Evolution of the Foreign Exchange Market and the Foreign Exchange Balance

January 2022

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

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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

The world and domestic economies are struggling to gradually recover from the health and economic effects of a profound crisis caused by the COVID-19 pandemic, with consequences on trade and capital flows at global and local levels. Over the last few months, the BCRA has been improving foreign exchange regulations in order to promote a more efficient allocation of foreign currency. In this context, financial institutions' clients purchased USD289 million in the forex market. The BCRA sold USD161 million and made net payments through the local currency payment system (SML) for USD51 million. In turn, financial institutions sold USD77 million.

The "Real Sector" was a net seller of foreign currency for USD568 million. Within this group, the "Oilseeds and Grains" sector was the main net seller in the forex market with net inflows for USD2,573 million, up 26% y.o.y.

The "Real Sector excluding Oilseeds and Grains", on the other hand, was a net purchaser of foreign currency, with a total of USD2,005 million. The foreign currency thus purchased was mainly allocated to make payments for imports of goods and services, and to pay financial debt.

"Natural Persons" made net purchases totaling USD506 million for payments on cards to non-resident suppliers (USD283 million) and for saving purposes (USD184 million).

"Institutional Investors and Others"—both residents and non-residents—made net purchases for USD216 million in January.

The foreign exchange current account, which includes flows from net exports of goods and services, as well as primary and secondary income, recorded a deficit of USD471 million. This result was explained by a deficit in "Primary Income" (USD909 million), and "Services" (USD683 million), which were partially offset by net inflows from "Goods" (USD1,101 million) and "Secondary Income" (USD20 million).

The foreign exchange financial account of the "Non-Financial Private Sector" had a deficit of USD390 million in January, resulting basically from net payments of financial debt for USD435 million.

The transactions carried out under the foreign exchange financial account of the "Financial Sector" resulted in a surplus of USD79 million, mainly explained by the decrease of USD136 million in liquid foreign assets of financial institutions' General Exchange Position.

In January, the transactions carried out under the foreign exchange financial account of the "General Government and the BCRA" ran up a deficit of USD1,088 million, mainly explained by the payment upon maturity of principal owed to the IMF (USD714 million) and payments to international and other bilateral agencies (USD261 million).

During January, BCRA's international reserves fell USD2,074 million, totaling USD37,589 million by the end of the month.

I. Introduction

This report analyses information on foreign exchange transactions made in January 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.[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 Revenues)), 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 January; data are broken down by sector and by heading.[2]

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

[1] Communication "A" 3840, as amended.
[2] 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).[3]

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

The world and domestic economies are struggling to gradually recover from the health and economic effects of a profound crisis caused by the COVID-19 pandemic, with consequences on trade and capital flows at global and local levels. In this context, financial institutions' clients purchased USD289 million in the forex market. The BCRA sold USD161 million and made net payments through the local currency payment system (SML) for USD51 million. In turn, financial institutions sold USD77 million (see Table II.1). [4] [5] [6]

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
BCRA	**161**
National Treasury	**51**
Institutions	**-**
Institutions' Clients (1 + 2 + 3)	**77**
1. Non-Financial Private Sector	**-289**
Oilseeds and Grains	**-154**
Real Sector Excluding Oilseeds and Grains	2.573
Natural Persons	-2.005
Institutional Investors and Others	-506
2. General Government	-216
3. Institutions (Own Transactions)	**-61**
	-74
National Treasury Directly with the BCRA	**-1.373**

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

[3] 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.
[4] Information on the local currency payment system (SML) 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
[5] Transactions in the forex market are reported according to their transaction date, except for the purchase and sale of securities payable in foreign currency.
[6] The result by sector excludes purchases of foreign currency to pay card bills for expenses incurred abroad for an amount of USD197 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.

The following table is intended to analyze the purchases and sales carried out through institutions in the forex market. 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 foreign currency to accounts abroad in January). (See Table II.2).[7]

Table II.2 Foreign Exchange Market
Result of Institutions' Transactions with Clients. January 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	**1.145**	**-413**	**-470**	**-133**	**-44**	**157**	**-398**	**-154**
Oilseeds and Grains	2.594	0	1	0	0	0	-22	**2.573**
Real Sector Excluding Oilseeds and Grains	-1.212	-89	-552	19	21	139	-331	**-2.005**
Natural Persons	-35	-283	11	-184	-81	71	-5	**-506**
Institutional Investors and Others	-202	-40	70	32	16	-52	-39	**-216**
General Government	**-29**	**0**	**-91**	**45**	**0**	**-4**	**18**	**-61**
Institutions (Own Transactions)	**-16**	**-1**	**0**	**0**	**0**	**0**	**-57**	**-74**
Institutions' Result with Clients	**1.101**	**-414**	**-561**	**-88**	**-44**	**153**	**-437**	**-289**
Result for Forex Transactions	**1.102**	**-413**	**-518**	**-88**	**10**	**0**	**-382**	**-289**
Result for Self-to-Self International Transf	**-1**	**0**	**-43**	**0**	**-54**	**153**	**-55**	**0**

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

Source: BCRA.

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).

"Oilseeds and Grains" was the main net seller of foreign currency in the market over January. This sector recorded net inflows for USD2,573 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. In a context of high international agricultural product prices, the sector's net result from transfers for goods on the forex market amounted to USD2,594 million, up 25% y.o.y.

The "Real Sector excluding Oilseeds and Grains", on the other hand, was a net purchaser of foreign currency, with a total of USD2,005 million. These purchases were mainly used to make payments for imports of goods and services, and to pay financial debt (for further information, see Sections III.1.1 and III.1.2).

[7] 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

“Natural Persons” made net purchases totaling USD506 million mainly for payments on cards to non-resident suppliers (USD283 million, showing an increase of 41% against December), and for saving purposes (USD184 million, recording an amount similar to that of December). Furthermore, they transferred USD71 million to their own accounts abroad, debited from local accounts in foreign currency (“Self-to-Self International Transfers”); having a neutral impact on the forex market.

“Institutional Investors and Others” recorded net purchases for USD216 million.

In turn, the “General Government” (excluding the National Treasury) made net purchases in the forex market through licensed financial institutions for USD61 million, mainly explained by net outflows on account of services and interest.

