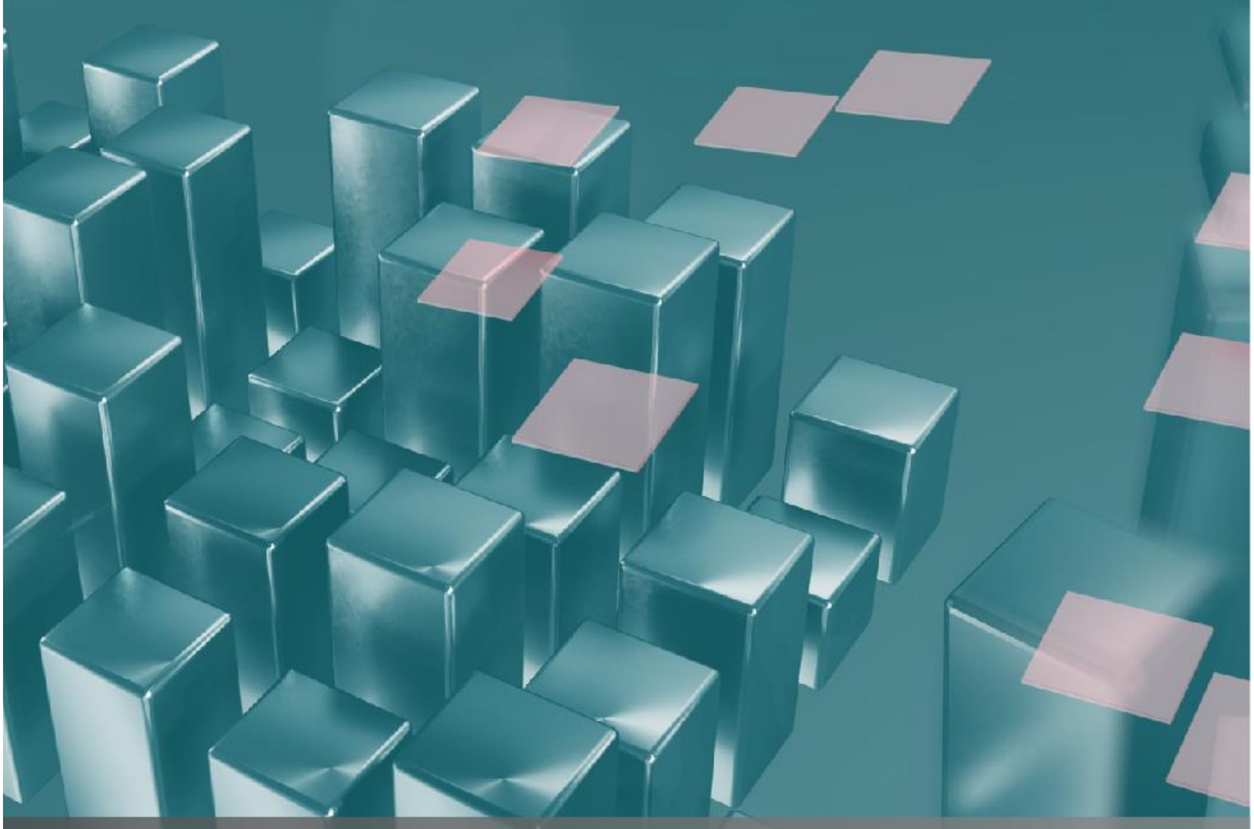
Evolution of the Foreign Exchange Market and Exchange Balance

May 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 March 2020

- ✓ *In March, the BCRA purchased USD178 million in the forex market, financial institutions and their clients being net sellers for USD20 million, and USD158 million, respectively.*

- ✓ *Companies in the real sector were net sellers of foreign currency for USD416 million.*

- ✓ *Within this group, the main sector to make net sales in historical terms ("Oilseeds and Grains") recorded net sales for USD939 million, down 30% y.o.y. As in the previous two months, this sector continued making payments of foreign debt derived from advances and pre-financing of exports.*

- ✓ *Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD524 million, particularly for the payment of financial debt and for net payments for goods.*

- ✓ *"Natural persons", who mainly demand foreign currency for saving and for traveling abroad, made net purchases for USD174 million, particularly under the heading Travel and Other Expenses Paid with Cards which dropped by 65% y.o.y.*

- ✓ *"Institutional Investors and Others"—both residents and non-residents—made net sales for USD82 million in March.*

- ✓ *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 USD83 million.*

- ✓ *The financial account of the "Non-Financial Private Sector" had a deficit of USD483 million, resulting from net settlements of financial debt and from the buildup of foreign assets, partially offset by inflows of direct investments.*

- ✓ *The transactions carried out under the foreign exchange financial account of the "Financial Sector" evidenced a deficit amounting to USD745 million, explained by increased liquid foreign assets of financial institutions' General Exchange Position and by payments of financial loans and credit lines.*

- ✓ *The transactions carried out under the foreign exchange financial account of the General Government and the BCRA evidenced a net outflow of USD292 million, which was mainly explained by net payments of debt securities and financial loans.*

- ✓ *During March, international reserves fell USD1,229 million, totaling USD43,561 million by the end of the month.*

I. Introduction

This report analyses information on foreign exchange transactions made in March 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 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 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/month). 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 surcharge on certain foreign currency exchange transactions including a 30% tax rate for saving in foreign currency or traveling abroad related transactions.[2]

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

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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".

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 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 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 March, the BCRA purchased USD178 million in the forex market, financial institutions and their clients being net sellers for USD20 million, and USD158 million, respectively (see Table II.1).

