made up by the 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.

[13] Communication "A" 6770, as amended, sets out, among other provisions, that non-residents are allowed to buy foreign exchange up to USD100 per month.

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



Finally, due to the regulatory changes implemented that limited the transactions carried out by institutions with their own funds, foreign currency flows from transactions carried out with securities in the secondary market posted no significant movements.[14]

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

In January, the transactions carried out under the foreign exchange financial account of the "Financial Sector" resulted in a surplus of USD494 million, basically explained by a decrease in financial institutions' liquid foreign assets making up the General Exchange Position of USD604 million, partially offset by payments of financial loans and credit lines for USD110 million.[15]

On the other hand, institutions ended January evidencing a General Exchange Position of USD5,244 million, out of which 75% corresponded to holdings of foreign currency banknotes (USD3,945 million). The General Exchange Position decreased by about USD480 million against the end of the previous month basically due to a reduction in the holdings of banknotes (see Chart III.3.2.1).

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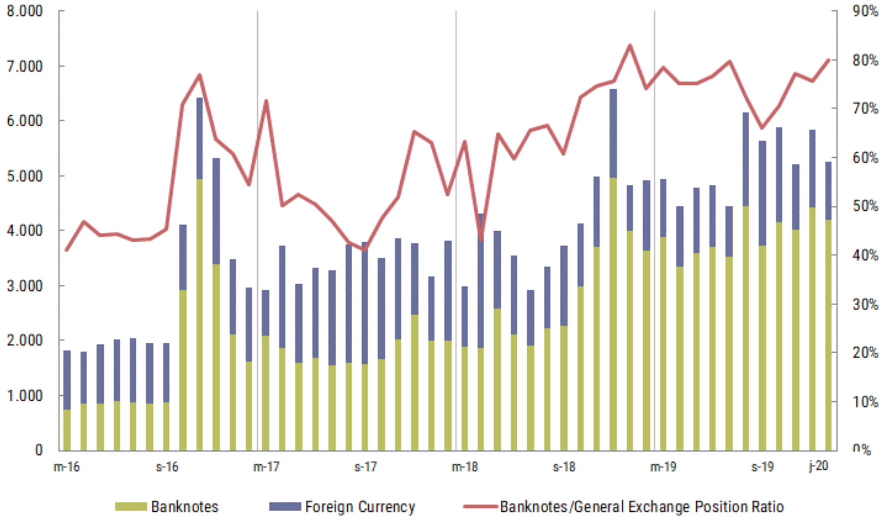
[14] In the forex market, transactions are entered on behalf of financial institutions. The net effect of these transactions has, as counterpart, non-financial private sector residents or non-residents. Therefore, they are included in the foreign exchange financial account of the non-financial private sector.

[15] The General Exchange Position is defined in the Annex to Communication "A" 6244, subparagraph 4.7.

Chart III.3.2.1 Foreign Exchange Balance
Institutions' General Exchange Position
Equivalent in million dollars



On another note, the group of financial institutions ended January exhibiting a forward short position of USD214 million. They sold USD175 million in regulated markets and USD14 million to their clients directly (Forwards) over the month (see Chart III.3.2.2).

In January, foreign institutions made net sales for USD116 million and national institutions made sales for USD74 million (see Chart III.3.2.3).

Chart III.3.2.2 Forward Market
Institutions' Forward Position
Equivalent in million dollars

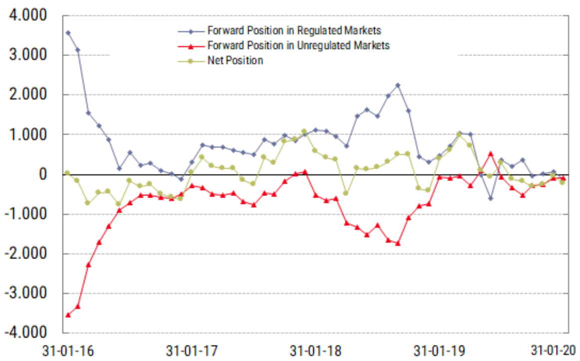
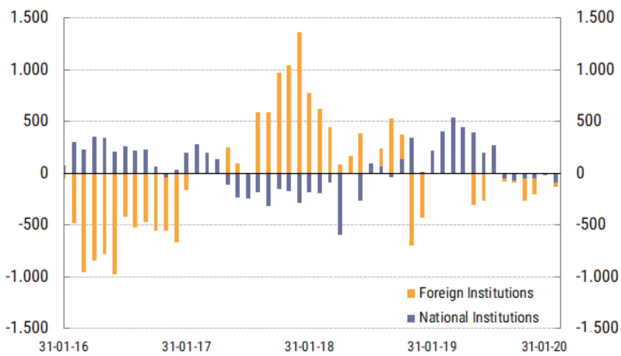