Finally, financial institutions made net purchases with their own funds for USD74 million mainly to pay financial debt.

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 deficit of USD471 million in January (see Table III.1.1).[8]

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

Fecha	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Exchange Current Account	**417**	**751**	**1.392**	**1.519**	**1.727**	**1.254**	**653**	**-308**	**-785**	**557**	**-1.566**	**-44**	**-471**
Goods	1.051	1.445	1.999	1.933	2.365	1.769	1.478	608	316	1.375	-117	1.060	1.101
Services	-187	-216	-280	-207	-100	-186	-270	-388	-558	-595	-754	-714	-683
Primary Income	-457	-484	-336	-197	-539	-342	-576	-534	-529	-203	-695	-383	-909
Secondary Income	10	7	10	-10	0	12	20	5	-14	-20	0	-7	20

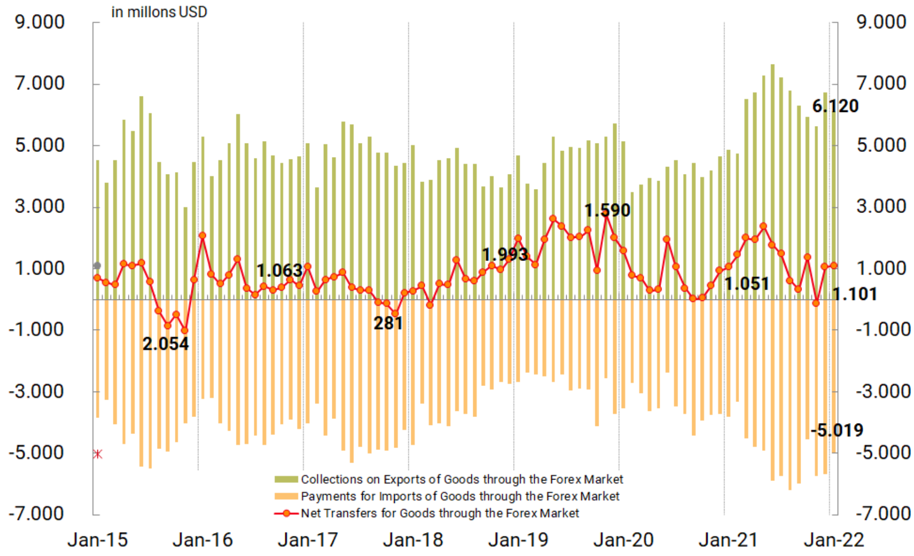
Source: BCRA.

[8] For more information on the changes in the regulations that have an impact on the comparison of flows under “Goods”, among other items, 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.

III.1.1 Goods

In January, transfers for “Goods” on the foreign exchange balance exhibited net inflows for USD1,101 million, resulting from collections on exports for USD6,120 million and payments of imports for USD5,019 million (see Chart III.1.1.1).

Chart III.1.1.1 Foreign Exchange Balance
Transfers for Goods

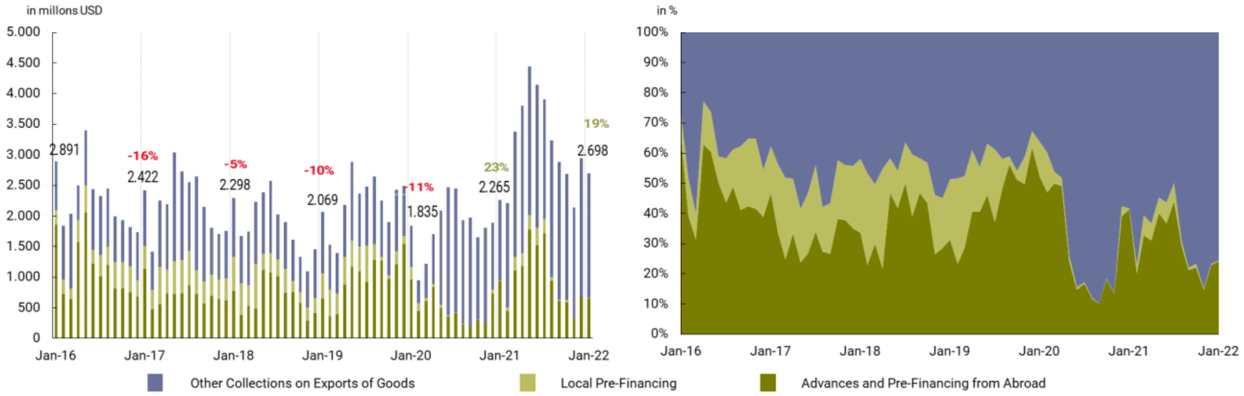


Source: BCRA

The “Oilseeds and Grains” sector recorded foreign currency sales for collections on exports of goods through the forex market for USD2,698 million, up 19% y.o.y., and down 9% against December. Twenty four percent of the sector’s inflows were collected ahead of time either through advances or pre-financing (local and foreign); this share is close to the minimum of the series observed (see Chart III.1.1.2). The sector’s FOB exports reached USD2,788 million, a volume above inflows from the collection on exports of goods through the forex market. This implies a decrease of the sector’s commercial debts resulting from advances and the pre-financing of exports or an increase of their assets abroad.

In turn, Affidavits of Sales Abroad (Declaraciones Juradas de Ventas al Exterior, DJVEs) as reported by the Ministry of Agriculture and Fisheries (which determine withholding payments on exports) recorded a drop of 55% against December, and of 56% y.o.y. caused by the uncertainty of droughts.

