Evolution of the Foreign Exchange Market and the Foreign Exchange Balance

May 2023

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

In a persistent inflation scenario, the central banks of advanced countries have continued to raise interest rates and tighten liquidity. Inflation and financial turbulence (starting in March) exacerbated the risk of recession, especially in advanced economies. As a result, commodity prices followed a downward trend, going back to the levels observed before the Russia-Ukraine war broke out. The drought that has been affecting Argentina adds up to this international scenario, slashing both the quantity and quality of the goods expected to be exported over the year.

Thus, in order to encourage the trade of soybean, soybean by-products, and other exportable goods from regional economies, the National Government relaunched the "Export Increase Program" last April 10, establishing an exchange rate of ARS300/USD1 for the export of those goods.

In this context, financial institution's clients sold USD1,365 million in the forex market during May. In turn, the BCRA bought a net amount of USD1,362 million (purchases of USD3,469 million under the "Export Increase Program" minus net sales of USD2,107 million for the rest of the flows). On the other side, financial institutions bought USD113 million. In addition, the BCRA made net payments through the Local Currency Payment System (SML) for USD110 million.

The "Non-Financial Private Sector" was a net seller of foreign currency for USD1,476 million. Within this group, the "Oilseeds and Grains" sector was the main net seller with net inflows of USD4,031 million (in the last month of the sector's 3rd edition of the Export Increase Program), down 6% on a y.o.y. comparison, mainly explained by the severe drought that has been affecting the agricultural production of the main exports.

The "Real Sector excluding Oilseeds and Grains" was a net purchaser of foreign currency, with a total of USD1,972 million, down 32% y.o.y., mainly explained by the lower deficit in the Goods and Services accounts.

"Natural Persons" made net purchases totaling USD537 million mainly for traveling expenses and other payments on cards to non-resident suppliers (USD358 million), and for saving purposes (USD151 million).

"Institutional Investors and Others"—both residents and non-residents—made net purchases for USD46 million in May, mainly to make net payments of imports of goods.

The foreign exchange current account had a surplus of USD776 million. This could be mainly explained by net inflows from "Goods" (USD2,363 million) and "Secondary Income" (USD12 million), which were partially offset by net outflows from transfers of "Primary Income" (USD1,169 million), and "Services" (USD430 million).

The financial account of the "Non-Financial Private Sector" had a deficit of USD677 million, resulting from payments in foreign currency made to non-resident suppliers through local institutions for purchases on cards for USD237 million (which do not involve a net demand of foreign currency in the financial account); self-to-self net international transfers for USD150 million (largely explained by their counterpart of Travel and Passenger Transport inflows that are not required to be settled in the forex market); net outflows on account of local financial loans for USD101 million; net purchases of foreign assets for USD83 million; net payments of loans from international organizations for USD83 million; and payments of loans held abroad and debt securities for USD81 million. This deficit was partially offset by inflows from foreign direct investment of USD54 million.

The transactions carried out under the foreign exchange financial account of the “Financial Sector” recorded a deficit of USD528 million. This result is explained by the increase of USD467 million in liquid foreign assets of financial institutions’ General Exchange Position, net payments of financial loans, credit lines and loans from international organizations for USD35 million, and the purchase and sale of securities for USD26 million.

The transactions carried out under the foreign exchange financial account of the “General Government and the BCRA” recorded a deficit of USD786 million, mainly explained by net payments of debt.

During May, BCRA’s international reserves fell USD2,000 million, totaling USD33,001 million by the end of the month. This decrease was mainly explained by the payment of interest and fees to the International Monetary Fund of about USD800 million (SDR592 million), a fall in financial institution’s holdings of foreign currency in the BCRA of about USD1,123 million, the payment of principal and interest to international organizations among other financial debts incurred by the National Treasury of USD904 million, a drop in the US dollar exchange rate of foreign exchange reserves by USD 591 million, and net payments settled by the BCRA through the local Currency Payment System (SML), partially offset by net purchases made by the BCRA in the forex market.

I. Introduction

This report analyses information on foreign exchange transactions made in May 2023 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 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 May; 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

In a persistent inflation scenario, the central banks of advanced countries have continued to raise interest rates and tighten liquidity. Inflation and financial turbulence (starting in March) exacerbated the risk of recession, especially in advanced economies. As a result, commodity prices followed a downward trend, going back to the levels observed before the Russia-Ukraine war broke out.

The drought that has been affecting Argentina adds up to this international scenario, slashing both the quantity and quality of the goods expected to be exported over the year.

In this context, in order to encourage the trade of soybean, soybean by-products, and other exportable goods from regional economies, the National Government relaunched the "Export Increase Program" (Executive Order 194/2023 dated April 10), establishing an exchange rate of ARS300/USD1 for the export of those goods. The program extends until June 2 for soybean and soybean by-products, and until August 31 for the rest of the goods from regional economies that are provided for in Executive Order 194/2023.[4]

In May, financial institution's clients sold USD1,365 million in the forex market. In turn, the BCRA bought USD1,362 million (purchases of USD3,469 million under the "Export Increase Program" and net sales of USD2,107 million for the rest of the flows), whereas financial institutions bought USD113 million. At the same time, the BCRA made net payments through the Local Currency Payment System (SML) for USD110 million (see Table II.1).[5] [6] [7]

[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] Executive Order 194/2023 set the deadline of the program for the soybean complex for May 31, but through Resolution 203/2023 it was extended until June 2. To access the Executive Order and the Communication click on the following links: Executive Order 194/2023, Resolution 203/2023.
[5] Information on the local currency payment system of this report has been drawn from the Exchange Transaction Reporting System (RIOC) and reported by transaction date. For more information, see the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics
[6] Transactions in the forex market are reported according to their transaction date, except for the purchase and sale of securities payable in foreign currency.
[7] The result by sector excludes purchases of foreign currency to pay card bills for expenses incurred abroad for an amount of USD237 million. These payments of local debts in foreign currency do not imply a net demand in the whole system, made up by the institutions and the BCRA.

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

Result by Sector of the Foreign Exchange Market with Institutions	May-22	May-23	2022 up to May	2023 up to May
BCRA - Market	**-684**	**-1,362**	**-844**	**1,992**
BCRA - SML	**86**	**110**	**339**	**443**
National Treasury	**-**	**-**	**2**	**-**
Institutions	**-27**	**-113**	**146**	**211**
Institutions' Clients (1 + 2 + 3)	**625**	**1,365**	**357**	**-2,645**
1. Non-Financial Private Sector	**782**	**1,476**	**1,093**	**-2,343**
Oilseeds and Grains	4,293	4,031	16,327	8,338
Real Sector Excluding Oilseeds and Grains	-2,904	-1,972	-12,099	-7,640
Natural Persons	-526	-537	-2,706	-2,477
Institutional Investors and Others	-82	-46	-430	-564
2. General Government (National Treasury Excluded)	**-119**	**2**	**-491**	**13**
3. Institutions (Own Transactions)	**-38**	**-113**	**-245**	**-315**
National Treasury Directly with the BCRA	**-248**	**-758**	**-2,000**	**-2,319**

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

The following table is intended to analyze the purchases and sales carried out through institutions in the forex market, reflecting each sector's net foreign exchange result. Each heading's net result—as informed by the institutions to the BCRA—is displayed vertically. The result of forex transactions in pesos and in foreign currency may be set apart from the result of self-to-self international transfers (transfers of foreign currency to accounts abroad during the month). (See Table II.2).[8]

Based on this information, 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).