It is worth noting that the measures adopted by the National Government to mitigate the spread of the disease caused by the coronavirus (COVID-19)—declared as pandemic on March 11 by the WHO—had an impact on the forex market. Until Friday, March 19, the net sales of the BCRA funded the net purchases of financial institutions licensed to trade in foreign exchange and those of their clients, mainly importing companies and natural persons. On March 20 the "social, preventive and compulsory isolation" measure came into effect. Since then, the private sector accumulated a surplus—both as a result of higher sales and lower purchases,—and the BCRA purchased, in the last four days of the month, foreign currency on the spot market.[5]

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

Sector	January 2020	February 2020	March 2020
BCRA	**-783**	**260**	**-178**
National Treasury	-	-	-
Institutions	**-184**	**-185**	**20**
Institutions' Clients (1 + 2 + 3)	**967**	**-75**	**158**
1. Non-Financial Private Sector	**1.279**	**619**	**323**
Oilseeds and Grains	1.639	812	939
Real Sector Non-Oilseeds and Grains	-460	-172	-524
Natural Persons	-232	-215	-174
Institutional Investors and Others	333	194	82
2. General Government	**-149**	**-468**	**-93**
3. Institutions (Own Transactions)	**-162**	**-225**	**-71**

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

Memorandum Items

Change in Private Sector Deposits	**-729**	**-153**	**-428**
Change in Deposits Due to Self-to-Self Internationa	**-199**	**-352**	**-133**

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 USD158 million. For readers' convenience, each sector's net

[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] To see the full text of Decree 297/2020, **click here**.

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 March).[6]

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

SSector/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	**0,7**	**-0,1**	**0,0**	**0,0**	**-0,1**	**0,1**	**-0,2**	**0,3**
Oilseeds and Grains	1,0	0,0	0,0	0,0	0,0	0,0	-0,1	**0,9**
Real Sector Non-Oilseeds and Grains	-0,2	0,0	-0,2	0,0	0,0	-0,1	0,0	**-0,5**
Natural Persons	0,0	-0,1	0,0	0,0	-0,2	0,2	-0,1	**-0,2**
Inversores Institucionales y otros	-0,1	0,1	0,1	0,0	0,0	0,0	0,0	**0,1**
General Government	**0,0**	**0,0**	**-0,1**	**0,1**	**0,0**	**0,1**	**-0,2**	**-0,1**
Institutions (Own Transactions)	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**-0,1**	**-0,1**
Institutions' Result with Clients	**0,7**	**-0,1**	**-0,1**	**0,1**	**-0,1**	**0,1**	**-0,4**	**0,2**
Result for Forex Transactions	**0,7**	**-0,1**	**0,0**	**0,1**	**0,1**	**0,0**	**-0,5**	**0,2**
Result for Self-to-Self International Transfers	**0,0**	**0,0**	**-0,1**	**0,0**	**-0,2**	**0,1**	**0,0**	-

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

This type of presentation allows underscoring different behaviors.

"Oilseeds and Grains" was the main net supplier of foreign currency in the market over March. This sector recorded net inflows for USD939 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 30% 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. This is mainly explained by an increase in inflows from advances and pre-financing from abroad, which were paid throughout the first quarter of 2020 (for further information, see Section III.1.1).

Companies in the "Real Sector Non-Oilseeds and Grains" made net purchases totaling USD524 million, particularly to pay financial debt for USD361 million, and to make net payments for goods for USD198 million.

"Natural persons" made foreign currency net purchases totaling USD174 million, basically for expenses paid on cards for consumption abroad (moderately less than USD150 million, recording a drop of 65% y.o.y.), and for saving purposes (USD37 million). Furthermore, they transferred USD179 million to their own accounts abroad from local accounts in foreign currency ("Self-to-Self International Transfers"); producing no net demand in the 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 USD82 million, mainly for services.

The "General Government" made net purchases in the forex market through licensed financial institutions for USD93 million, particularly for local governments' debt interest payments.[7]

Finally, financial institutions used their own funds (USD71 million) to pay financial debt (principal and interest).

[6] 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.

[7] 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.

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 USD83 million in March, resulting from the net sales in “Goods”, which were partially offset by the net outflows from “Primary Income”, “Services”, and “Secondary Income”.

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

Fecha	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Exchange Current Account	**245**	**219**	**236**	**933**	**498**	**820**	**1.422**	**-515**	**1.350**	**576**	**50**	**42**	**83**
Goods	1.124	1.945	2.610	2.381	2.021	2.024	2.248	952	2.759	1.995	1.590	779	709
Services	-416	-487	-581	-498	-529	-513	-224	-438	-259	-346	-26	-72	-11
Primary Income	-478	-1.253	-1.792	-967	-1.017	-644	-627	-1.051	-1.171	-1.096	-1.526	-689	-609
Secondary Income	15	15	-1	17	24	-46	25	21	21	23	12	24	-5

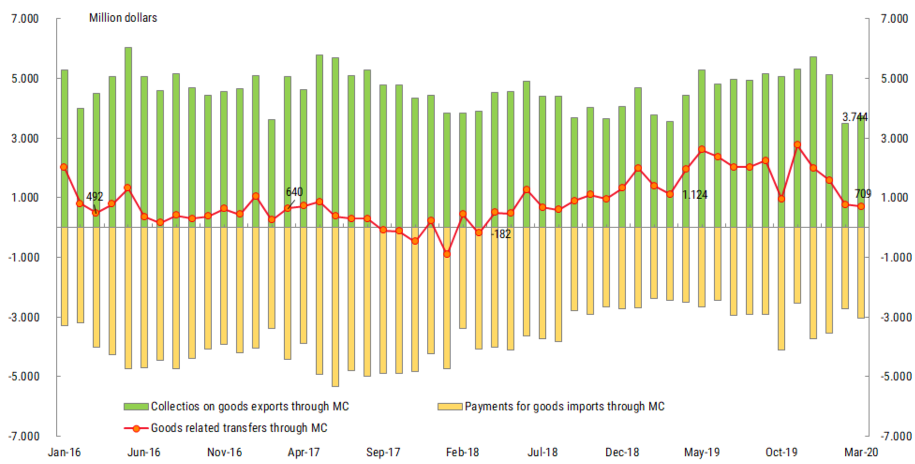
III.1.1 Goods

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.[8]

In March, transfers for “Goods” on the foreign exchange balance exhibited net inflows for USD709 million, resulting from collections on exports for USD3,744 million and payments of imports for USD3,035 million (see Chart III.1.1.1).