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

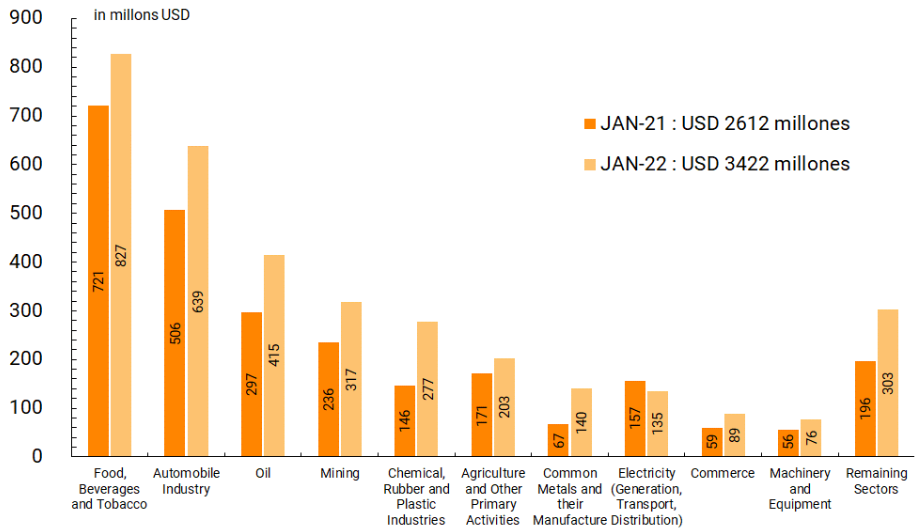


Source: BCRA.

In January, the amount of wheat and corn grains traded in the local market was similar to that recorded for the previous 2018/19 and 2019/20 harvest seasons, following the same trend of December. The 21/22 harvest season continued at a good pace for wheat and at an average rate for corn. In contrast, soybean levels were below those observed in previous harvest seasons.

In turn, inflows from the collections on exports of goods from the remaining sectors totaled USD3,422 million, up 31% against January 2021, the dynamics of the "Oil", "Mining", and "Common Metals and their Manufacture" sectors being underscored. Moreover, 72% of these inflows were concentrated in the "Food, Beverages and Tobacco", "Oil", "Automobile Industry", "Oil", "Chemical, Rubber and Plastic Industries", and "Mining" 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)

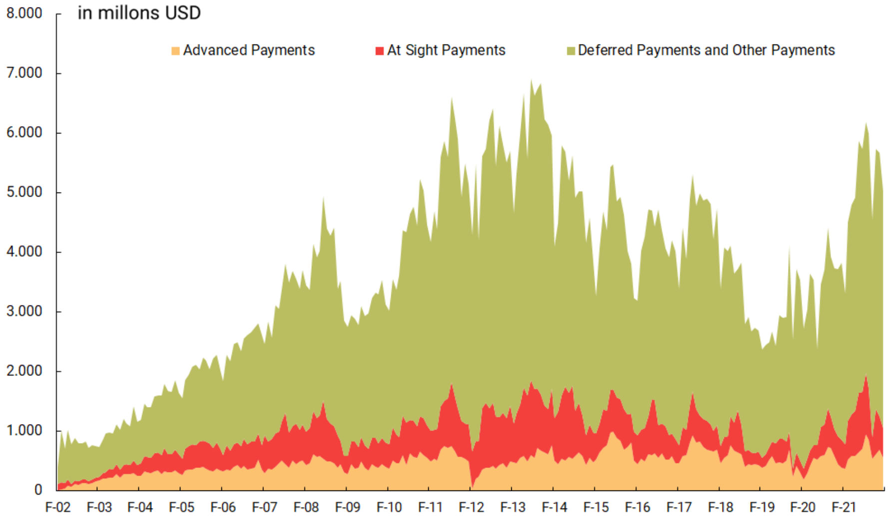


Source: BCRA.

In January, payments of imports of goods through the forex market totaled USD5,019 million, up 31% y.o.y. against payments made in January 2021. This figure was slightly below January's FOB imports, which amounted to USD4,869 million.

As regards imports of goods, 79% of payments were deferred, 11% were advance payments, and the other 10% were sight payments in January (see Chart III.1.1.4).

Chart III.1.1.4 Foreign Exchange Balance
Evolution of Payments for Imports of Goods by Type of Payment

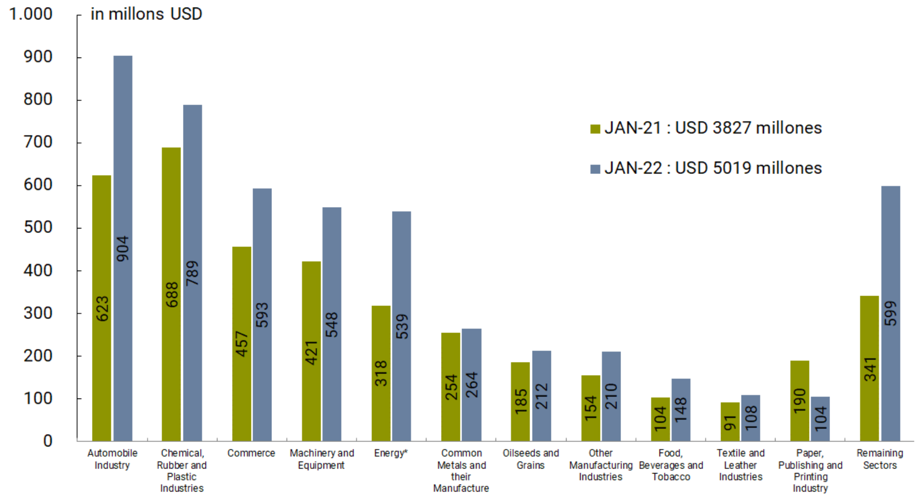


Source: BCRA.

In terms of sectors, 67% of January's payments for imports of goods were made in the "Chemical, Rubber and Plastic Industries", "Automobile Industry", "Machinery and Equipment", "Commerce", and "Energy" sectors (see Chart III.1.1.5).[9]

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

Chart III.1.1.5 Foreign Exchange Balance
Payments for Imports of Goods by Sector



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

Source: BCRA.