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

Table II.2 Foreign Exchange Market
Result of Institutions’ Transactions with Clients. May 2023.
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	**2,415**	**-561**	**49**	**-77**	**-6**	**-150**	**-193**	**1,476**
Oilseeds and Grains	4,045	0	2	0	2	-2	-16	4,031
Real Sector Excluding Oilseeds and Grains	-1,488	-183	-102	7	20	-31	-195	-1,972
Natural Persons	-23	-358	7	-151	-28	12	4	-537
Institutional Investors and Others	-120	-19	142	67	0	-129	14	-46
General Government (National Treasury Excluded)	**-19**	**0**	**-107**	**205**	**9**	**-35**	**-50**	**2**
Institutions (Own Transactions)	**-33**	**0**	**-19**	**0**	**0**	**0**	**-61**	**-113**
Institutions’ Result with Clients	**2,363**	**-561**	**-78**	**127**	**3**	**-186**	**-304**	**1,365**
Result for Forex Transactions	**2,385**	**-676**	**-120**	**127**	**-9**	**0**	**-341**	**1,365**
Result for Self-to-Self International Transfers	**-22**	**115**	**43**	**0**	**12**	**-186**	**38**	**0**

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

“Oilseeds and Grains” was the main net seller of foreign currency in the market over May. The sector recorded net inflows for USD4,031 million mainly for the headings 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. This was also favored by the implementation of the 3rd edition of the Export Increase Program for soybean, soybean by-products, and other agro-industrial goods exported by the sector. Thus, this sector’s net sales in the forex market amounted to USD4,045 million, down 5% against May 2022.

The “Real Sector excluding Oilseeds and Grains” was a net purchaser of foreign currency, with a total of USD1,972 million, down 32% y.o.y., mainly explained by the lower deficit in the Goods and Services accounts. In this sense, the two economic sectors generating more deficit with their purchases were “Automobile Industry” (USD594 million) and “Machinery and Equipment” (USD474 million), while the two sectors recording the highest surplus were “Food, Beverages and Tobacco” (USD537 million) and “Mining” (USD301 million), (see Table II.3).

Table II.3 Foreign Exchange Market

Result of the Real Sector excluding Oilseeds and Grains disaggregated by main headings. May 2023.

Equivalent in million dollars

Sector/Main Headings	Goods	Travel and Passenger Transport, and Other Expenses Paid with Cards	Remaining Services and Other Current Transfers	Foreign Assets - Banknotes	Foreign Assets - Foreign Currency	Net Self-to-Self International Transfers	Debt, FDI, Portfolio, and Other Transactions	Total
Food, Beverages and Tobacco	582	0	-20	0	0	-8	-17	537
Mining	282	0	-1	0	26	-39	33	301
Agriculture and Other Primary Activities	254	0	-1	1	0	-8	-5	241
Information Technology	-12	1	140	0	1	-11	10	129
Entertainment	-3	0	29	0	0	0	6	31
Water	0	0	-1	0	0	0	0	-1
Gastronomy	-2	0	0	0	0	0	0	-2
Non-Metallic Mineral Products (Cement, Ceramics and Others)	-14	0	-1	0	0	0	0	-15
Construction	-17	0	-4	0	1	-2	-6	-29
Communications	-30	0	3	2	1	1	-8	-32
Paper, Publishing and Printing Industry	-83	0	0	0	0	0	1	-81
Textile and Leather Industries	-108	0	-1	0	0	1	-11	-119
Tourism and Accommodation Services	0	-132	-3	0	0	-9	0	-142
Other Manufacturing Industries	-160	0	12	0	0	0	-6	-153
Common Metals and their Manufacture	-136	0	-15	0	0	0	-11	-162
Transport	-18	-53	-83	2	1	-39	-12	-201
Chemical, Rubber and Plastic Industries	-357	0	17	0	1	1	-9	-349
Commerce	-412	0	3	0	1	1	-15	-421
Energy*	-168	0	-178	1	-12	60	-140	-436
Machinery and Equipment	-484	0	8	0	0	2	0	-474
Automobile Industry	-603	0	-6	0	0	18	-4	-594
Total	**-1,488**	**-183**	**-102**	**7**	**20**	**-31**	**-195**	**-1,972**

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

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

Source: BCRA

Financial institutions made net purchases with their own funds of USD113 million mainly to pay debt.

In turn, the "General Government" (excluding the National Treasury) recorded inflows from the sale of foreign assets and net outflows for goods and services (interest included) which were virtually offset in the forex market.

"Natural Persons" made net purchases totaling USD537 million mainly for traveling expenses and other payments on cards to non-resident suppliers (USD358 million), and for saving purposes (USD151 million).

"Institutional Investors and Others"—both residents and non-residents—made net purchases for USD46 million in May, mainly to make net payments of imports of goods.

III. Foreign Exchange Balance

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

III. 1. Current account

Current account transactions recorded in the foreign exchange balance showed a surplus of USD776 million in May, mainly associated to the surplus of the Goods account that was partially offset by net outflows recorded in the Primary Income and Services accounts (See Table III. 1.1).[9]

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

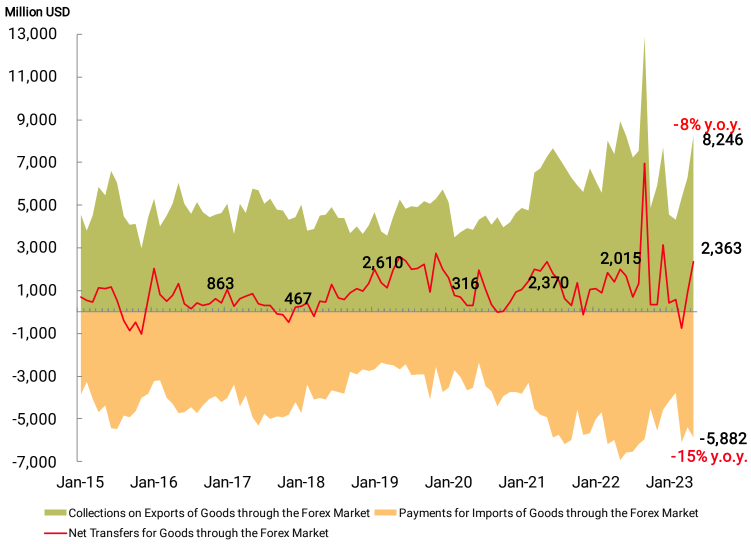
Date	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Foreign Exchange Current Account	484	522	-1,302	-572	5,478	-664	-1,201	2,220	-1,651	-1,237	-2,020	71	776
Goods	2,015	1,678	689	1,345	6,948	363	359	3,158	414	572	-747	903	2,363
Services	-867	-896	-1,065	-1,072	-1,075	-799	-641	-473	-725	-653	-866	-506	-430
Primary Income	-675	-261	-934	-844	-387	-217	-917	-467	-1,352	-1,142	-432	-310	-1,169
Secondary Income	10	1	8	-2	-9	-12	-3	1	12	-14	25	-15	12

Source: BCRA

III.1.1 Goods

In May, transfers for "Goods" on the foreign exchange balance exhibited net inflows for USD2,363 million, resulting from collections on exports for USD8,246 million and payments of imports for USD5,882 million (see Chart III.1.1.1).