[8] 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.

Chart III.1.1.1 Foreign Exchange Balance Transfers for Goods

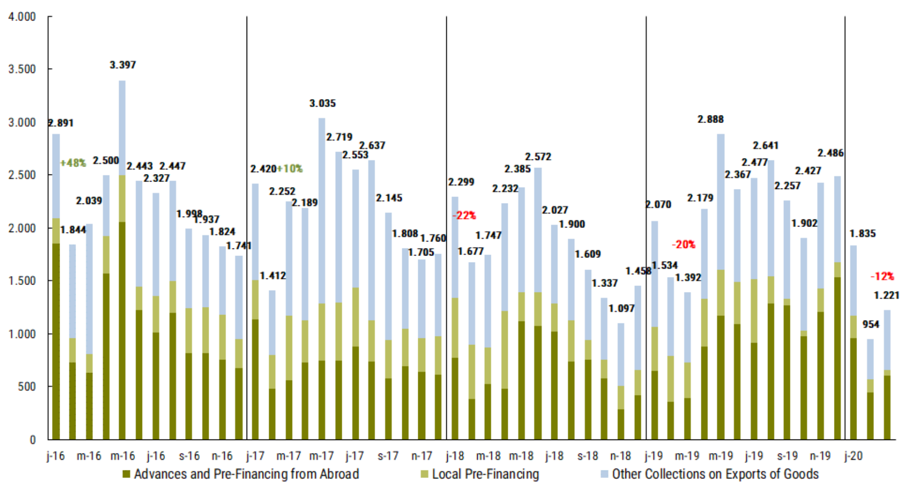


The "Oilseeds and Grains" sector recorded foreign currency sales for collections on exports for USD1,221 million, down 12% y.o.y. (See Chart III.1.1.2).

In turn, Affidavits of Sales Abroad (Declaraciones Juradas de Ventas al Exterior) as reported by the Ministry of Agriculture, Livestock and Fisheries (which determine the time of payment of export duties) showed that foreign exchange collections in this sector dropped by 10% y.o.y., mainly explained by a drop in corn and soybean sales abroad. It should be noted that exporters have made early sales of these crops abroad in November and December 2019.

In March, exports for the sector were estimated at about USD1,850 million (down 11% y.o.y.), exceeding the collections on exports of goods by about USD650 million. This would imply a reduction of the sector's debt as a result of the advances and the pre-financing of exports previously received.

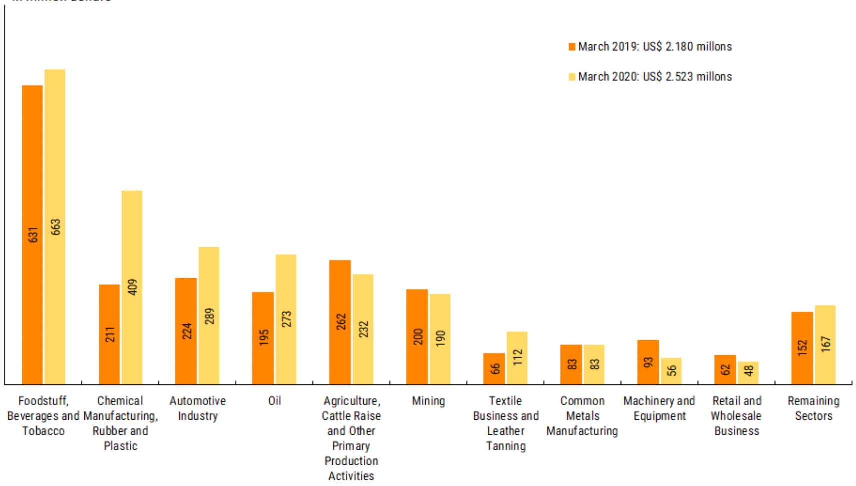
Chart III.1.1.2 Foreign Exchange Balance
Collection on Exports of Goods from the "Oilseeds and Grains"
Million dollars



Local purchases of soybean recorded a 7% y.o.y. drop. In turn, the local trade of corn recorded a 50% y.o.y. drop. Although in this harvest season similar results and growth pace are expected compared to the previous season, the drop in trade is explained by the early sales made in November and December 2019.

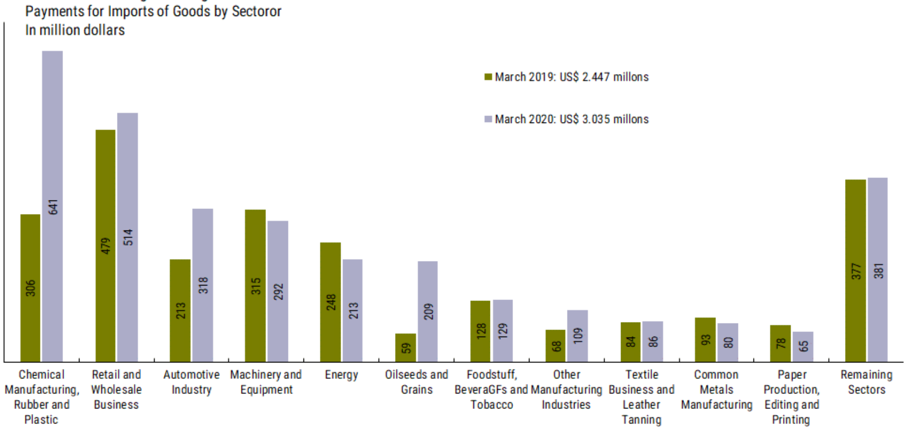
In turn, the collections on exports of goods from the remaining sectors amounted to USD2,523 million, out of which 65% was concentrated in the "Food, Beverages and Tobacco", "Automobile Industry", "Mining" and "Oil" sectors (see Chart III.1.1.3).

