Evolution of the Foreign Exchange Market and Exchange Balance

February 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 February 2020

- ✓ *In February, financial institutions and their clients purchased USD185 million and USD75 million, respectively, the BCRA being a net seller for USD260 million.*
- ✓ *Companies in the real sector were net sellers of foreign currency for USD639 million.*
- ✓ *Within this group, the main sector to make net sales in historical terms ("Oilseeds and Grains") recorded net sales for USD812 million, down 44% y.o.y. Like in January, this sector continued making payments of foreign debt derived from advances and pre-financing of exports after getting extraordinary inflows in the last two months of the previous year.*
- ✓ *Companies in the "Real Sector Non-Oilseeds and Grains" recorded net purchases totaling USD172 million, particularly for the payment of debt interest and for net payments for goods and services.*
- ✓ *"Natural persons", who mainly demand foreign currency for saving and for traveling abroad, made net purchases for USD215 million, particularly under the heading Travel and Other Expenses Paid with Cards which dropped by 60% y.o.y.*
- ✓ *"Institutional Investors and Others"—both residents and non-residents—made net sales for USD194 million in February.*
- ✓ *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 USD42 million.*
- ✓ *The financial account of the "Non-Financial Private Sector" had a deficit of USD154 million, basically from net settlements of financial debt, partially offset by inflows of direct investments.*
- ✓ *The financial account transactions of the "Financial Sector" recorded a deficit of USD91 million, mainly explained by the payments of financial loans and credit lines.*
- ✓ *The transactions carried out under the foreign exchange financial account of the General Government and the BCRA were virtually offset in February (net inflows for USD2 million).*
- ✓ *During February, international reserves fell 126 million, totaling USD44,791 million by the end of the month.*

I. Introduction

This report analyses information on foreign exchange transactions made in February 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 February; 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 February, financial institutions and their clients purchased USD185 million and USD75 million, respectively, the BCRA being a net seller for USD260 million (see Table II.1).

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

Sector	February 2020
BCRA	**260**
National Treasury	-
Institutions	**-185**
Institutions' Clients	**-75**

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

The following table is intended to analyze clients' purchases and sales through institutions in the forex market; such transactions resulted in a net demand amounting to USD75 million. For readers' convenience, each sector's net foreign exchange result analyzed in this report is arranged in horizontal reading direction, and each heading's net result—as informed by the institutions to the BCRA—is displayed vertically. The result of forex transactions in pesos and in foreign currency may be set apart from the result of self-to-self international transfers (transfers of US dollars abroad in February).[5]

[4] The Central Bank's website (www.bcra.gob.ar) contains different statistical series of the Foreign Exchange Market (to access statistical series, **click here**), together with an annex broken down by sector and main headings (to access the statistical Annex of the foreign exchange balance **click here**). In addition, the "Main differences between the balance of payments and the foreign exchange balance" are available **here**. The results in this section are broken down by the main sectors trading in the forex market in order to set net purchasers apart from net sellers.

[5] Although self-to-self international transfers are not precisely forex transactions, they are recorded in forex statistics. They involve a transfer of foreign currency from abroad to a local account opened by a client in foreign currency and/or a debit of funds deposited locally for their transfer abroad. Inflows are recorded under the transfer heading (positive sign). In addition, there is a second record where the same amount is entered under a negative sign for the crediting of funds. Contrariwise, a payment abroad from a local account in foreign currency is recorded under the payment heading with a negative sign, and the debit from the account, under a positive sign. Consequently, the total result of self-to-self international transfers in the forex market is neutral.

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

Sector/Main Headings	Goods	Travel and Passenger Transport, and Others with Cards	Remaining Services and Other Current Transfers	Foreign Assets - Banknotes	Foreign Assets - Foreign Currency	Net Self-to-Self International Transfers	Debt, FDI, Portfolio, and Other Transactions	Total
Non-Financial Private Sector	**0,8**	**-0,2**	**0,0**	**0,1**	**-0,2**	**0,1**	**-0,2**	**0,6**
Oilseeds and Grains	0,8	0,0	0,0	0,0	0,0	0,0	0,0	0,8
Real Sector Non-Oilseeds and Grains	0,0	0,0	-0,1	0,0	0,0	0,0	-0,1	-0,2
Natural Persons	0,0	-0,2	0,0	0,0	-0,2	0,2	0,0	-0,2
Inversores Institucionales y otros	0,0	0,1	0,1	0,0	0,0	0,0	-0,1	0,2
General Government	**0,0**	**0,0**	**-0,2**	**0,1**	**0,0**	**0,2**	**-0,6**	**-0,5**
Institutions (Own Transactions)	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**-0,2**	**-0,2**
Institutions' Result with Clients	**0,8**	**-0,2**	**-0,2**	**0,2**	**-0,2**	**0,4**	**-1,0**	**-0,1**
Result for Forex Transactions	**0,8**	**-0,2**	**-0,1**	**0,2**	**0,0**	**0,0**	**-0,9**	**-0,1**
Result for Self-to-Self International Transfers	**0,0**	**0,0**	**-0,1**	**0,0**	**-0,2**	**0,4**	**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 February. This sector recorded net inflows for USD812 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 plunged to half the previous month's level, and dropped 44% 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, in part, paid in January and assumingly in February (for further information, see Section III.1.1).