Chart III.1.1.1 Foreign Exchange Balance
Transfers for Goods



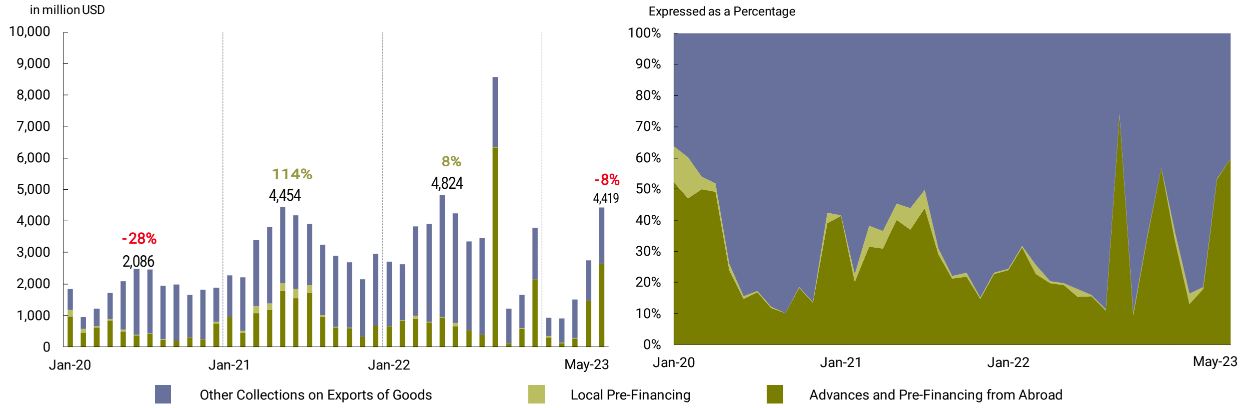
Source: BCRA

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

In May, the "Oilseeds and Grains" sector recorded foreign currency sales for collections on exports of goods in the forex market for USD4,419 million (-8% y.o.y.), out of which USD3,004 million were explained by the launch of the 3rd edition of the "Export Increase Program", accumulating USD4,467 million since the beginning of the Program last April 10. The program extends until June 2 for soybean and soybean by-products, and until August 31 for the rest of the goods from regional economies that are provided for in Executive Order 194/2023.[10] The sector's FOB exports estimate totals USD2,643 million in May; about USD1,776 million below inflows from the collection on exports of goods through the forex market. This would imply an increase of the sector's commercial debts.

In line with the previous editions of the Export Increase Program, 60% of the sector's inflows were collected ahead of time in May, either through advances or pre-financing (local and foreign); this share was above the historical average of the series, 46% for the 2016-2022 period (see Chart III.1.1.2).

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

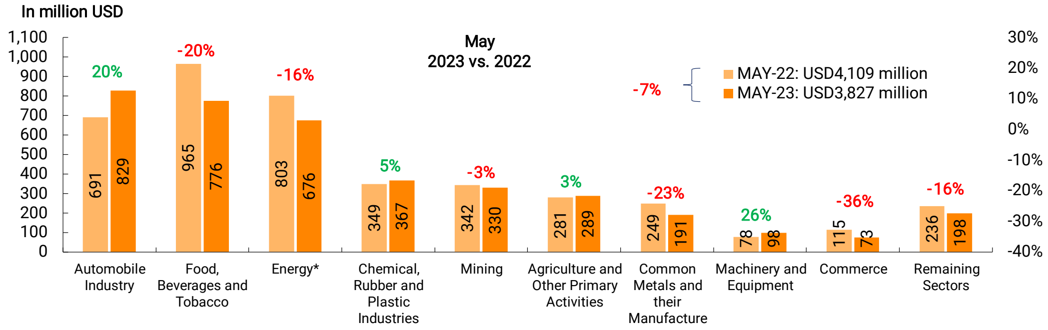


Source: BCRA

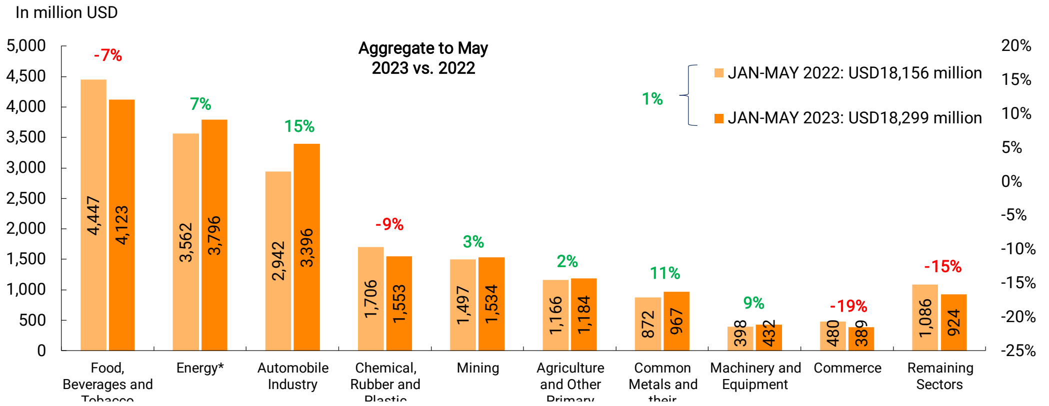
[10] Executive Order 194/2023 set the deadline of the program for the soybean complex for May 31, but through Resolution 203/2023 it was extended until June 2. To access the Executive Order and the Communication click on the following links: Executive Order 194/2023, Resolution 203/2023.

Inflows from the collections on exports of goods from the remaining sectors totaled USD3,872 million in May, down 7% y.o.y. The implementation of the Export Increase Program for goods from regional economies (which are the most exported goods from these sectors) brought about inflows of about USD464 million in May, accumulating USD615 million since the beginning of this edition (See Chart III. 1.1.4).

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



*Note: it includes Oil, Electricity and Gas Sectors



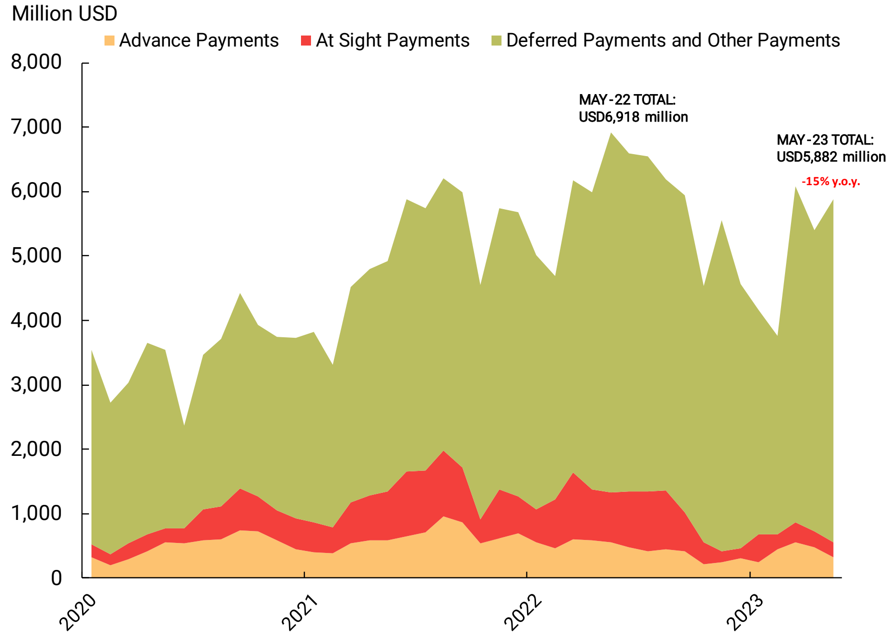
Broken down by sector, the greatest relative dynamism of the "Machinery and Equipment" sector stood out during the month, with a year-on-year increase of 26%, followed by the "Automobile Industry" sector with a year-on-year increase of 20%.

In May, payments of imports of goods totaled USD5,882 million, falling 15% y.o.y. and standing below May's FOB imports (USD6,964 million). This would imply either an increase in the sector's commercial indebtedness level or a decrease in its foreign assets due to advances. On May 18, through Communication "A" 7770[11], the BCRA approved the implementation of a system to finance the payment of imports. The system allows import and export companies to finance the purchase of supplies through their own suppliers or through foreign or domestic banks (international credit lines), and use the foreign currency obtained from the collection of exports to pay the financing. The regulation applies an existing instrument to the financing of imports, distributing over time the lowest availability of foreign currency caused by the drought that affected agricultural production.