III.1.2 Services, Primary and Secondary Income

The "Services" account recorded a deficit of USD683 million in January, with a 4% drop in net outflows against December. It is mainly explained by net outflows from "Freight and Insurance" and "Travel and Passenger Transport, and Other Expenses Paid with Cards" which amounted to USD415 million and USD414 million, respectively. These transactions were partially offset by net inflows from "Business, Professional and Technical Services" for USD184 million (see Chart III.1.2.1).[10]

Given the lower dynamics of outbound tourism under the COVID-19 pandemic, the net deficit of the "Travel and Passenger Transport, and Other Expenses Paid with Cards" account remains below the levels historically observed for the first month of the year up to early 2020. This behavior is in line with the information published in the last international tourism survey. It is worth pointing out that the transfers made to international credit card issuers include purchases made either during travels abroad or those made on a remote basis. In turn, inflows also include non-resident remote purchases made with cards to Argentine suppliers.[11] [12]

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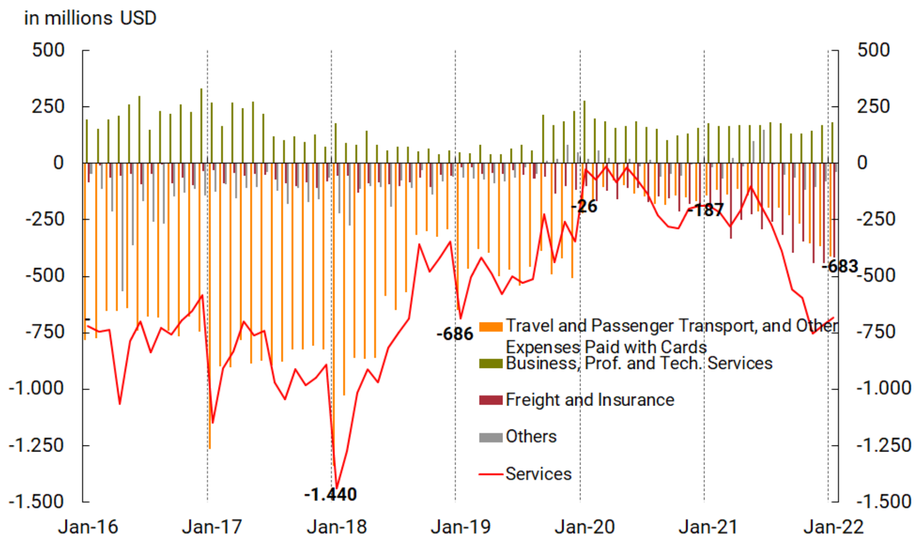
[10] It includes freight, insurance and insured events, and other transport services.
[11] To access the latest technical report on International Tourism Statistics, click here.
[12] For more information on the changes implemented to the regulations that have an impact on the comparison of the flows reported in the items 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.

Chart III.1.2.1 Foreign Exchange Balance
Net Inflows from Services



Source: BCRA.

Primary income transactions recorded net outflows amounting to USD909 million in January, mainly due to net payments of "Interest" for USD901 million. As regards gross payments of interest, USD780 million were made by the "General Government and the BCRA", and USD278 million by the private sector.[13]

Finally, secondary income transactions recorded net inflows for USD20 million.

III.2 Capital Account

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

III.3 Foreign Exchange Financial Account

In January, net outflows for the foreign exchange financial account totaled USD1,524 million. This result was explained by a deficit in the "General Government and the BCRA" (USD1,088 million), in the "Non-Financial Private Sector" (USD390 million), and in "Other Net Transfers" (USD125 million), which were partly offset by the surplus recorded in the "Financial Sector" (USD79 million) (see Table III.3.1.).[14]

[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.

[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

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

Date	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Foreign Exchange Capital and Financial Account	**-516**	**-365**	**-1.028**	**-1.243**	**-727**	**-137**	**-630**	**3.866**	**-2.384**	**-843**	**193**	**-1.955**	**-1.524**
Financial sector	298	216	-493	441	-292	-490	114	-102	201	-213	135	144	79
Non-Financial Private Sector	-366	-368	-517	-217	-311	-601	-288	-277	-378	-517	-758	-534	-390
General government and BCRA	-657	-374	-182	-221	-109	-70	-882	3.961	-2.106	-305	741	-1.399	-1.088
Other Net Movements	209	161	163	-1.247	-15	1.024	427	284	-101	192	75	-166	-125

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 USD390 million in January, resulting basically from net payments of financial debt for USD435 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

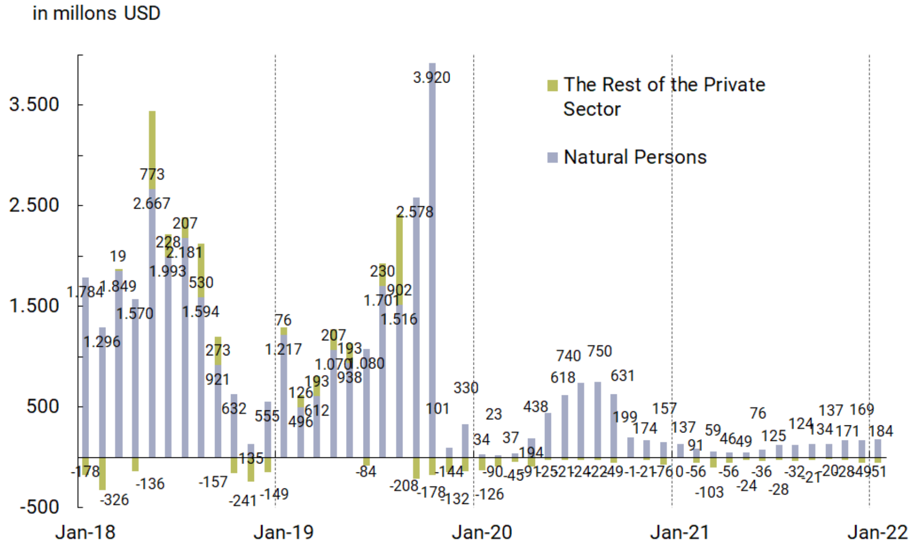
Date	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Foreign Exchange Financial Account	**-366**	**-368**	**-517**	**-217**	**-311**	**-601**	**-288**	**-277**	**-378**	**-517**	**-758**	**-534**	**-390**
Non-Residents' Direct Investments	71	58	65	42	52	66	65	51	82	68	36	71	62
Non-Residents' Portfolio Investments	-5	1	3	1	1	5	0	2	2	2	-13	-1	2
Financial Loans and Credit Lines	-338	-364	-515	-287	-296	-670	-279	-265	-424	-369	-488	-327	-420
Loans from Other International Organizations and Other	2	7	21	8	-14	-44	-11	8	-21	-55	-64	-217	-15
Buildup of Foreign Assets by the Non-Financial Private Se	-98	-2	253	52	28	-32	-126	-82	-118	-122	-193	-78	-177
Self-to-Self International Transfers	2	-68	-343	-32	-82	74	62	9	100	-41	-36	18	157
Purchase and Sale of Securities	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: BCRA.