Companies in the "Real Sector Non-Oilseeds and Grains" made net purchases totaling USD172 million, to pay debt interest for USD101 million, and to make net payments for goods and services for USD13 million and USD67 million, respectively.

"Natural persons" made foreign currency net purchases totaling USD215 million, basically for expenses paid on cards for consumption abroad (moderately less than USD200 million, recording a drop of 60% y.o.y.), and for saving purposes (USD23 million). Furthermore, they transferred USD230 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 USD194 million, mainly for services.

The "General Government" made net purchases in the forex market through licensed financial institutions for USD468 million, particularly for local governments' debt servicing payments.[6]

Finally, financial institutions used their own funds (USD225 million) to pay financial debt (principal and interest).

III. Foreign Exchange Balance

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

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

III.1 Current Account

The transactions from the current account in the foreign exchange balance evidenced a surplus of USD42 million in February, resulting from the net sales in “Goods”, and “Secondary Income”, which were partially offset by the net outflows from “Primary Income” and “Services”.

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

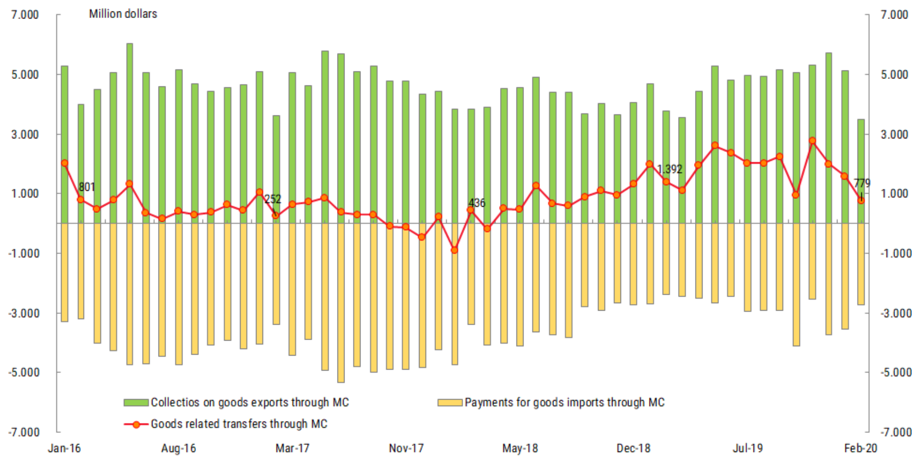
Fecha	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Exchange Current Account	448	245	219	236	933	498	820	1.422	-515	1.350	576	50	42
Goods	1.392	1.124	1.945	2.610	2.381	2.021	2.024	2.248	952	2.759	1.995	1.590	779
Services	-505	-416	-487	-581	-498	-529	-513	-224	-438	-259	-346	-26	-72
Primary Income	-463	-478	-1.253	-1.792	-967	-1.017	-644	-627	-1.051	-1.171	-1.096	-1.526	-689
Secondary Income	25	15	15	-1	17	24	-46	25	21	21	23	12	24

III.1.1 Goods

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

In February, transfers for “Goods” on the foreign exchange balance exhibited net inflows for USD779 million, resulting from collections on exports for USD3,505 million and payments of imports for USD2,726 million (see Chart III.1.1.1).

Chart III.1.1.1 Foreign Exchange
Balance Transfers for Goods



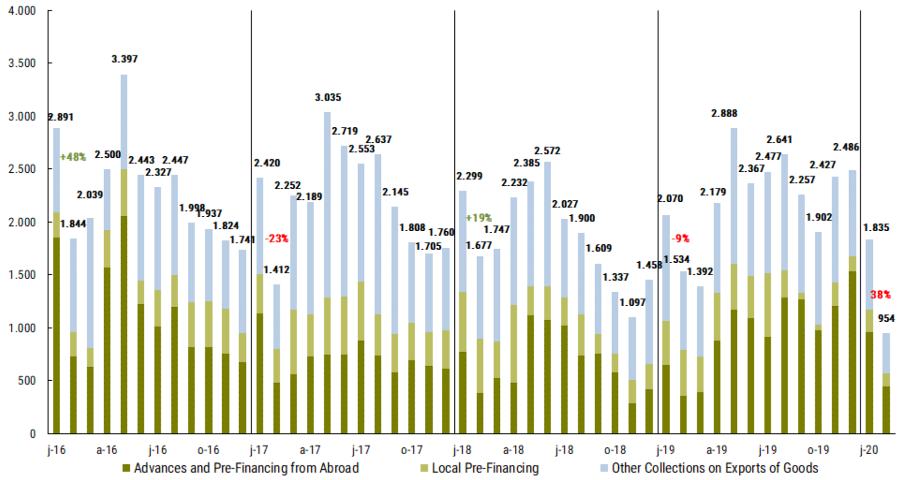
The “Oilseeds and Grains” sector recorded foreign currency sales for collections on exports for USD954 million, down 38% y.o.y. In turn, Affidavits of Sales Abroad (Declaraciones Juradas de Ventas al Exterior) as reported by

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

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 67% y.o.y.