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 USD3,035 million, out of which 58% corresponded to the "Automobile Industry", "Chemical, Rubber and Plastic Industries", "Energy" and "Commerce" sectors (see Chart III.1.1.4).[9]

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

Data disaggregated by type of payment reveals that deferred payments accounted for 82%, while the remaining 18% were advance payments (10%) and cash payments (8%).

III.1.2 Services, Primary and Secondary Income

The "Services" account recorded a deficit of USD11 million, mainly explained by net outflows from "Freight and Insurance" and "Travel and Passenger Transport, and other Expenses Paid with Cards" which amounted to

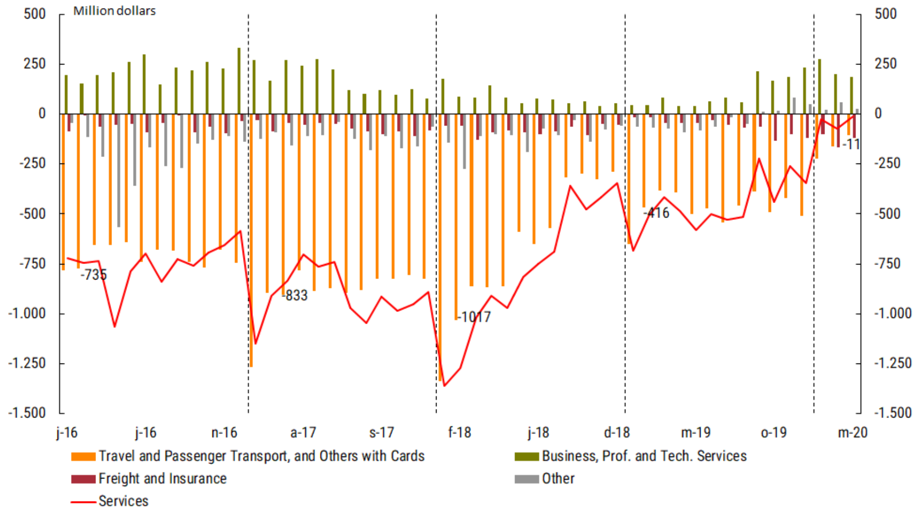
[9] The "Energy" sector includes companies belonging to the "Oil", "Electricity" and "Gas" sectors.

USD119 million and USD106 million, respectively. These transactions were partially offset by net inflows from "Business, Professional and Technical Services" for USD188 million (see Chart III.1.2.1).[10]

As a result of the measures adopted by the end of December and in the context of global travel restrictions under the COVID-19 pandemic, the net deficit of the "Travel and Passenger Transport, and Others with Cards" account continued falling in March, explained by a greater drop in outflows than in inflows. This behavior is in line with the statistics published in the last international tourism survey.[11]

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.

Chart III.1.2.1 Foreign Exchange Balance
Net Inflows from Services



Primary income transactions recorded net outflows amounting to USD609 million in March, 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). In terms of gross payments of interest, over two thirds were made by the "General Government and the BCRA" (about USD450 million).

Finally, secondary income transactions recorded net outflows for USD5 million.

III.2 Capital Account

In March, the capital account of the foreign exchange balance evidenced a surplus of USD3 million, resulting from net inflows from the "Non-Financial Private Sector".

III.3 Foreign Exchange Financial Account

In March, net outflows for the foreign exchange financial account totaled USD1,092 million. This result was explained by a deficit in the "Financial Sector" (USD745 million), the "Non-Financial Private Sector"

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[10] 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.

[11] To access the latest technical report on International Tourism Statistics, **click here**.

(USD483 million), and the "General Government and the BCRA" (USD292 million). These outflows were partially offset by net inflows from "Other Net Transfers" for USD428 million, mainly resulting from the collection of local loans in foreign currency.[12]

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

Date	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	mar-20
Foreign Exchange Capital and Financial Account	**-2.453**	**4.831**	**-7.150**	**-2.521**	**2.385**	**-14.568**	**-6.659**	**-5.402**	**-944**	**151**	**-258**	**46**	**-1.092**
Financial sector	4	-313	-1.132	-994	-84	-1.982	477	-311	532	-728	473	-91	-745
Non-Financial Private Sector	-2.319	-2.688	-3.749	-3.219	-4.031	-4.431	-3.339	-4.520	-529	-626	-181	154	-483
Public Sector and BCRA	-693	7.661	-4.033	1.036	5.123	-4.956	-901	181	-564	-494	-767	2	-292
Other Net Movements	555	172	1.764	656	1.377	-3.199	-2.896	-751	-383	2.000	217	290	428

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 USD483 million in March, resulting basically from net settlements of financial debt and from the buildup of foreign assets, partially offset by inflows of direct investments (see Table III.3.1.1).