The buildup of foreign assets by non-financial private sector residents brought about net outflows amounting to USD177 million: USD133 million in net purchases of foreign currency and USD44 million in net transfers made to accounts abroad (debited from local accounts in foreign currency, "Self-to-Self International Transfers", with a neutral result in the forex market).

This outcome reflects net purchases for USD184 million made by "Natural Persons", partially offset by net sales for USD51 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

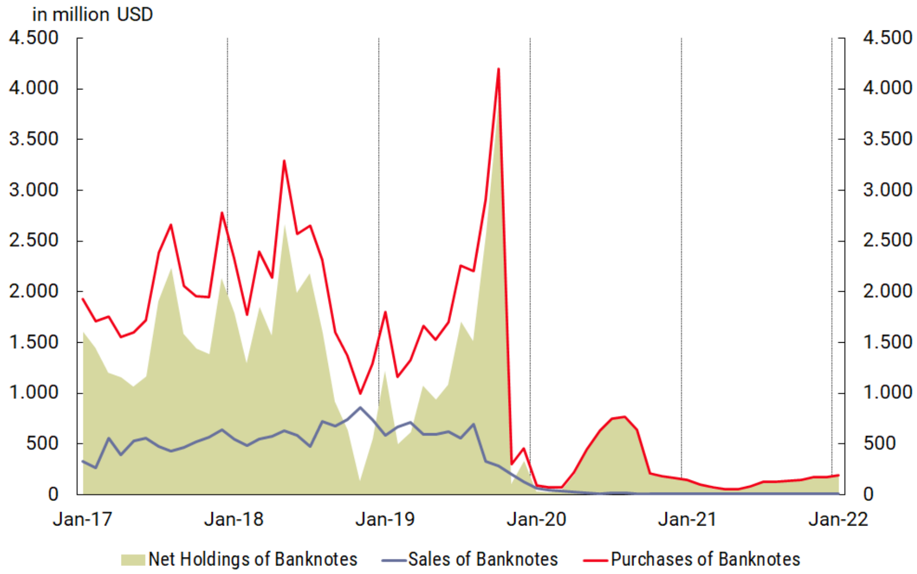


Source: BCRA.

"Natural Persons" purchased banknotes for USD188 million and sold USD4 million, a figure slightly higher than that of December (see Chart III.3.1.2). 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).[15]

[15] As from September 16, 2020, the Federal Administration of Public Revenues (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).

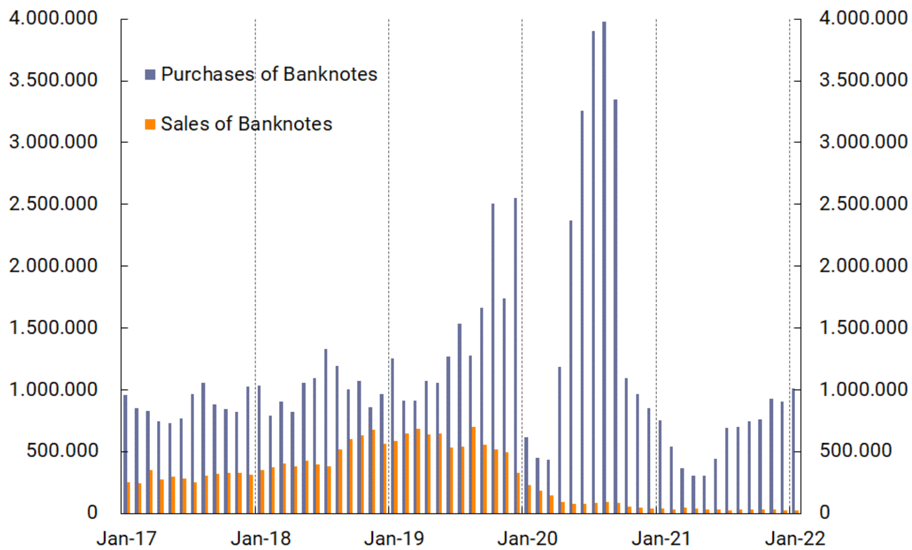
Chart III.3.1.2 Foreign Exchange Balance
Natural Persons. Banknotes



Source: BCRA.

In terms of traders, 1 million individuals purchased banknotes (103,000 more than in December), while sellers amounted to about 22,000—with per capita purchases and sales for USD186 and USD181, respectively (see Chart III.3.1.3).

Chart III.3.1.3 Foreign Exchange Balance
Natural Persons. Banknotes



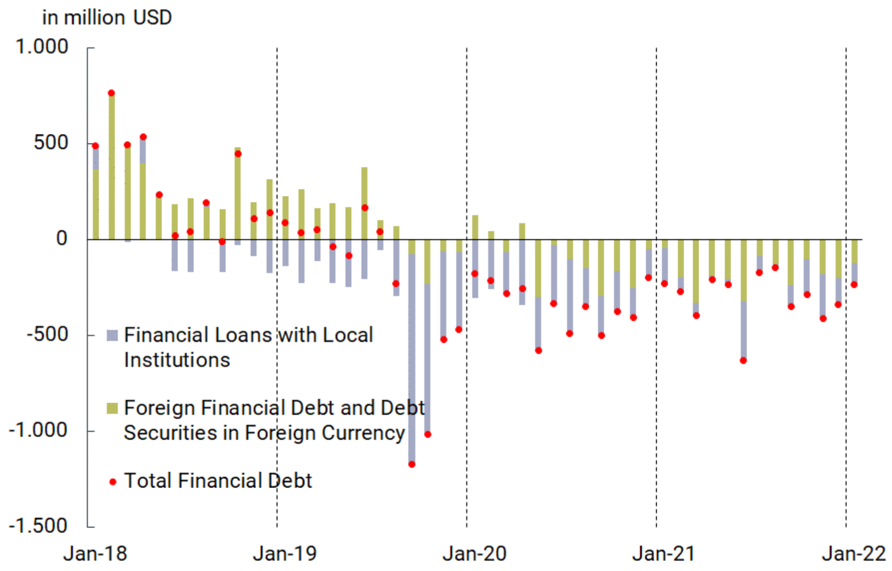
Source: BCRA.