February's exports for the sector were estimated at about USD1,600 million (a similar level to that of February 2019). Indeed, they exceeded the collections on exports of goods by about USD700 million, which would imply a reduction of the sector's debt in January and February (reverting, in part, the extraordinary inflows observed in the last two months of the previous year).

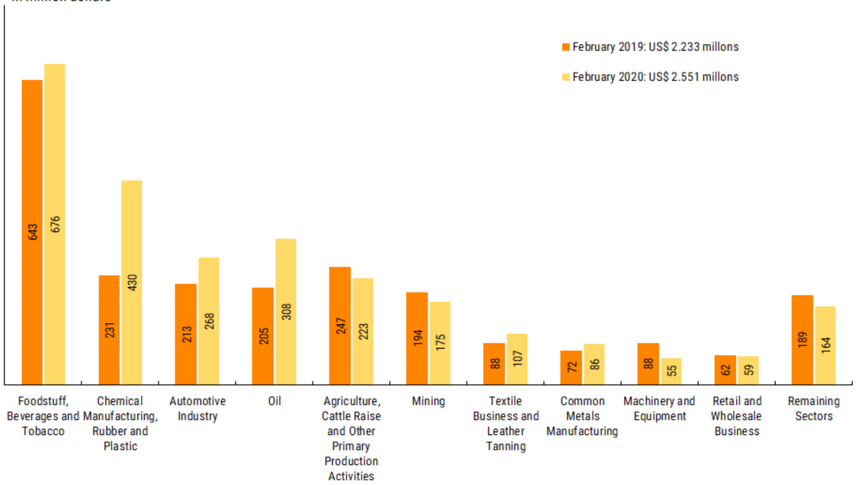
Chart III.1.1.2 Foreign Exchange Balance
Collection on Exports of Goods from the "Oilseeds and Grains"
Million dollars



In February, the local trade level of soybean represented around half of the average recorded in the last 5 harvest seasons. However, corn and wheat trade levels were similar to that of previous years.

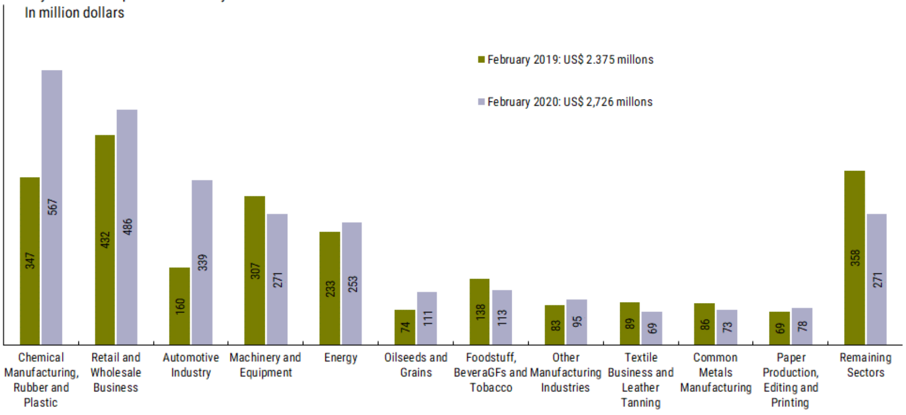
In turn, the collections on exports of goods from the remaining sectors amounted to USD2,551 million, out of which two thirds were concentrated in the "Food, Beverages and Tobacco", "Automobile Industry", "Oil" and "Mining" sectors (see Chart III.1.1.3).

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



Purchases recorded as payments for imports of goods totaled USD2,726 million, out of which 61% corresponded to the "Automobile Industry", "Chemical, Rubber and Plastic Industries", "Energy" and "Commerce" sectors (see Chart III.1.1.4).[8]

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



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

When breaking down payments by the method used, deferred payments accounted for 76% of total payments, while the remaining 24% were advance payments (15%) and cash payments (9%).

III. 1.2. Services, Primary and Secondary Income

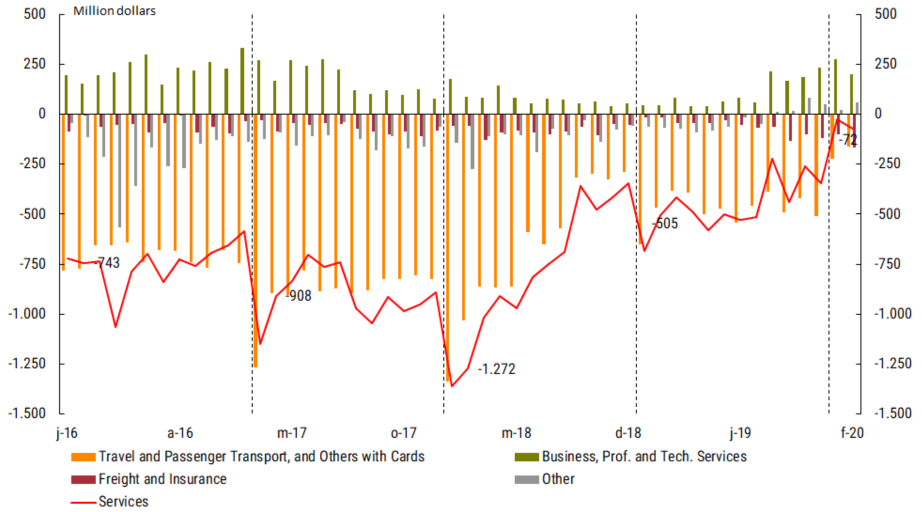
The "Services" account recorded a deficit of USD72 million, mainly explained by net outflows from "Freight and Insurance" and "Travel and Passenger Transport, and other Expenses Paid with Cards" which amounted to USD167 million and USD161 million, respectively. These transactions were partially offset by net inflows from "Business, Professional and Technical Services" for USD199 million (see Chart III.1.2.1).[9]