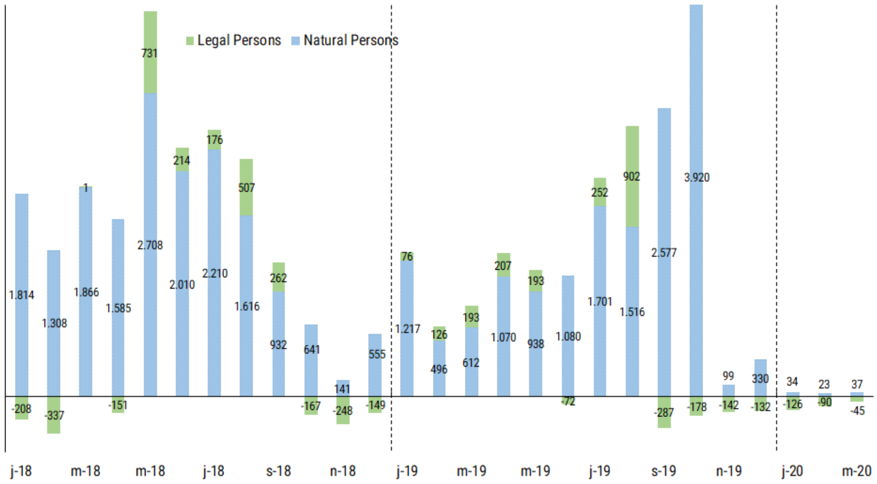
Table III.3.1.1 Foreign Exchange Balance
Foreign Exchange Financial Account of the Non-Financial Private Sector
- Equivalent in million dollars -

Date	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	mar-20
Foreign Exchange Financial Account	**-2.319**	**-2.688**	**-3.749**	**-3.219**	**-4.031**	**-4.431**	**-3.339**	**-4.520**	**-529**	**-626**	**-181**	**-154**	**-483**
Non-Residents' Direct Investments	316	121	148	144	174	123	91	128	166	83	84	170	103
Non-Residents' Portfolio Investments	-243	-138	-858	-1.410	-850	-974	3	3	0	6	2	2	5
Financial Loans and Credit Lines	-180	-137	-309	-41	-162	-454	-1.379	-1.102	-695	-646	-452	-503	-481
Loans from Other International Organizations and Other	-12	12	-7	-2	-2	19	-59	-67	-38	-41	64	155	-79
Buildup of Foreign Assets by the Non-Financial Private Sector	-1.771	-2.341	-2.496	-1.349	-2.951	-5.909	-3.013	-4.125	-144	153	-60	-114	-110
Self-to-Self International Transfers	252	428	714	-451	95	3.403	1.039	624	187	-182	185	136	77
Purchase and Sale of Securities	-680	-634	-941	-111	-335	-638	-20	19	-4	1	-5	0	0
Heading Not Informed by the Client (Net)	550	491	502	646	745	533	1	0	0	0	0	0	0

Net purchases of foreign currency made by residents intended to buildup foreign assets amounted to USD110 million. This is the result of subtracting USD8 million (net sales) from USD118 million (net transfers abroad, mainly debited from local accounts in foreign currency, "Self-to-Self International Transfers"). This outcome was explained by net sales for USD45 million ("Real Sector" for USD36 million and "Institutional Investors and Others" for USD10 million), and net purchases for USD37 million made by "Natural Persons" (see Chart III.3.1.1).

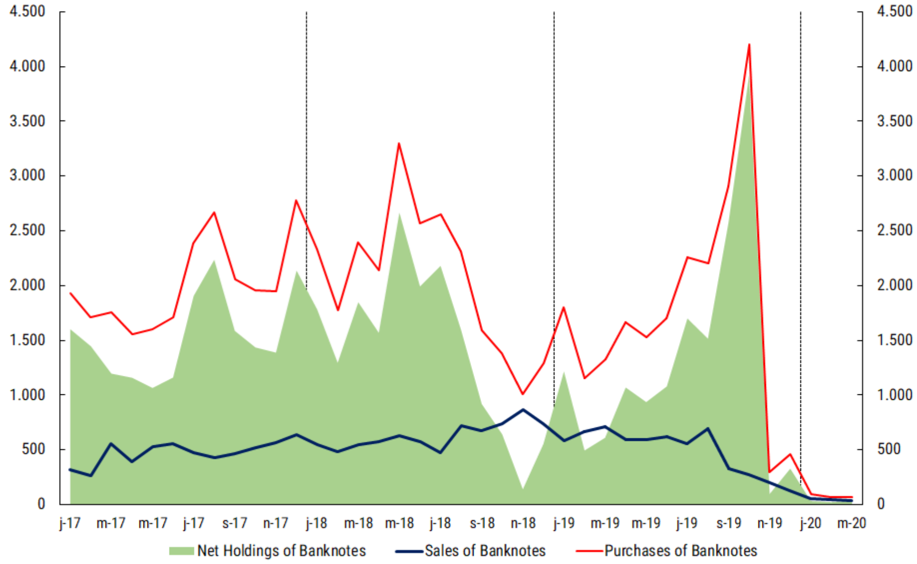
[12] The "Other Net Transfers" account of the foreign exchange balance is made up of transfers with a potential impact on the level of the BCRA's international reserves—although they are not foreign exchange transactions or direct inflows/outflows of the BCRA or the National Government.

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



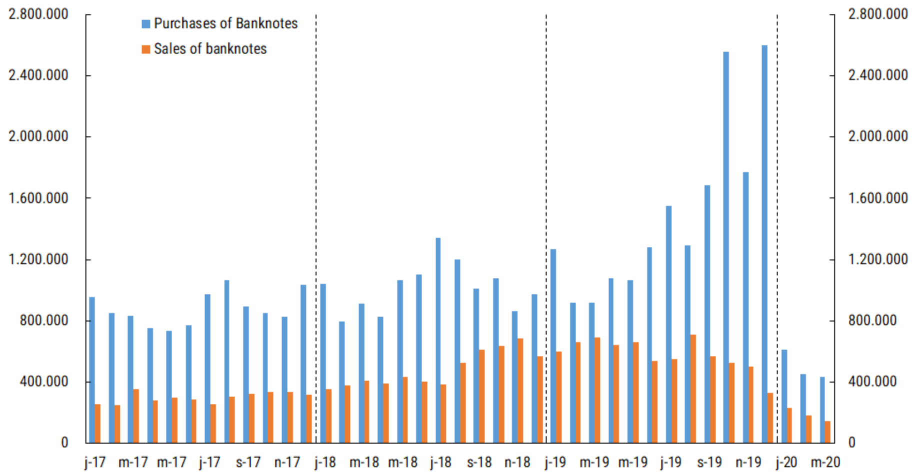
After falling for two months in a row, gross purchases of banknotes made by “Natural Persons” increased by USD5 million during March, totaling USD73 million (see Chart III.3.1.2). However, the number of buyers decreased about 20,000 compared to February, totaling around 435,000 in March. It follows that the average purchase amount per client rose from USD149 in February to about USD170 in March (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” decreased, compared to February, by USD8 million, reaching USD36 million. The number of clients also fell by 39,000 individuals, reaching 146,000.