In turn, as it has already been mentioned, in January, this sector made net transfers to their own accounts abroad totaling USD44 million. These transfers were made by "Natural Persons" (USD81 million). They were partially offset by inflows from the "Real Sector" (USD21 million) and "Institutional Investors and Others"

(USD16 million), and credited in local accounts in foreign currency ("self-to-self international transfers"), having a neutral impact on foreign exchange transactions.[16]

Net payments of financial debts from the non-financial private sector, including loans from international agencies, totaled USD238 million in January, out of which USD116 million stood for net payments to local institutions, and USD122 million for the payment of other financial debt in foreign currency (see Chart III.3.1.4).[17] [18]

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



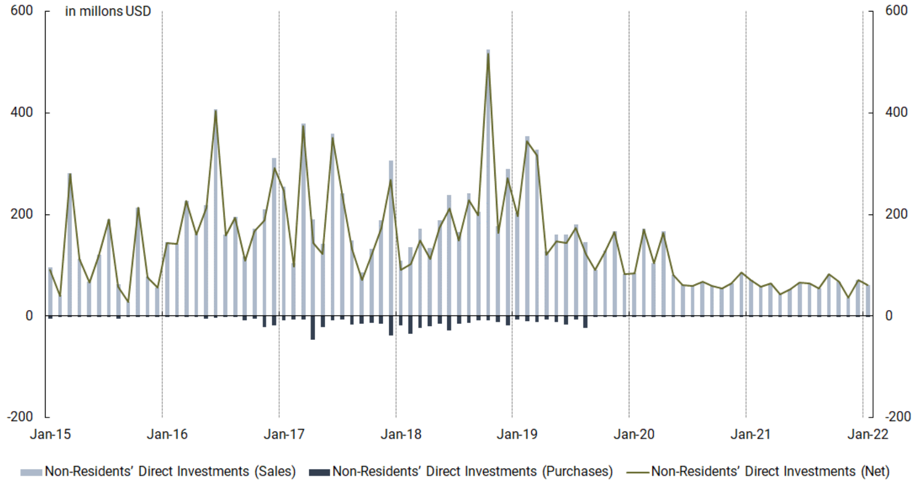
Note: Local financial debt excludes the purchases of foreign currency to pay card bills

Source: BCRA.

Direct investments made by non-residents recorded net inflows for USD62 million in January. The "Oil" sector recorded the highest number of sales as a result of direct investment inflows, totaling USD31 million (see Chart III.3.1.5).

[16] 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.
[17] Net payments exclude purchases of foreign currency to pay card bills for expenses incurred abroad for an amount of USD197 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. Instead, they were calculated under the heading "Travel, and Other Expenses Paid with Cards" at the time of the transfer abroad.
[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



Source: BCRA.

Finally, due to the regulation 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 movements.[19]

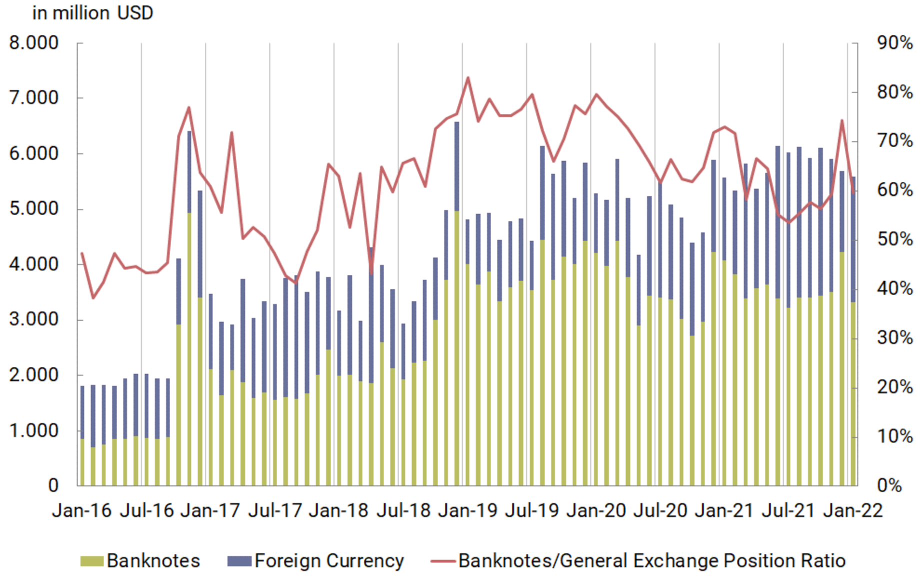
III.3.2. Foreign Exchange Financial Account of the Financial Sector

In January, the transactions carried out under the foreign exchange financial account of the "Financial Sector" resulted in a surplus of USD79 million. This outcome is mainly explained by a decrease in liquid foreign assets of financial institutions' General Exchange Position.[20]

Financial institutions' General Exchange Position amounted to USD5,582 million at the end of January, down USD136 million against December. This may be mostly explained by a drop in the stock of banknotes amounting to USD898 million, partially offset by a rise in the stock of foreign currency for USD796 million. Holdings of foreign currency banknotes totaled USD3,325 million by the end of the month. This stock accounted for 60% 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] In the forex market, transactions are entered on behalf of financial institutions. The net effect of these transactions has, as counterpart, other residents or non-residents. Therefore, they are included in the foreign exchange financial account of the non-financial private sector. For more information, see Section C.4.9. "Purchase and Sale of Securities" of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics.
[20] 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

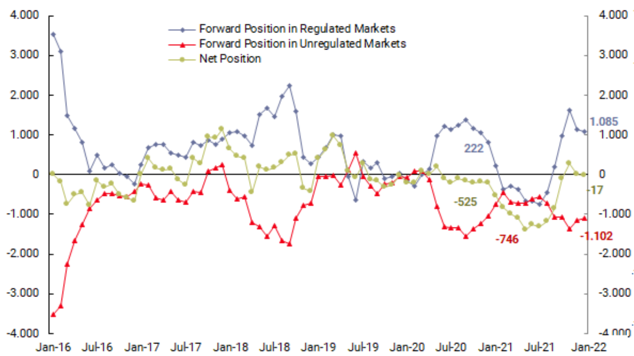


Source: BCRA.