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

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

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

Chart III.1.2.1 Foreign Exchange Balance
Net Inflows from Services



Primary income transactions recorded net outflows amounting to USD689 million in February, 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 interest payments, 80% were made by the "General Government and the BCRA". Finally, secondary income transactions recorded inflows for USD24 million.

III. 2. Capital Account

In February, the capital account of the foreign exchange balance evidenced a surplus of USD9 million, resulting from net inflows from the "Non-Financial Private Sector".

III. 3. Foreign Exchange Financial Account

In February, net inflows for the foreign exchange financial account totaled USD46 million. Inflows for "Other Net Transfers"—resulting from the collection of local loans in foreign currency granted by financial institutions—amounted to USD290 million and were partially offset by the deficits of the "Non-Financial Private Sector" and the "Financial Sector" for USD154 million and USD91 million, respectively. The transactions of the "General Government and the BCRA" were virtually offset (net inflows for USD2 million).[10]

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

Date	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Foreign Exchange Capital and Financial Account	**217**	**-2.453**	**4.831**	**-7.150**	**-2.521**	**2.385**	**-14.568**	**-6.659**	**-5.402**	**-944**	**151**	**-258**	**46**
Financial sector	-440	4	-313	-1.132	-994	-84	-1.982	477	-311	532	-728	473	-91
Non-Financial Private Sector	-1.738	-2.319	-2.688	-3.749	-3.219	-4.031	-4.431	-3.339	-4.520	-529	-626	-181	154
Public Sector and BCRA	1.651	-693	7.661	-4.033	1.036	5.123	-4.956	-901	181	-564	-494	-767	2
Other Net Movements	744	555	172	1.764	656	1.377	-3.199	-2.896	-751	-383	2.000	217	290

[10] 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,—and of clearing records of transactions that do not affect the stock of foreign assets.

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

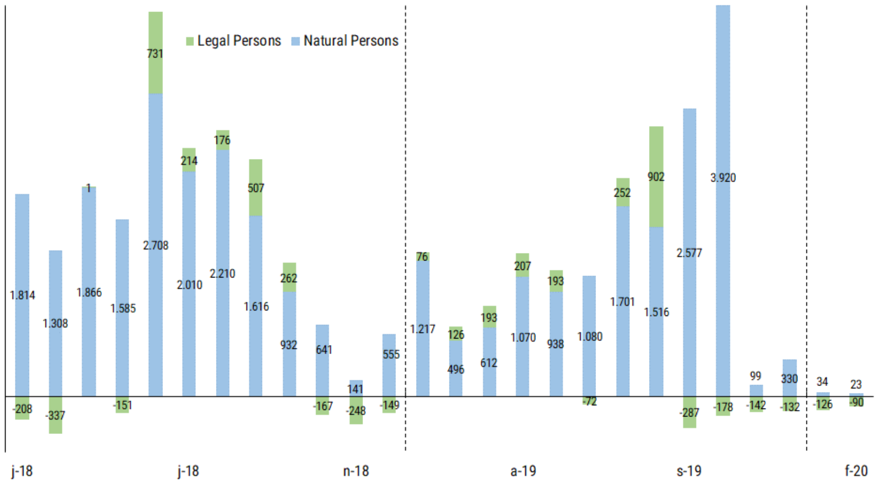
The financial account of the "Non-Financial Private Sector" had a deficit of USD154 million, basically from net settlements of financial debt, partially offset by inflows of direct investments (see Table III.3.1.1).

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

Date	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Foreign Exchange Financial Account	-3.185	-1.738	-2.319	-2.688	-3.749	-3.219	-4.031	-4.431	-3.339	-4.520	-529	-626	-181	-154
Non-Residents' Direct Investments	197	344	316	121	148	144	174	123	91	128	166	83	84	170
Non-Residents' Portfolio Investments	-227	175	-243	-138	-858	-1.410	-850	-974	3	3	0	6	2	2
Financial Loans and Credit Lines	-93	-218	-180	-137	-309	-41	-162	-454	-1.379	-1.102	-695	-646	-452	-503
Loans from Other International Organizations and Other	7	-8	-12	12	-7	-2	-2	19	-59	-67	-38	-41	64	155
Buildup of Foreign Assets by the Non-Financial Private Sector	-1.958	-965	-1.771	-2.341	-2.496	-1.349	-2.951	-5.909	-3.013	-4.125	-144	153	-60	-114
Self-to-Self International Transfers	-319	-440	252	428	714	-451	95	3.403	1.039	624	187	-182	185	136
Purchase and Sale of Securities	-792	-625	-680	-634	-941	-111	-335	-638	-20	19	-4	1	-5	0
Heading Not Informed by the Client (Net)	686	566	550	491	502	646	745	533	1	0	0	0	0	0