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



In turn, net transfers to their own accounts abroad totaled USD118 million. The transfers made by "Natural Persons", mostly from funds deposited in their accounts, amounted to USD179 million ("self-to-self international transfers"). On another note, legal persons included in the "Real Sector" and "Institutional Investors and Others" repatriated funds for USD48 million and USD12 million, respectively.[13]

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 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.

Net payments of financial debts totaled USD450 million in March, out of which USD232 million stood for reimbursements of debt held abroad, and the remaining USD219 million, of local debts. Net payments of foreign debt were mainly observed in the sectors related to "Communications" (USD118 million), "Food, Beverages and Tobacco" (USD31 million) and "Automobile Industry" (USD25 million).[14]

[13] For further clarifications on the definition of "self-to-self international transfers", see note 6.

[14] Net payments exclude purchases of foreign currency to pay card bills for expenses incurred abroad for an amount of USD109 million; 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.

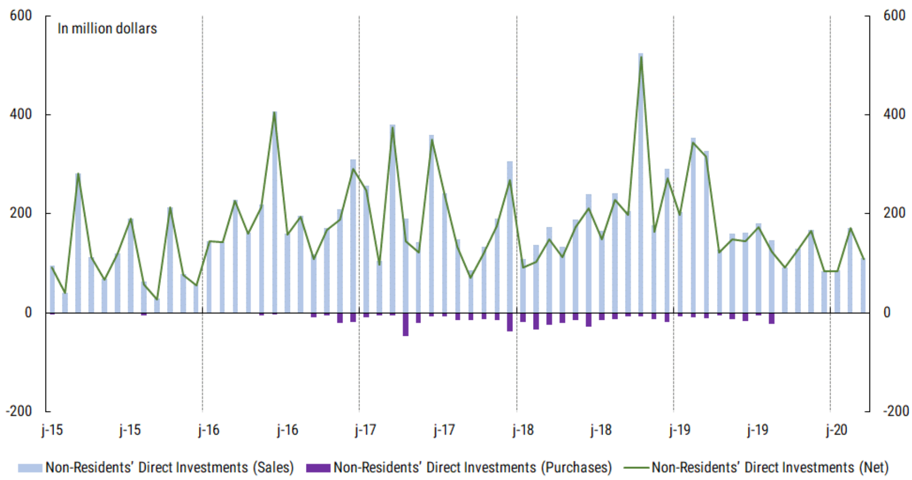
Chart III.3.1.4 Foreign Exchange Balance
Non-Financial Private Sector. Financial Debt and Debt Securities (Local and Foreign)
Equivalent in million dollars

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 USD108 million, basically accounted for by direct investments (USD103 million).[15]

Direct investments were mainly made in the sectors related to "Energy" production and distribution (about USD50 million), "Mining" (USD18 million) and "Food, Beverages and Tobacco" (USD7 million), all of which share more than 70% in total inflows.

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 movements.[16]

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

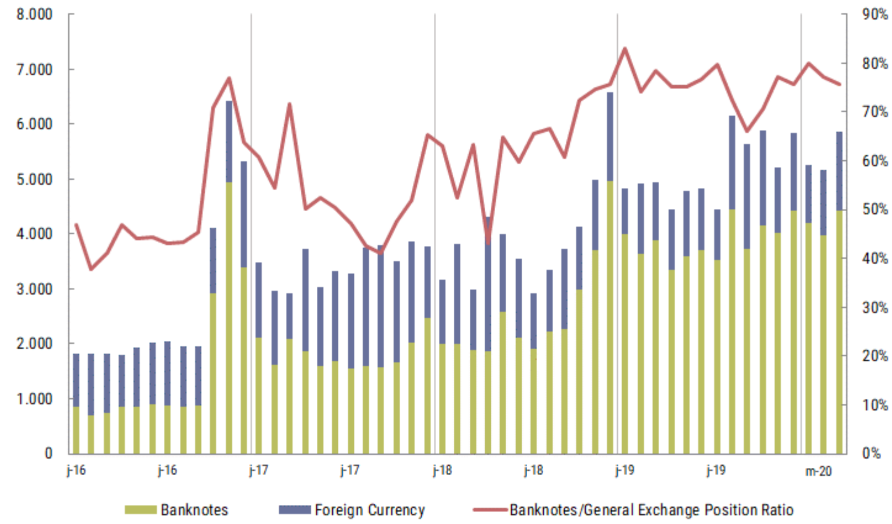
[16] In the forex market, transactions are entered on behalf of financial institutions. The net effect of these transactions has, as counterpart, non-financial private sector residents or non-residents. Therefore, they are included in the foreign exchange financial account of the non-financial private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

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

In March, the transactions carried out under the foreign exchange financial account of the "Financial Sector" resulted in a deficit of USD745 million, explained by increased liquid foreign assets of financial institutions' General Exchange Position (USD702 million), and by payments of financial loans and credit lines (USD44 million).[17]

The increase in liquid assets described above, which was observed in both banknotes held by institutions and electronic deposits in foreign currency, drove institutions to end March with a General Exchange Position of USD5,862 million. Out of this total amount, 76% corresponded to holdings of foreign currency for USD4,435 million (see Chart III.3.2.1), which are basically kept to have liquidity when local deposits in foreign currency are withdrawn and to meet the needs of the foreign exchange market.