[11] To access the text of Communication "A" 7770, click here.

As regards imports of goods, 91% of payments were deferred, 5% were advance payments, and the other 4% were sight payments in May (see Chart III.1.1.5).

Chart III.1.1.5 Foreign Exchange Balance
Evolution of Payments for Imports of Goods by Type of Payment



Source: BCRA

A 24% of total payments for imports of goods made in May corresponded to the "Automobile Industry" sector, followed by the "Energy" sector (14%). The "Automobile Industry" sector showed greater dynamism with a 22% y.o.y. increase (see Chart III.1.1.6).

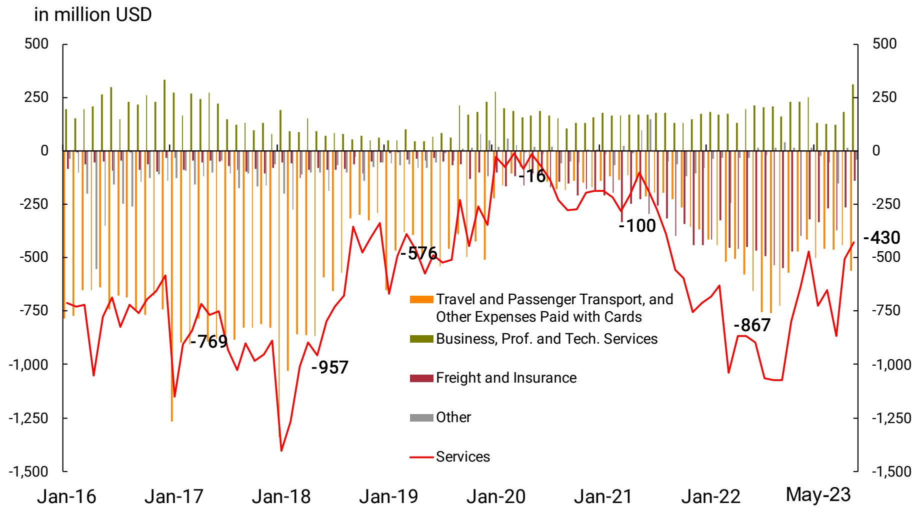
Chart III.1.1.6 Foreign Exchange Balance
Payments for Imports of Goods by Sector

Source: BCRA

III.1.2 Services, Primary and Secondary Income

The “Services” account recorded a deficit of USD430 million in May, decreasing to almost half the net outflows in a y.o.y. comparison, and about USD250 million against the January-April average of this year. This improvement correlated with a fall in gross outflows for both “Freight and Insurance” (USD170 million; down 42% against April and 67% y.o.y.) and for “Business, Professional and Technical Services” (USD40 million, down 70% against April and 77% y.o.y.). The measures implemented to finance the payment of imports of professional services and freight between related companies (Communication "A" 7746, dated April 20) brought about a decrease of gross outflows (see Chart III.1.2.1).

Chart III.1.2.1 Foreign Exchange Balance
Net Inflows from Services



Source: BCRA

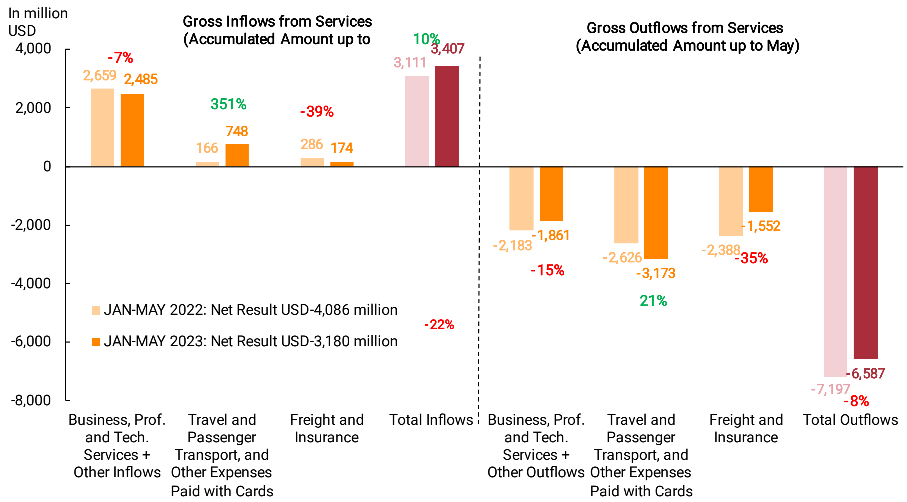
In May, gross inflows from Travel and Passenger Transport amounted to USD150 million (up 300% in y.o.y. terms). This increase was observed after the implementation of Communication "A" 7630, dated November 3, 2022, which set forth that any inflows arising from non-resident cards, charges of tourist services hired by non-residents and charges of non-resident passenger transport services are exempted from the requirement to settle currency in the forex market. This measure seeks to boost foreign currency inflows from inbound tourism. In addition, a higher exchange rate is charged on card consumptions of non-resident visitors.[12] In turn, gross outflows from Travel and Passenger Transport totaled USD711 million, up 21% against April, and 15% in y.o.y. terms.[13]

Thus, this month's result was explained by the net outflows of "Travel, Passenger and Passenger Transport, and Other Expenses Paid with Cards" (USD561 million), "Freight and Insurance" (USD140 million) and "Other Services" (USD40 million), partially offset by net inflows from "Business, Professional and Technical Services" (USD312 million).

Over the accumulated period from January up to May 2023, net outflows from the payment of services totaled USD3,180 million, down 22% against the same period in 2022 (see Chart III.1.2.2).

[12] Self-to-self international transfers have no net effect on the forex market, since inflows are not settled in the forex market but deposited in local accounts in foreign currency.
[13] In terms of the "Travel and Passenger Transport, and Other Expenses Paid with Cards" account, it is worth pointing out that the transfers made to international credit card issuers involve both purchases made during travels abroad and those made on a remote basis. In turn, inflows also include non-resident remote purchases made with cards to Argentine suppliers. For more information on the changes implemented to the regulations that have an impact on the comparison of the flows reported in the headings included under "Services", among others, see Section B.5. Important Regulatory Provisions that Have an Impact on Foreign Exchange Statistics of the Methodology Used for Compiling Foreign Exchange Market and Foreign Exchange Balance Statistics available at BCRA's website.

Chart III.1.2.2 Foreign Exchange Balance
Net Inflows from Services



Source: BCRA

Primary income transactions recorded net outflows amounting to USD1,169 million in May, mainly due to net payments of “Interest” for USD1,126 million. The “General Government and the BCRA” paid USD1,005 million of gross interest, USD742 million of which corresponded to the IMF (SDR549 million), USD184 million to international organizations (IMF excluded), and USD80 million to other payments. In turn, the private sector repaid USD160 million under the same heading.

In addition, gross outflows of profits, dividends and other income transferred to accounts abroad amounted to USD43 million.[14]

Finally, secondary income transactions recorded a surplus of USD12 million.

III.2 Capital Account

In May, the capital account of the foreign exchange balance recorded a surplus of USD6 million.

[14] 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”. Since June 2021, exporters of goods that registered an increase in their external sales over the previous year, will be able to access the forex market for the payment of profits and dividends from closed and audited balance sheets, for a percentage of that increase. See Communications “A” 6869, “A” 7168 and “A” 7301.