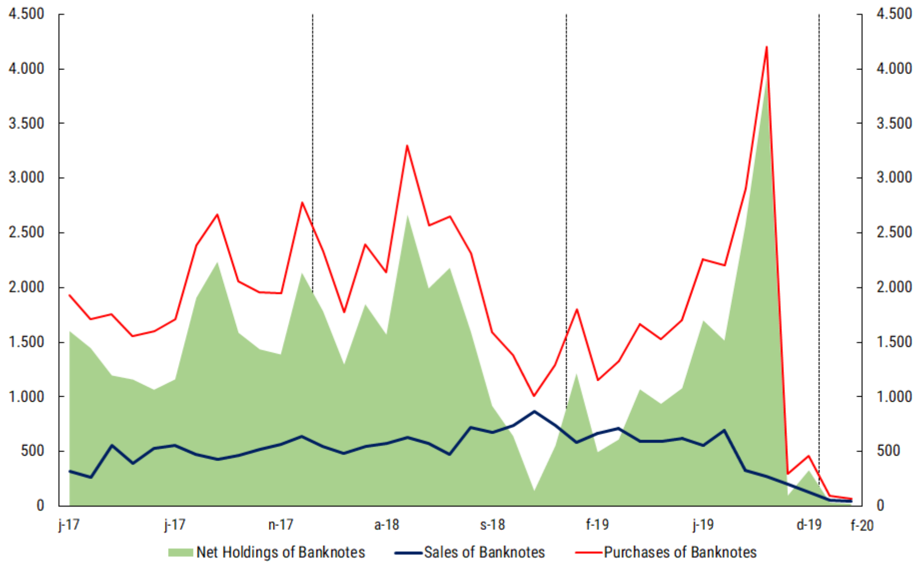
In February, net purchases of foreign currency made by residents intended to buildup foreign assets amounted to USD114 million, which can be broken down into net transfers abroad for USD181 million, and net sales for USD66 million. This was explained by the net sales of companies for USD90 million ("Institutional Investors and Others" for USD54 million, and "Real Sector" for USD36 million), while "Natural Persons" recorded net purchases for USD23 million (see Chart III.3.1.1).

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



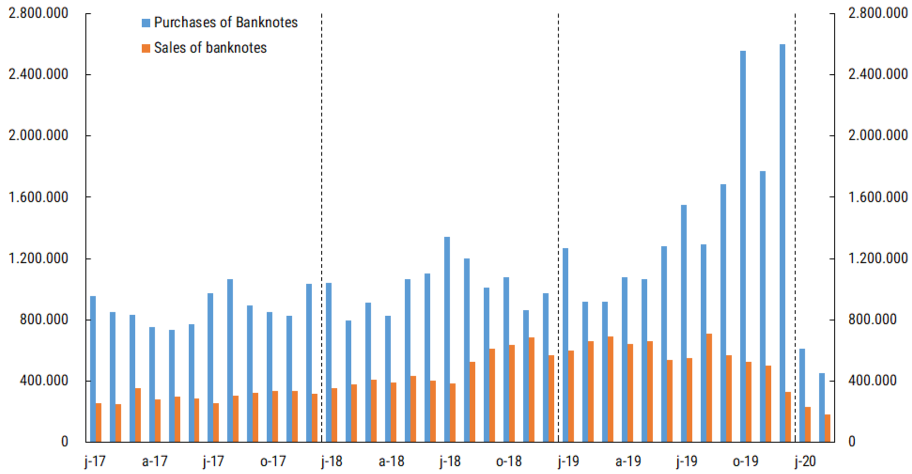
After the implementation of the "PAIS" tax law in December 2019, gross purchases of banknotes made by "Natural Persons" fell for the second month in a row, totaling USD68 million in February, down USD25 million compared to the total amount recorded in January (see Chart III.3.1.2). Likewise, the amount of purchasers dropped by about 160,000 compared to January, totaling around 455,000 in February (see Chart III.3.1.3).

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



Sales of banknotes by "Natural Persons" evidenced a decrease compared to January, both in terms of amount (USD15 million) and number of clients (about 45,000); totaling USD44 million and 185,000 clients, respectively.

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



In turn, net transfers to their own accounts abroad totaled USD181 million. The transfers made by "Natural Persons", mostly from funds deposited in their accounts, amounted to USD230 million ("self-to-self international transfers"). On another note, legal persons included in the "Real Sector" and "Institutional Investors and Others" repatriated funds from abroad totaling USD44 million and USD5 million, respectively.[11]

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

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

regulatory changes introduced by Communication "A" 6770, purchases by legal persons to make transfers abroad now require the prior authorization of the BCRA.