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



On another note, the ensemble of financial institutions ended March with a forward long position in foreign currency of USD93 million, thus reversing the short position recorded at the end of February. They made net purchases for USD302 million in regulated markets and USD8 million from their clients directly (Forwards) over the month (see Charts III.3.2.2).

In March, both foreign and national institutions made forward net purchases, USD284 million and USD26 million, respectively (see Chart III.3.2.3).

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

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

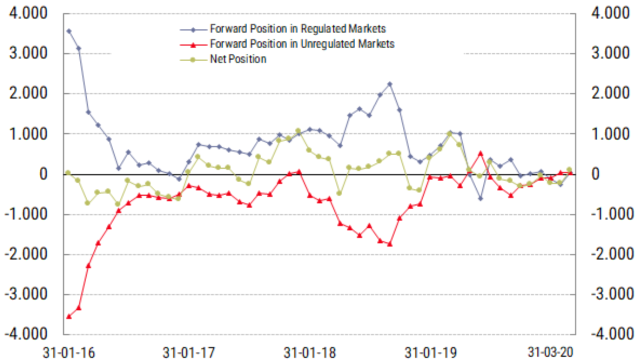
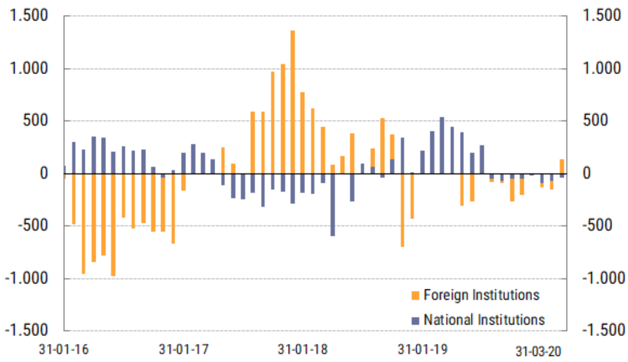
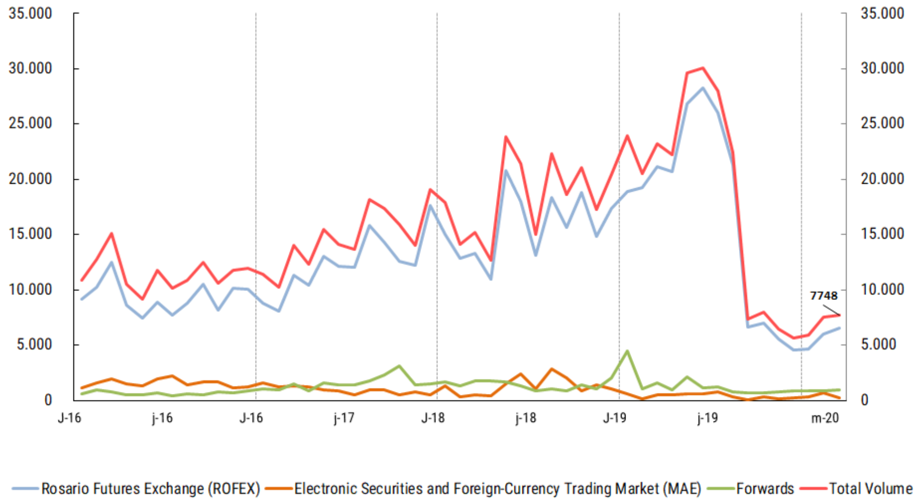


Chart III.3.2.3 Forward Market
Institutions' Forward Position
Equivalent in million dollars



The volume traded in forward markets totaled USD7,748 million in March, i.e.: USD408 million on a daily basis. The total traded was similar to that of February; however, it fell by 67% y.o.y. (see Chart III.3.2.4). Transactions carried out in the Mercado a Término de Rosario (ROFEX) accounted for 84% of the total volume traded in the forward market.[18]

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 March, the foreign exchange financial account of the General Government and the BCRA resulted in a deficit of USD292 million (see Chart III.3.3.1). This was mainly explained by net payments of debt securities and financial loans for USD345 million, out of which about USD55 million were self-to-self international transfers.