III.3 Foreign Exchange Financial Account

In May, the transactions carried out under the foreign exchange financial account recorded a deficit of USD2,191 million. This result was explained by a deficit in the "General Government and the BCRA" (USD786 million), in the "Non-Financial Private Sector" (USD677 million), in the "Financial Sector" (USD528 million), and in "Other Net Transfers" (USD199 million) (see Table III.3.1.).[15]

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

Date	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Foreign Exchange Financial Account	-644	961	-2,998	-342	-3,793	2,241	-303	3,669	-2,219	-734	1,855	-4,091	-2,191
Non-Financial Private Sector	-660	-512	-719	-919	-639	-617	-660	-409	-412	-713	-675	-852	-677
Financial Sector	-23	175	372	25	-616	192	14	-1,078	878	62	198	76	-528
General Government and the BCRA	-143	1,472	-2,089	257	-2,519	2,081	80	3,945	-3,138	-218	2,815	-2,823	-786
Other Net Transfers	183	-173	-562	295	-19	585	262	1,211	453	135	-484	-493	-199

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 USD677 million in May, resulting from payments of balances in foreign currency to local institutions originated from purchases made with cards to non-resident suppliers for USD237 million (which do not involve a net demand of foreign currency in the financial account)[16]; self-to-self net international transfers for USD150 million (largely explained by their counterpart of Travel and Passenger Transport inflows that are not required to be settled in the forex market, for more information, see Section III.1.2.); net outflows on account of local financial loans for USD101 million; net purchases of foreign assets for USD83 million; net payments of loans from international organizations for USD83 million; and payments of loans held abroad and debt securities for USD81 million. This deficit was partially offset by inflows from foreign direct investment of USD54 million (see Chart 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	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Foreign Exchange Financial Account	-660	-512	-719	-919	-639	-617	-660	-409	-412	-713	-675	-852	-677
Non-Residents' Direct Investments	37	34	43	32	41	40	33	66	52	54	38	58	54
Non-Residents' Portfolio Investments	2	0	2	6	0	-1	-3	1	-1	3	-1	0	-1
Financial Loans and Credit Lines	-477	-272	-465	-629	-437	-476	-515	-130	-149	-582	-278	-456	-420
Local Financial Loans	-62	74	-22	-105	42	52	-17	-12	-28	-97	56	76	-101
Other Foreign Loans and Debt Securities	-132	-97	-75	-181	-100	-169	-235	126	107	-248	-45	-317	-81
Payment of Card Balance	-282	-249	-368	-343	-379	-358	-262	-244	-228	-237	-290	-215	-237
Loans from Other International Organizations and Other	-43	-38	-54	26	31	-5	-79	-58	8	-52	-41	1	-83
Buildup of Foreign Assets by the Non-Financial Private Sector	-23	-68	-179	-186	-107	14	56	95	-81	-11	-4	-397	-83
Self-to-Self International Transfers	-157	-169	-66	-170	-167	-189	-152	-381	-240	-123	-386	-56	-150
Purchase and Sale of Securities	0	0	0	2	0	-1	-1	-1	-2	-2	-2	-2	5

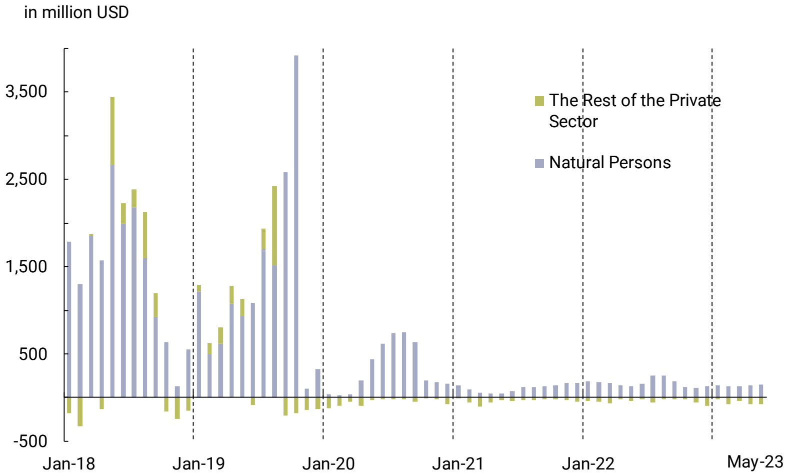
Source: BCRA

[15] 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
[16] The demand of foreign currency due to purchases made with cards from foreign suppliers is recorded in a services account of the foreign exchange balance, under "Travel and Passenger Transport, and Other Expenses Paid with Cards".

Non-financial private sector residents' foreign assets resulted in net outflows amounting to USD83 million—i.e., net purchases of banknotes (USD77 million) and net outflows of foreign currency (USD6 million).

This outcome reflects net purchases for USD151 million made by "Natural Persons", partially offset by net sales for USD74 million made by legal persons (see Chart III.3.1.1).

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

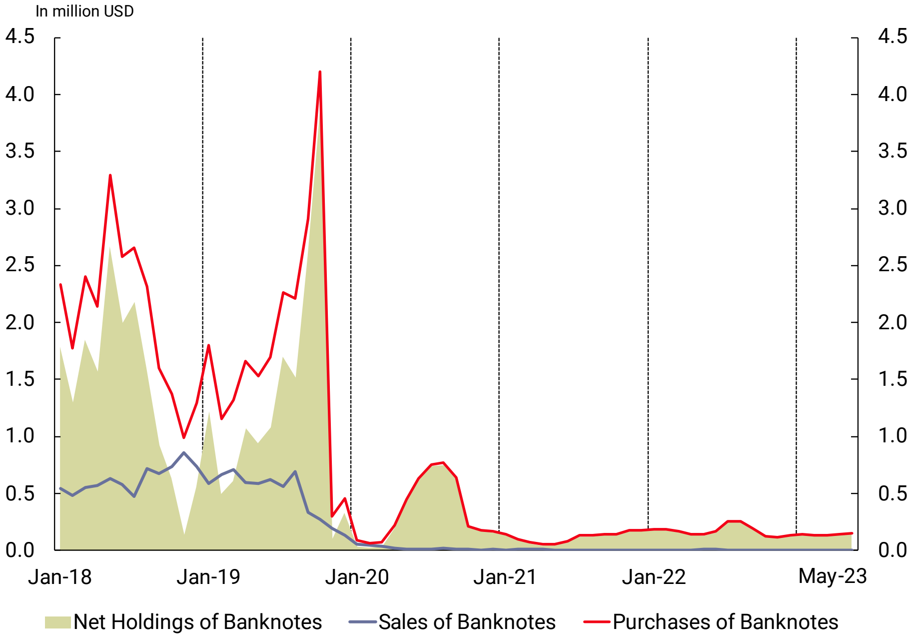


Source: BCRA

In May, "Natural Persons" purchased banknotes for USD155 million (up 5% against April, and up 12% y.o.y.) and sold USD4 million (see Chart III.3.1.2).[17]

[17] 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 Executive Order 319/20 may not access the forex market until benefits are over). As from September 16, 2020, the Federal Administration of Public Revenue (AFIP) will collect a 35% contribution in advance of income and personal property taxes from natural persons applying for foreign currency to build up foreign assets, or pay their debit and/or credit card bills (General Resolution 4815/2020).