Net payments of financial debts totaled USD214 million in February: net inflows from foreign debts for USD45 million, and net local debt payments for USD260 million. Inflows from foreign debts were mainly observed in the sectors related to "Energy" production and distribution.[12]

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

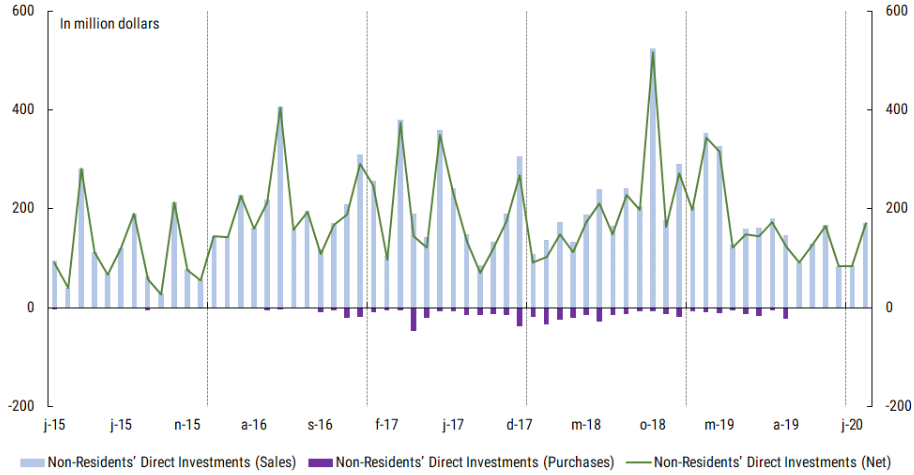
Investments made by non-residents recorded net inflows for USD172 million, basically accounted for by direct investments (USD170 million).[13]

Direct investments were mainly made in the "Oil" (USD85 million), "Mining" (USD23 million) and "Chemical, Rubber and Plastic Industries" (USD23 million) sectors, all of which concentrate more than 75% of inflows.

[12] Net payments exclude purchases of foreign currency to pay card bills for expenses incurred abroad for an amount of USD135 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.

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

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



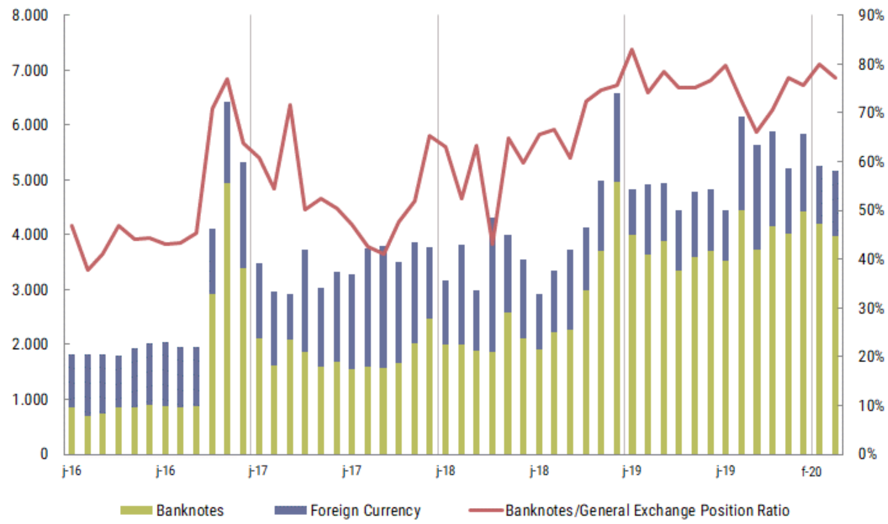
Finally, due to the regulatory changes implemented that limited the transactions carried out by institutions with their own funds, foreign currency flows from transactions carried out with securities in the secondary market posted no significant movements.[14]

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

In February, the foreign exchange financial account of the "Financial Sector" recorded a deficit of USD91 million. This is explained by payments of financial loans and credit lines for USD205 million, and a decrease of USD113 million in financial institutions' liquid foreign assets making up the General Exchange Position.[15]

On the other hand, institutions ended February evidencing a General Exchange Position of USD5,153 million, out of which 70% corresponded to holdings of foreign currency banknotes for USD3,980 million (see Chart III.3.2.1).

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



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

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

On another note, the group of financial institutions ended February with a forward short position in foreign currency of USD215 million, a figure comparable to that recorded at the end of January. They sold USD148 million in regulated markets and purchased USD146 million from their clients directly (Forwards) over the month (see Chart III.3.2.2).

In February, foreign institutions made forward net sales for USD22 million and national institutions made net sales for USD21 million (see Chart III.3.2.3).