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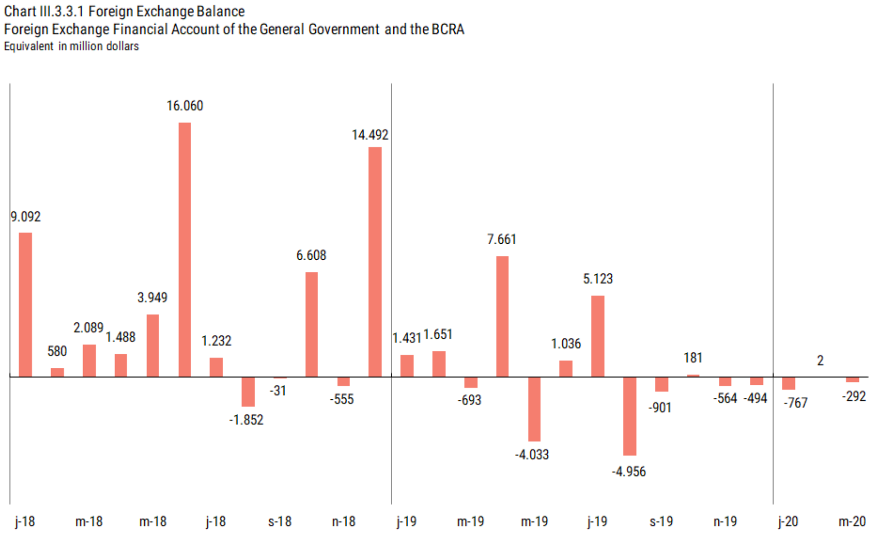
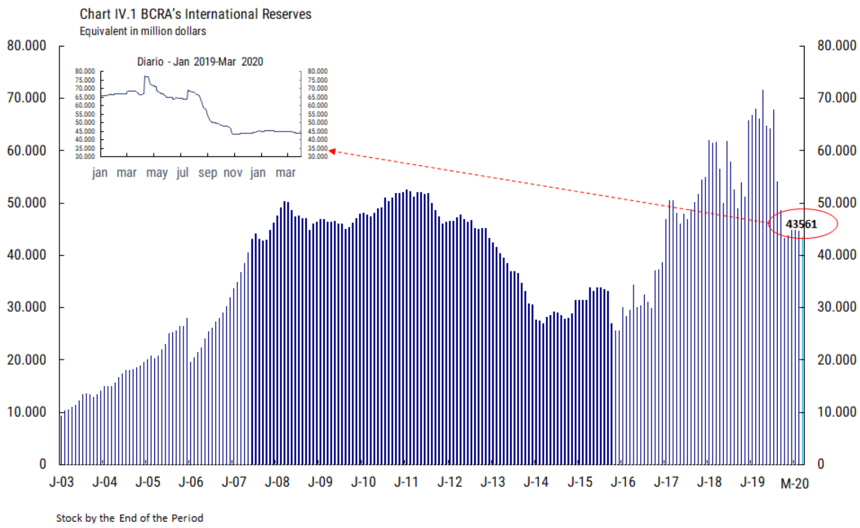
[18] The chart includes the total volume traded in the ROFEX, the transactions arranged by institutions in the Electronic Securities and Foreign Currency Trading Market (MAE), and with Forwards. This information comes from the Forward Transactions Reporting Scheme (Communication "A" 4196, as amended)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



IV. BCRA's International Reserves

In March, international reserves decreased by USD1,229 million, totaling USD43,561 million by the end of the month as a result of the transactions described above and a lower exchange rate and book valuation of USD223 million.

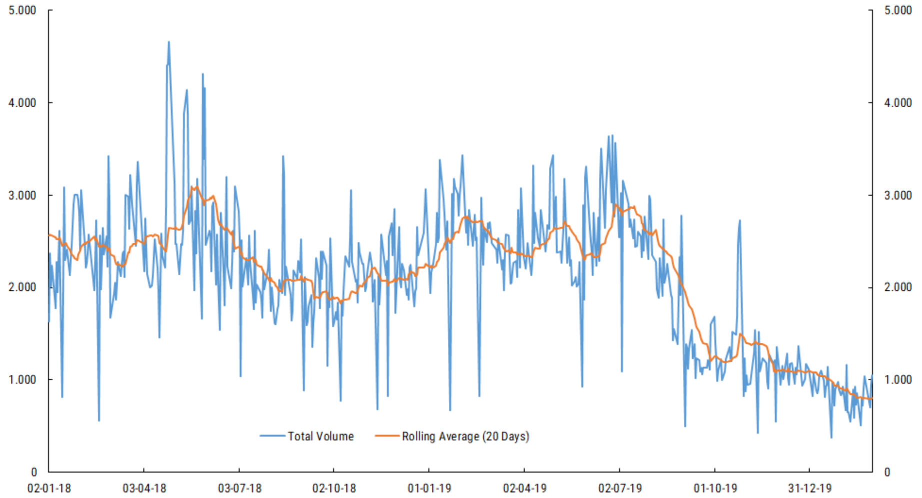


V. Volumes Traded in the Foreign Exchange Market

Against the backdrop of a forex market currently trading under tighter regulations, the volume traded in March totaled USD14,167 million, remaining practically unchanged against February, and evidencing a drop of 68% y.o.y. This total involved a daily volume of around USD750 million (see Chart V.1). The y.o.y. decline in the volume was mainly explained by a fall of 69% in transactions between licensed institutions and their clients, and of 76% in transactions carried out between financial and foreign exchange institutions.[19]

[19] 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).

Chart V.1 Foreign Exchange Market
Volume Traded Daily Evolution
-In million dollars-



Transactions between institutions and their clients accounted for 71% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 21%; in turn, transactions between institutions and the BCRA stood for the remaining 8% (see Chart V.2). [20]

As usual, the volume traded between licensed institutions and their clients was concentrated in a few number of institutions (out of 226 institutions, the first ten accounted for 87% of such volume) and in the foreign currency used; USD-denominated transactions had a 94.6% share in the total traded with clients (see Chart V.3), followed by Euros, which accounted for 4.8% of the total.

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

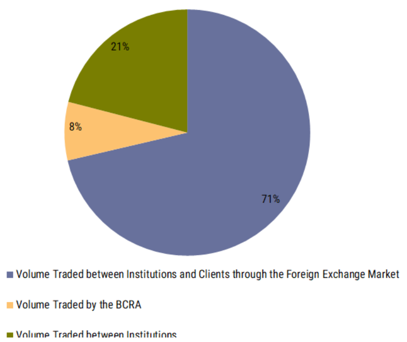
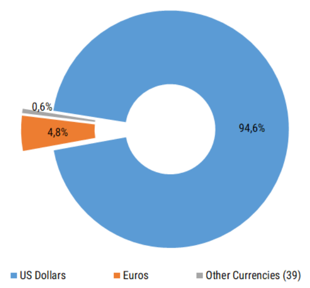


Chart V.3 Foreign Exchange Market
Volume with Clients by Currency March 2020



Finally, 94.6% 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 5,2% (5,2% and 0.2%, respectively).

[20] The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, self-to-self international transfers (around USD1,000 million in March 2020), and purchases of foreign currency to pay card bills for expenses incurred abroad (around USD110 million for the month under study).