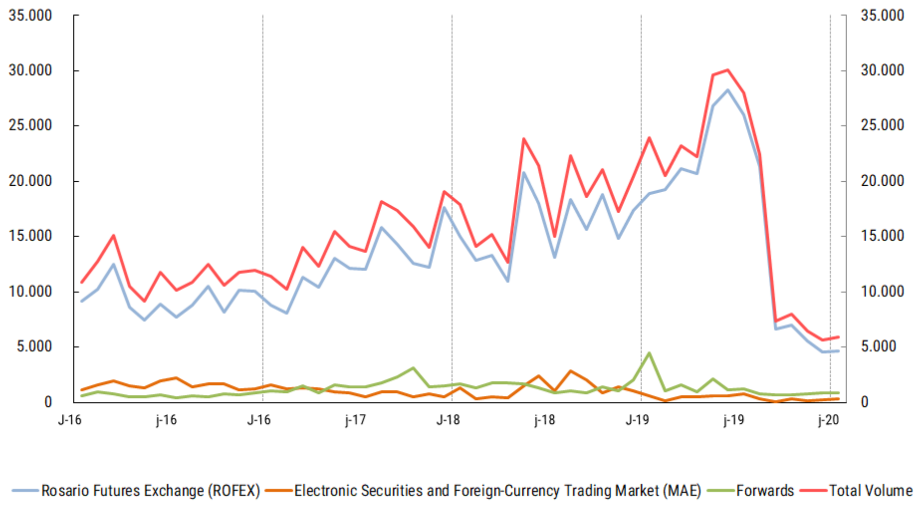
Chart III.3.2.3 Forward Market
Institutions' Forward Position
Equivalent in million dollars



The volume traded in forward markets totaled USD4,825 million in January; in other words, around USD220 million on a daily basis.[16] The total traded decreased by 13% compared to the previous month and 80% y.o.y. (see Chart III.3.2.4). Transactions carried out in the Mercado a Término de Rosario (ROFEX) accounted for 97% of the total volume traded in the forward market.

[16]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.

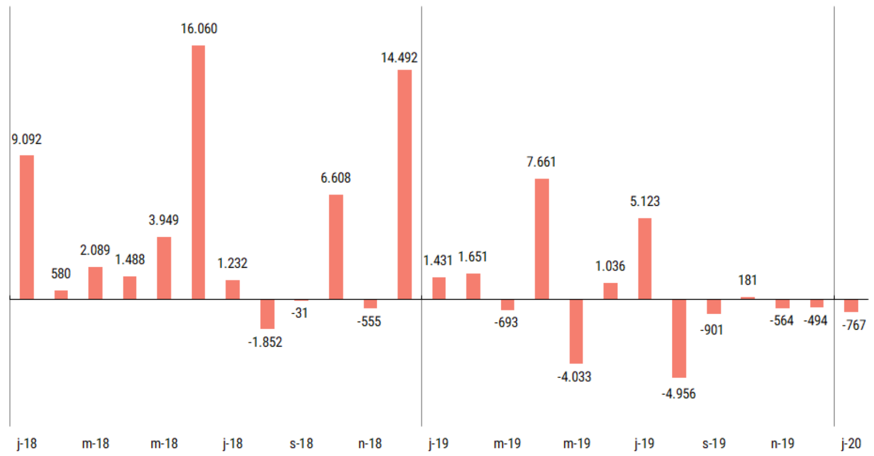
Chart III.3.2.4 Forward Market
Total Volume Traded in the Forward Market
Equivalent in million dollars



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

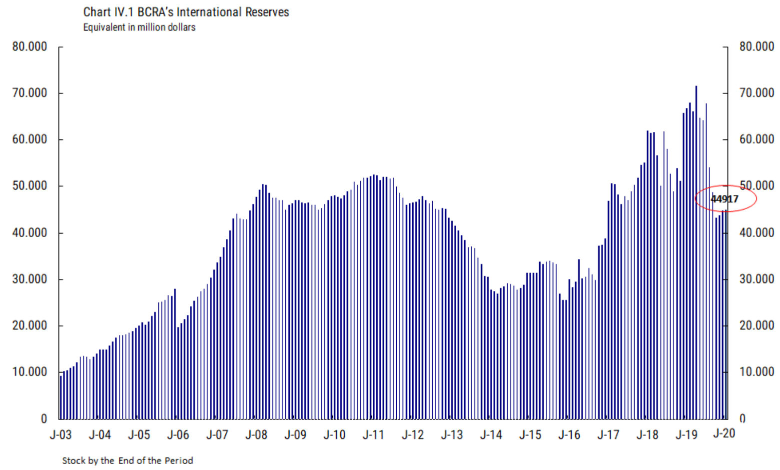
In January, the foreign exchange financial account of the General Government and the BCRA recorded a deficit of USD767 million (see Chart III.3.3.1), explained by net payments of financial debt.