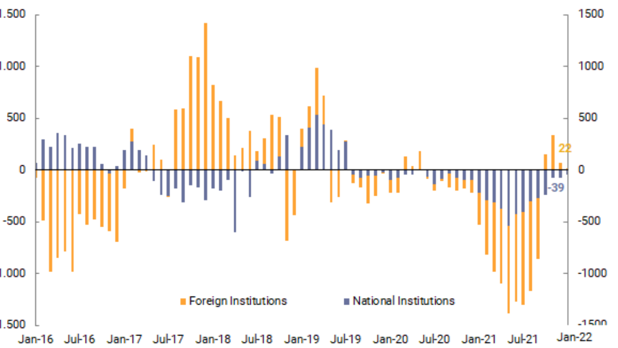
On another note, the ensemble of financial institutions ended January with a forward short position in foreign currency of USD17 million, recording a rise of about USD15 million against the end of December. They sold USD50 million in regulated markets and purchased USD35 million from their clients directly (Forwards) over the month (see Chart III.3.2.2).

Foreign-capital institutions' net sales amounted to USD48 million ending January with a net long position of USD22 million. In turn, national-capital institutions purchased USD33 million, ending January with a net short position of USD39 million (see Chart III.3.2.3).

EOM Institutions' Forward Position
Equivalent in million dollars



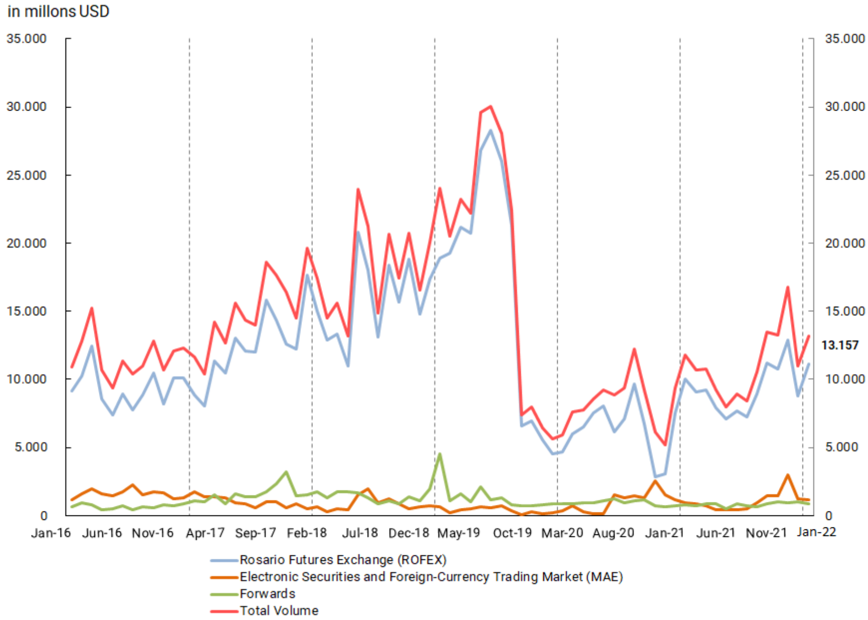
EOM Institutions' Forward Position
Equivalent in million dollars



Source: BCRA.

The volume traded in forward markets totaled USD13,157 million in January, i.e.: USD627 million daily on average. Transactions carried out in the Mercado a Término de Rosario (ROFEX) continued to stand out, with an 85% share in the total volume traded in the forward market (see Chart III.3.2.4).[21]

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



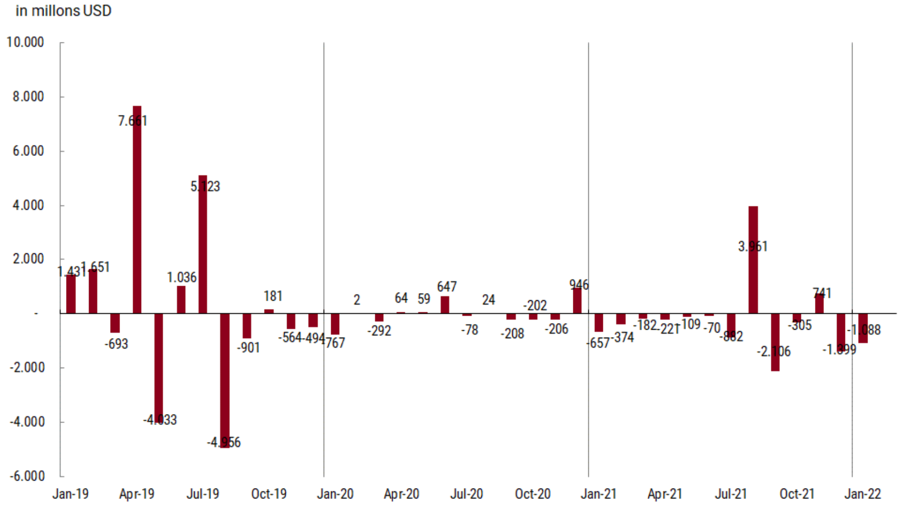
Source: BCRA.

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

In January, the transactions carried out under the foreign exchange financial account of the "General Government and the BCRA" ran up a deficit of USD1,088 million (see Chart III.3.3.1), mainly explained by the net outflows channeled to repay debts at maturity to the IMF (USD714 million), and to International Organizations and other bilateral organizations (USD261 million).