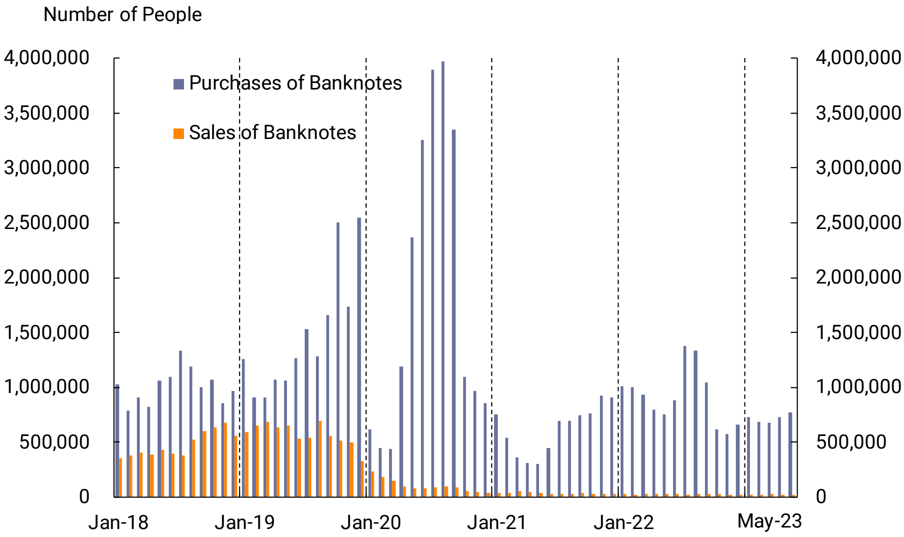
Chart III.3.1.2 Foreign Exchange Balance
Natural Persons. Banknotes



Source: BCRA

In terms of traders, 766,000 individuals purchased banknotes, while sellers amounted to about 19,000—per capita purchases and sales amounting to about USD200 and USD198, respectively (see Chart III.3.1.3).

Chart III.3.1.3 Foreign Exchange Balance
Natural Persons. Banknotes

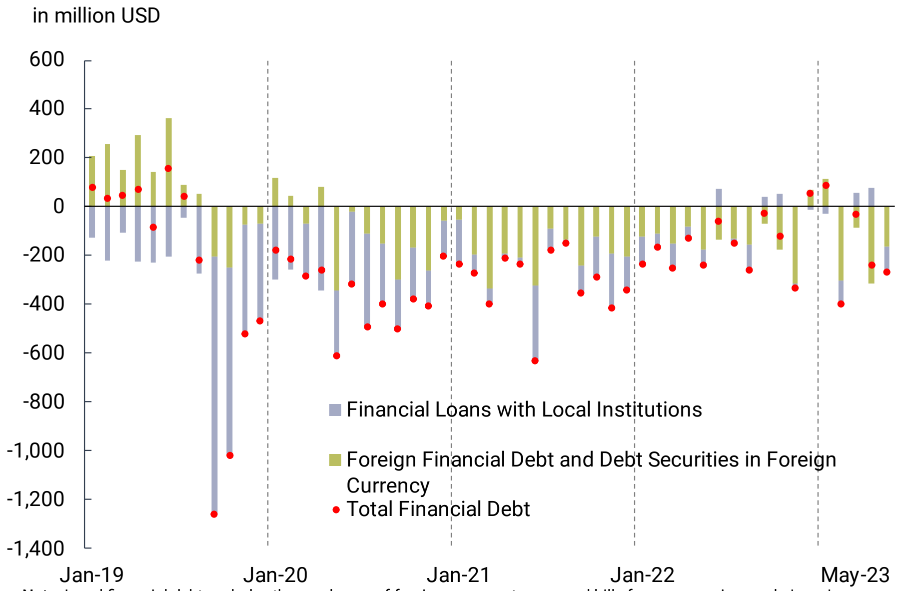


Source: BCRA

In turn, in May, this sector made net transfers abroad from their own accounts (USD6 million). "Natural persons" made transfers for USD28 million, which were partially offset by net transfers received by the "Real Sector Excluding Oilseeds and Grains" for USD20 million and the "Oilseeds and Grains" sector for USD2 million.

Net payments of financial debts from the non-financial private sector, including loans from international organizations and local financial loans, totaled USD266 million in May. This amount involves net outflows on account of financial debt held abroad, securities in foreign currency, and loans owed to international organizations (USD165 million), with outflows from the "Electricity" and "Gas" sectors standing out (about USD48 million and USD44 million, respectively), and net payments of loans granted by local institutions (USD101 million). The total amount excludes purchases of foreign currency to pay card bills for expenses incurred abroad (USD237 million), which do not imply a net demand within the whole system, i.e., the ensemble of financial institutions and the BCRA. Instead, they were calculated under the heading "Travel, and Other Expenses Paid with Cards" at the time of the transfer abroad (see Chart III.3.1.4).[18]

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



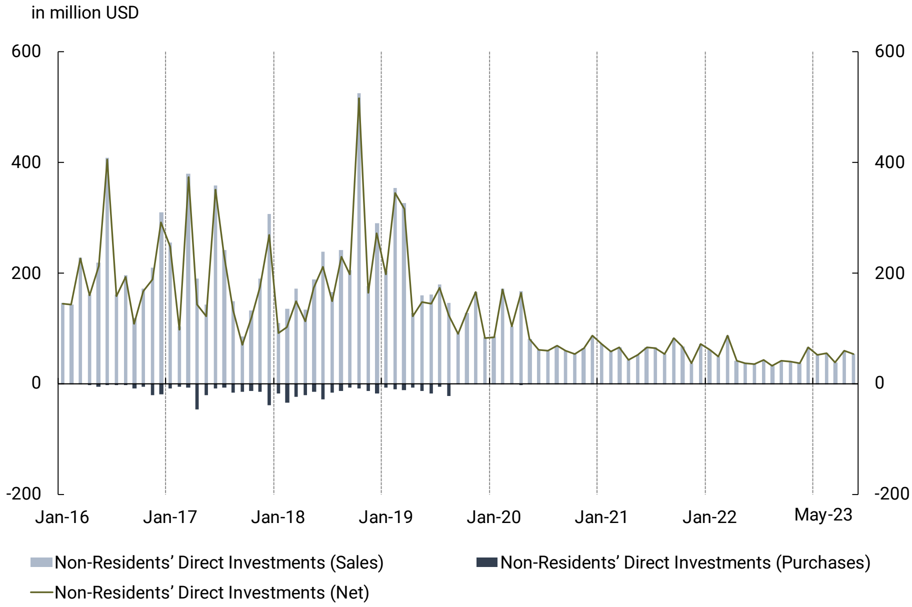
Note: Local financial debt excludes the purchases of foreign currency to pay card bills for expenses incurred abroad, which do not imply a net demand within the forex market

Source: BCRA

Direct investments made by non-residents in the private sector reached USD54 million (net inflows) in May (see Chart III.3.1.5).

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

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



Source: BCRA

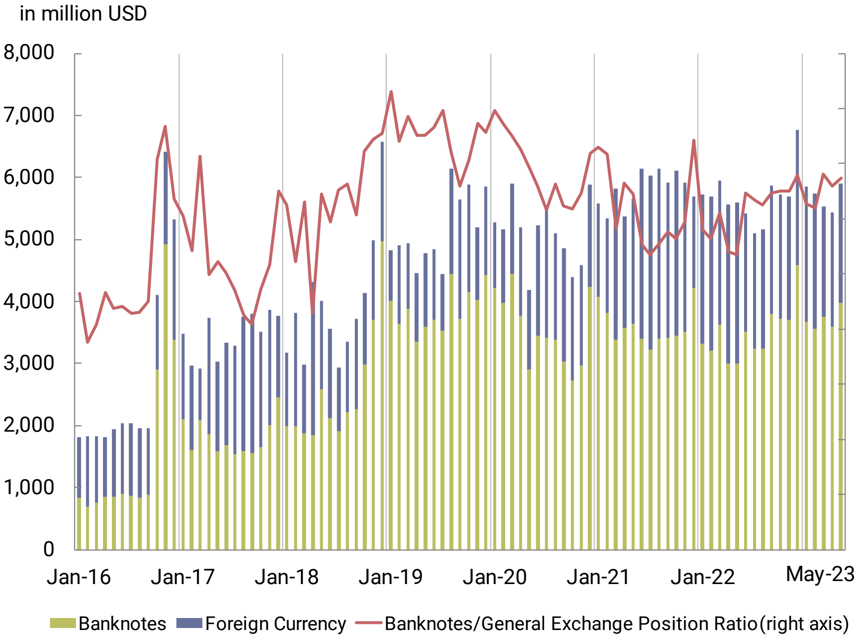
III.3.2. Foreign Exchange Financial Account of the Financial Sector