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

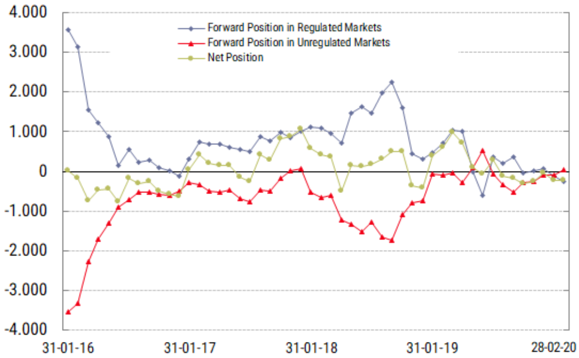
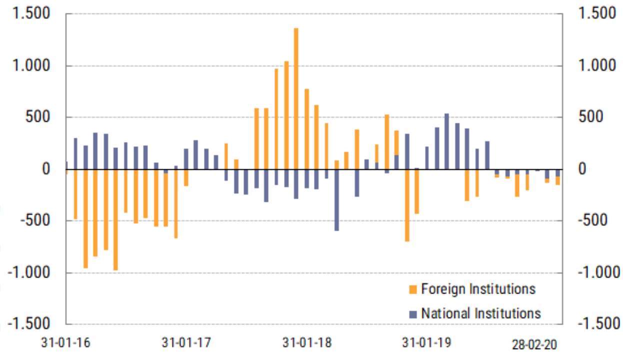
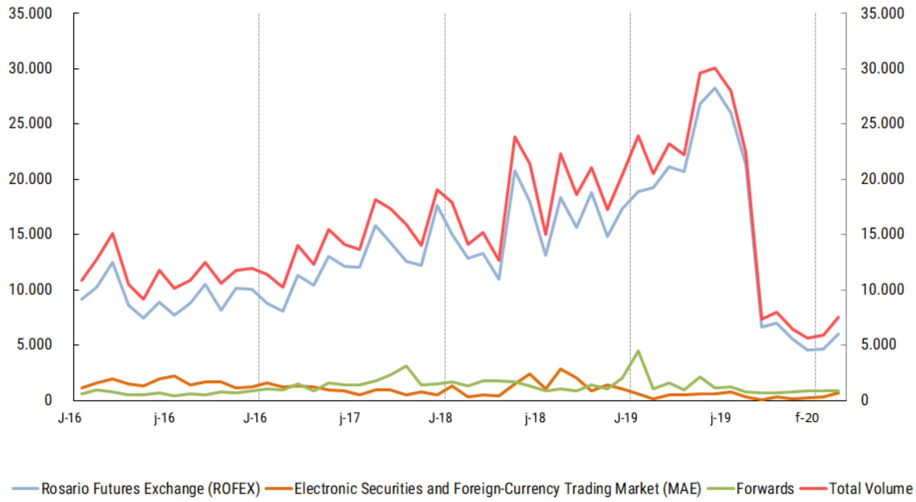


Chart III.3.2.3 Forward Market
Institutions' Forward Position
Equivalent in million dollars



The volume traded in forward markets totaled USD7,530 million in February, i.e.: USD418 million on a daily basis. The total traded increased by 28% compared to the previous month and slid down by 63% y.o.y. (see Chart III.3.2.4). Transactions carried out in the Mercado a Término de Rosario (ROFEX) accounted for 80% of the total volume traded in the forward market. [16]

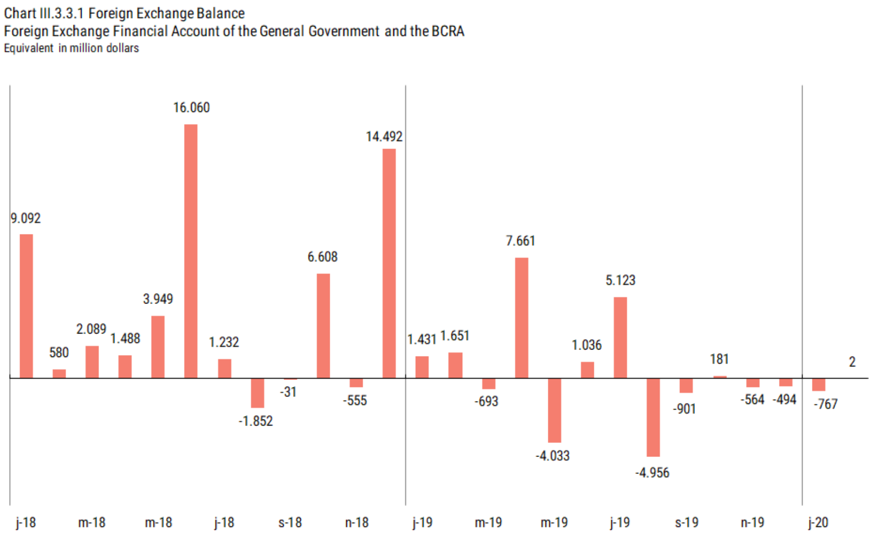
Chart III.3.2.4 Forward Market
Total Volume Traded in the Forward Market
Equivalent in million dollars



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

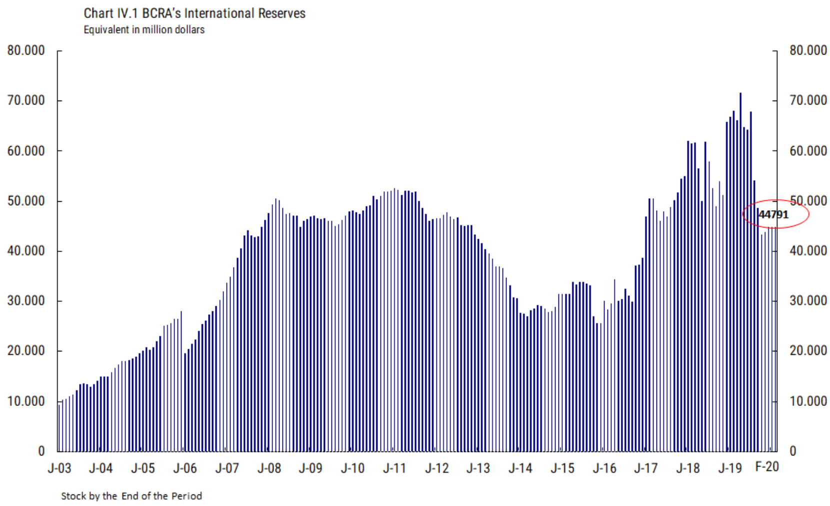
III. 3.3. The Foreign Exchange Financial Account of the General Government and the BCRA

In February, the transactions carried out under the foreign exchange financial account of the General Government and the BCRA recorded net inflows for USD2 million (see Chart III.3.3.1). This amount had virtually a neutral effect, which was mainly explained, on aggregate terms, by net payments of principal of debt securities and financial loans for USD215 million with deposits in foreign currency ("self-to-self international transfers").