Chart III.3.3.1 Foreign Exchange Balance
Foreign Exchange Financial Account of the General Government and the BCRA
Equivalent in million dollars



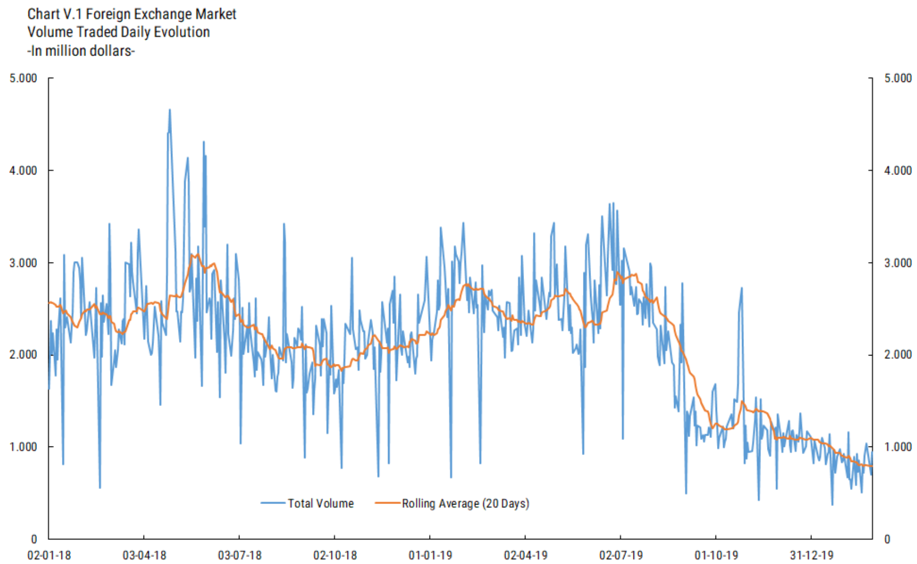
IV. BCRA's International Reserves

In January, international reserves increased by USD69 million, totaling USD44,917 million by the end of the month as a result of the transactions described and the increase in the exchange rate and valuation of USD249 million.



V. Volumes Traded in the Foreign Exchange Market

Against the backdrop of a forex market with tighter regulations and controls, the volume traded in January totaled USD19,886 million, slightly below the level of December and down 66% y.o.y. This total involved a daily volume of around USD900 million (see Chart V.1). The y.o.y. decline in the volume was mainly explained by a fall in transactions between licensed institutions and their clients (69% fall) and by transactions carried out between financial and exchange Institutions (64% fall).[17]



Transactions between institutions and their clients accounted for 68% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 25%; in turn, transactions between institutions and the BCRA stood for the remaining 7% (see Chart V.2).[18]

As usual, most of the volume traded between licensed institutions and their clients was concentrated in a group of few institutions (out of 237 institutions, the first ten accounted for 86% of such volume) and in the foreign

[17] In the 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).

[18] The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, self-to-self international transfers (around USD764 million in January 2020), and purchases of foreign currency to pay card bills for expenses incurred abroad (around USD210 million for the month under study).

currency used; USD-denominated transactions had a 94.8% share in the total traded with clients (see Chart V.3), followed by Euros, which accounted for 4.6% of the total.

Chart V.2 Foreign Exchange Market
Total Volume and Share. January 2020

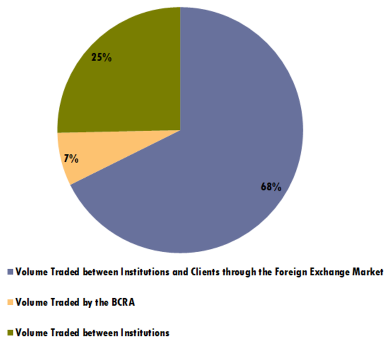
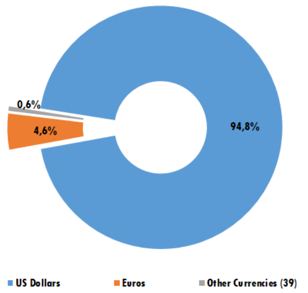


Chart V.3 Foreign Exchange Market
Volume with Clients by Currency January 2020



Finally, 92.8% of foreign exchange transactions between financial and foreign exchange institutions were channeled through private financial institutions. Public banks and foreign exchange institutions accounted for the remaining 7.2% (7.0% and 0.2%, respectively).