In May, the transactions carried out under the foreign exchange financial account of the "Financial Sector" recorded a deficit of USD528 million. This result is explained by the increase of USD467 million in liquid foreign assets of financial institutions' General Exchange Position, net payments of financial loans, credit lines and loans from international organizations for USD35 million, and the purchase and sale of securities for USD26 million.[19]

Financial institutions' General Exchange Position amounted to USD5,907 million at the end of May, up 9% against the end of April. The result was explained by an increase in holdings of banknotes (USD390 million) and in the stock of foreign currency (USD77 million). Holdings of foreign currency banknotes totaled USD3,976 million by the end of the month. This stock accounted for 67% of the total General Exchange Position, and it is allocated by institutions to cover local foreign currency deposit transactions and foreign exchange market needs (see Chart III.3.2.1).

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

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



Source: BCRA

On another note, the ensemble of financial institutions ended May with a forward short position in foreign currency of USD668 million, intensifying their short position by about USD132 million compared to the end of April. They sold USD95 million in regulated markets and USD37 million to their clients directly (Forwards) over the month (see Chart III.3.2.2).

Foreign-capital institutions ended May with a net short position of USD413 million, recording an increase of USD93 million compared to April. In turn, national-capital institutions sold USD39 million, increasing their net short position of April to USD255 million (see Chart III.3.2.3).

Chart III.3.2.2 Forward Market
EOM Institutions' Forward Position

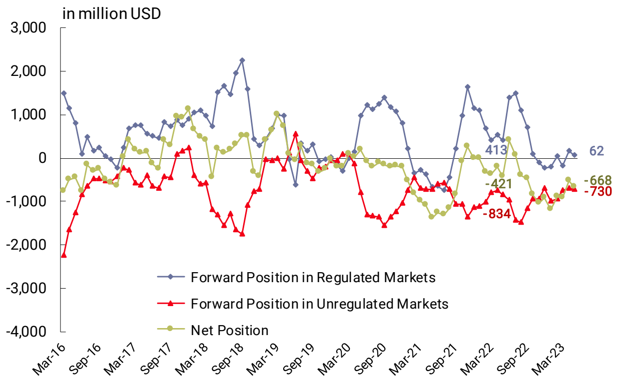
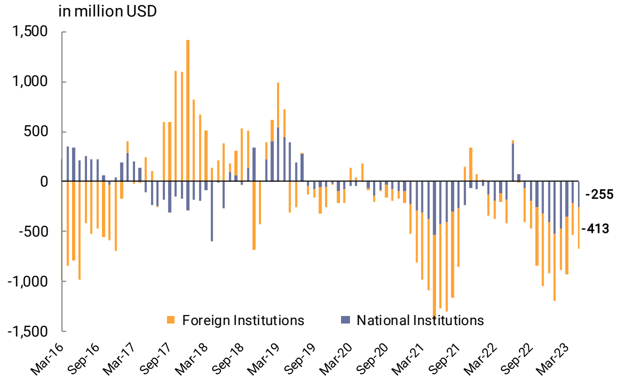


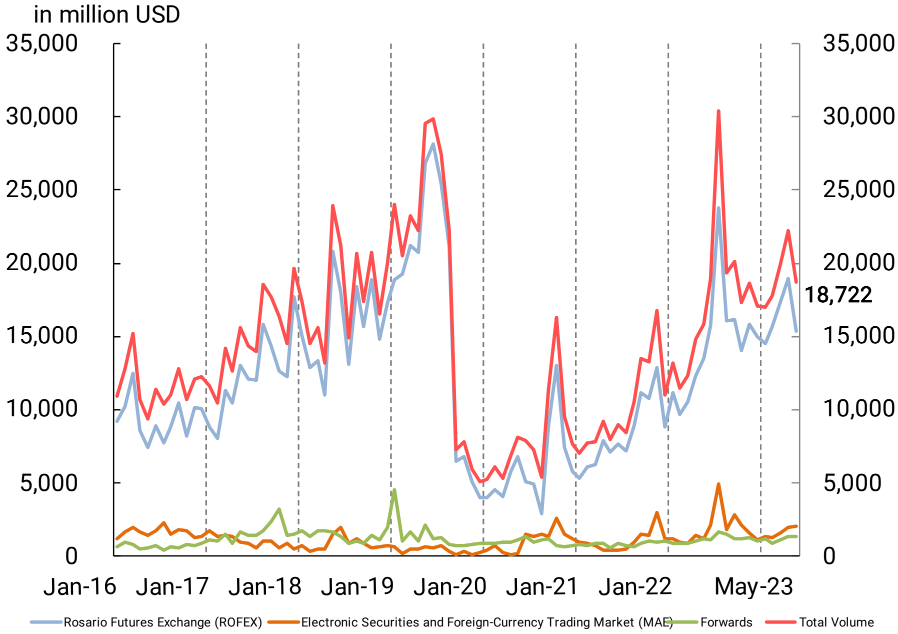
Chart III.3.2.3 Forward Market
EOM Institutions' Forward Position



Source: BCRA

The volume traded in forward markets totaled USD18,722 million in May, i.e., USD936 million daily on average. Transactions carried out in the Rosario Futures Exchange (ROFEX) continued to stand out, with an 82% share in the total volume traded in the forward market (see Chart III.3.2.4).[20]

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



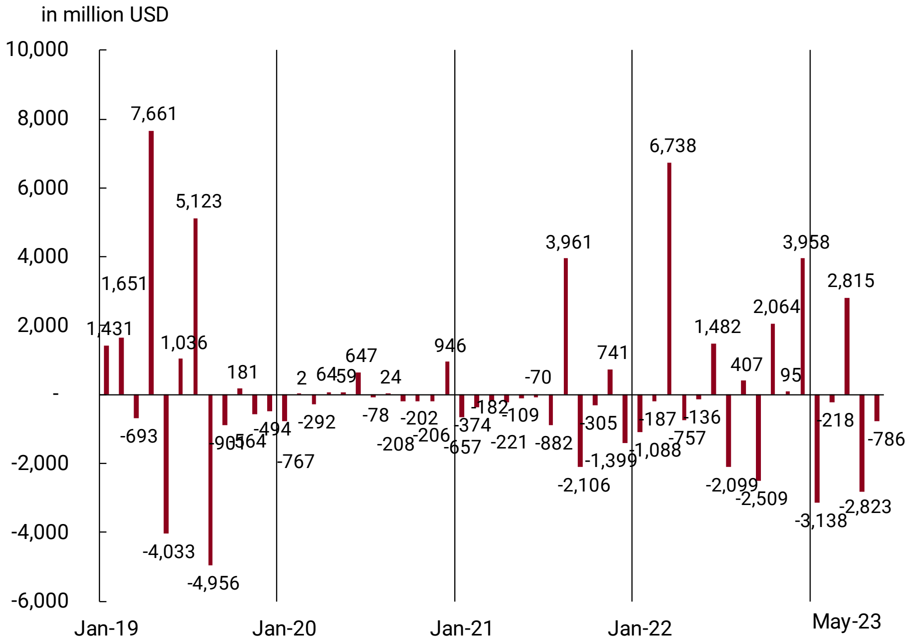
Source: BCRA

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

In May, the transactions carried out under the foreign exchange financial account of the General Government and the BCRA recorded a deficit of USD786 million (see Chart III.3.3.1), mainly explained by net payments of debt.