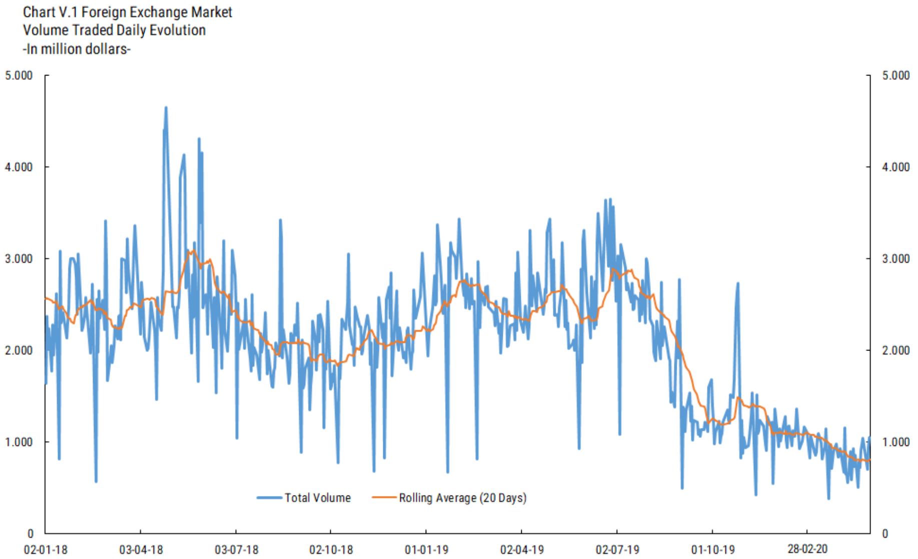
IV. BCRA's International Reserves

In February, international reserves decreased by USD126 million, totaling USD44,791 million by the end of the month as a result of the transactions described above and the decrease in the exchange rate and valuation of USD224 million.



V. Volumes Traded in the Foreign Exchange Market

Against the backdrop of a forex market with tighter regulations and controls, the volume traded in February totaled USD14,240 million, following a downward trend in the past seven months, and evidencing a drop of 72% y.o.y. This total involved a daily volume of around USD800 million (see Chart V.1). The y.o.y. decline in the volume was mainly explained by a fall of 72% in transactions between licensed institutions and their clients, and of 78% in transactions carried out between financial and foreign exchange institutions.[17]



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 22%; in turn, transactions between institutions and the BCRA stood for the remaining 5% (see Chart V.2). [18]

As usual, most of the volume traded between licensed institutions and their clients was concentrated in a few number of institutions (out of 233 institutions, the first ten accounted for 84% of such volume) and in the foreign currency used; USD-denominated transactions had a 95.4% share in the total traded with clients (see Chart V.3), followed by Euros, which accounted for 4.0% of the total.

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

[18] The volume traded between licensed institutions and their clients excludes the following items: clients' underwriting of LEBAC Bills, self-to-self international transfers (around USD833 million in February 2020), and purchases of foreign currency to pay card bills for expenses incurred abroad (around USD140 million for the month under study).

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

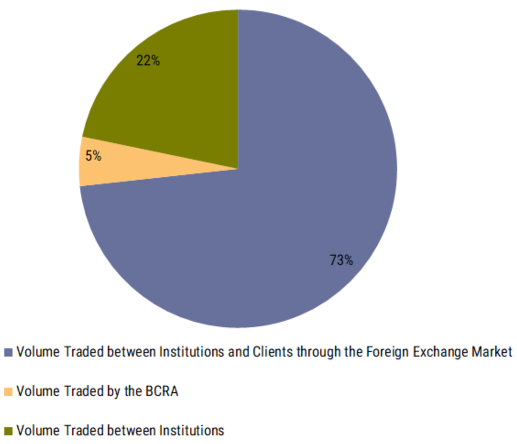
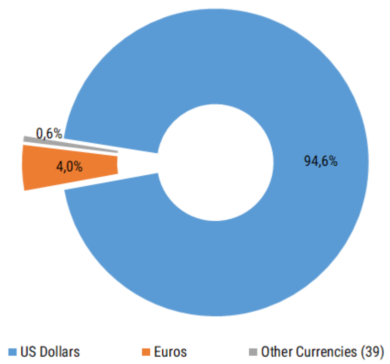


Chart V.3 Foreign Exchange Market
Volume with Clients by Currency February 2020



Finally, 89.5% 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 10.5% (10.3% and 0.2%, respectively).