[21] 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

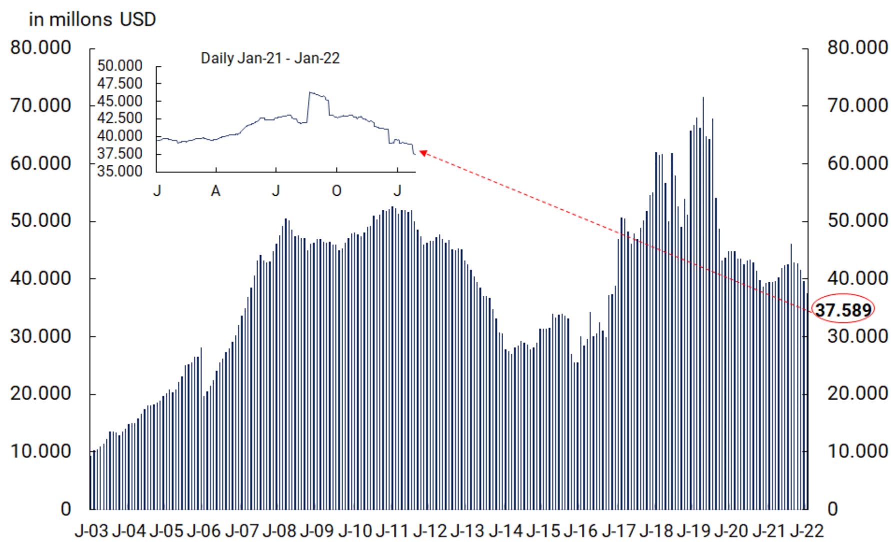


Source: BCRA.

IV. BCRA's International Reserves

During January, BCRA's international reserves fell USD2,074 million, totaling USD37,589 million by the end of the month (see Chart IV.1). This fall was mainly explained by the payment upon maturity of principal owed to the International Monetary Fund and to international organizations, and the payment of interest from sovereign bonds of the National Treasury.

Chart IV.1 BCRA's International Reserves

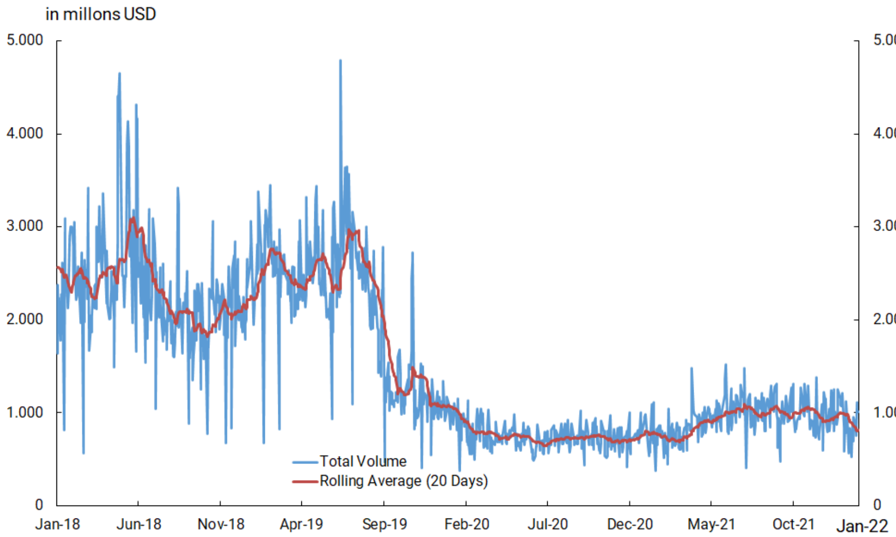


Source: BCRA.

V. Volumes Traded in the Foreign Exchange Market

In January, the volume traded in the forex market totaled USD18,541 million, up 30% y.o.y. The average daily volume traded was USD883 million (see Chart V.1). The y.o.y. increase in the volume was explained by a 26% increase in transactions carried out between licensed institutions and their clients, and by a rise of 41% in transactions carried out between financial and foreign exchange institutions.[22]

Chart V.1 Foreign Exchange Market
Volume Traded Daily Evolution



Source: BCRA.

Foreign exchange transactions between institutions and their clients accounted for 77% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 19%; in turn, transactions between institutions and the BCRA stood for the remaining 4% (see Chart V.2).[23]

Given that we are still in the midst of the pandemic, coupled with the measures ordered by the National Government to mitigate the spread of COVID-19, and the fact that foreign exchange market transactions were mostly made online, in January, there were only 108 trading institutions (108 against more than 245 as was usually the case before the pandemic), and 34 different currencies were used.

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 108 institutions, the first ten accounted for 89% 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 (see Chart V.3).

[22] 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).
[23] The volume traded between licensed institutions and their clients excludes the following items: the underwriting of LEBAC bills, self-to-self international transfers (around USD944 million in January 2022), the record of deposits in foreign currency allocated for the payment of financial debt service for about USD118 million, and purchases of foreign currency to pay card bills for expenses incurred abroad (around USD197 million for the month under study).

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

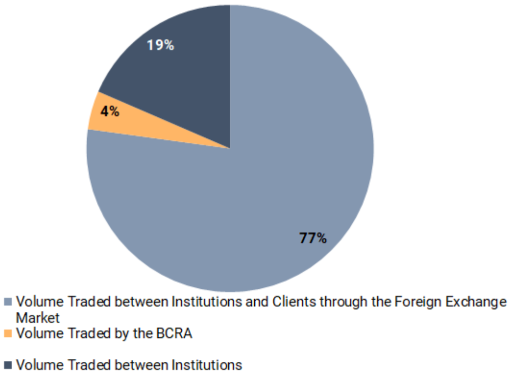
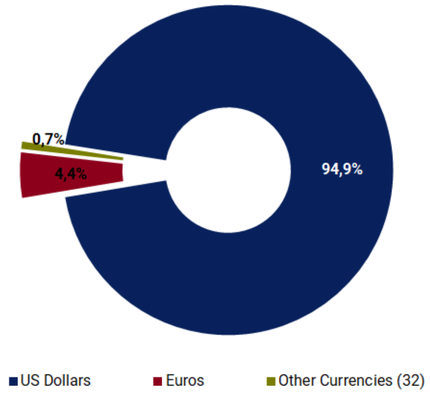


Chart V.3 Foreign Exchange Market
Volume with Clients by Currency. January 2022



Source: BCRA.

Finally, 92% of foreign exchange transactions between financial and foreign exchange institutions were channeled through private financial institutions. Public banks accounted for the remaining 8% of transactions, foreign exchange houses and agencies having a marginal share—less than 0.1%.