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

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

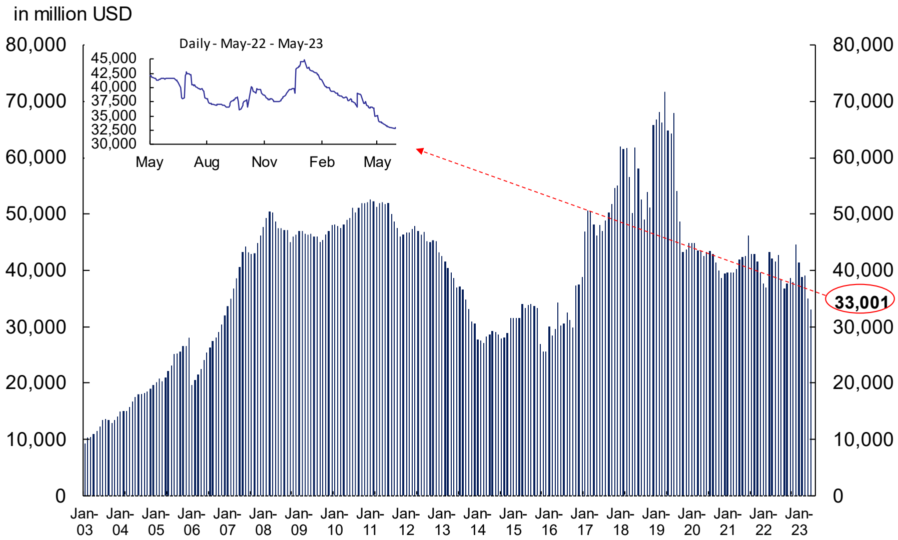


Source: BCRA

IV. BCRA's International Reserves

During May, BCRA's international reserves fell USD2,000 million, totaling USD33,001 million by the end of the month. This decrease was mainly explained by the payment of interest and fees to the International Monetary Fund of about USD800 million (SDR592 million), a fall in financial institution's holdings of foreign currency in the BCRA by about USD1,123 million, the payment of principal and interest to international organizations and other financial debt of the National Treasury of USD904 million, a decrease in the US dollar exchange rate of foreign exchange reserves by USD 591 million, and net payments settled by the BCRA through the local Currency Payment System (SML), partially offset by net purchases made by the BCRA in the forex market (see Chart IV.1).

Chart IV.1 BCRA's International Reserves



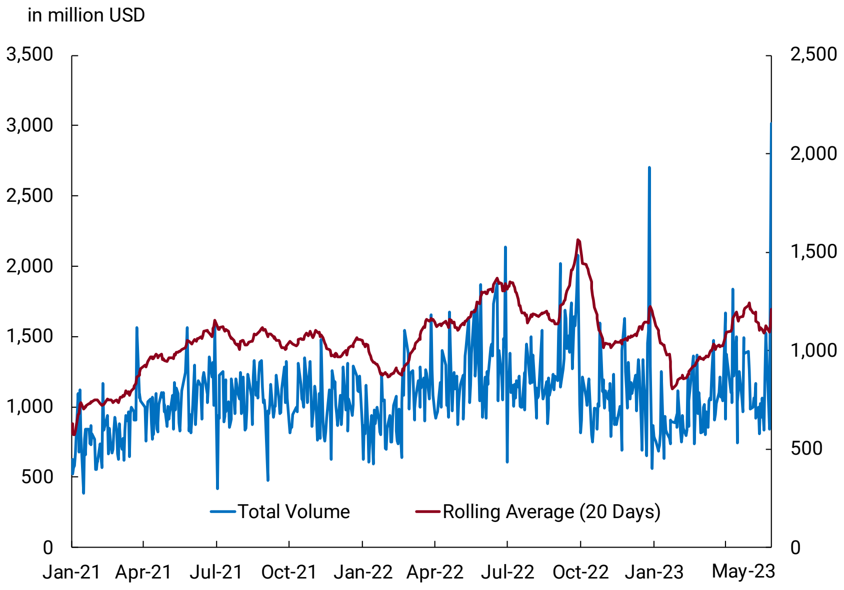
Source: BCRA

V. Volumes Traded in the Foreign Exchange Market

In May, the volume traded in the forex market totaled USD24,201 million, down 5% y.o.y. (see Chart V.1). The average daily volume traded was USD1,210 million. The y.o.y. drop in volume was explained by a 9% reduction in transactions between the institutions and their clients (about USD1,854 million), partially offset by a 24% increase in transactions between the institutions and the BCRA (about USD425 million), and a 3% increase in transactions between the institutions (about USD143 million).[21]

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

Chart V.1 Foreign Exchange Market Volume Traded Daily Evolution



Source: BCRA

Foreign exchange transactions between institutions and their clients accounted for 73% of the total volume traded, while transactions between institutions—mainly through the Electronic Trading System (SIOPEL)—represented 18%; in turn, transactions between institutions and the BCRA stood for the remaining 9% (see Chart V.2).[22]

In May, 150 institutions traded in the market involving 43 foreign currencies.

Thus, most of the volume traded between licensed institutions and their clients was highly concentrated in a few number of institutions (out of the already mentioned 150 institutions, the first ten accounted for 89% of such volume); and in the currency used, USD-denominated transactions had a 94% share in the total traded with clients, followed by Euros, which accounted for 4% of the total, and the remaining currencies concentrated 2% of the total volume traded (see Chart V.3).

[22] The volume traded between licensed institutions and their clients excludes the following items: the underwriting of LEBAC bills, self-to-self international transfers (around USD1,086 million), the record of deposits in foreign currency allocated for the payment of financial debt service for about USD340 million, and purchases of foreign currency to pay card bills for expenses incurred abroad (around USD237 million for the month under study).

Chart V.2 Foreign Exchange Market
Total Volume and Share - May 2023

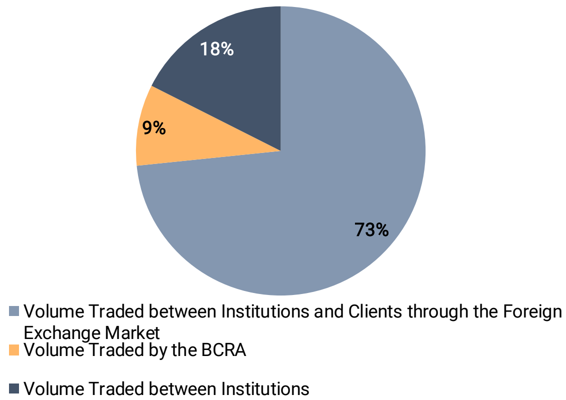
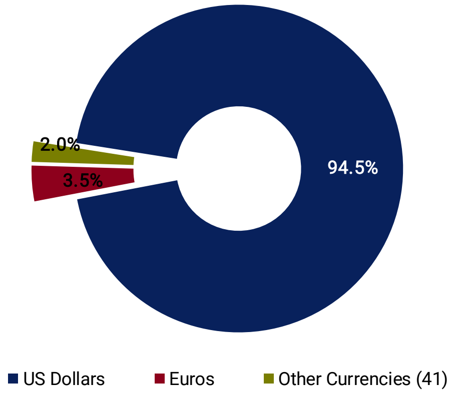


Chart V.3 Foreign Exchange Market
Volume with Clients by Currency - May 2023



Source: BCRA

Finally, 88% of foreign exchange transactions between financial and foreign exchange institutions and their clients were channeled through private financial institutions, 12% through public banks, and 0.1% through foreign exchange houses and agencies.