Due to agribusiness exports, during the first 5 months of 2021 the exchange current account registered the highest surplus in the last 10 years

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Until May 2021, due to agribusiness exports, the exchange current account had a surplus of US$ 5,806 M, a peak since 2012. The Central Bank of the Argentine Republic (BCRA, for its Spanish acronym) increased its reserves by US$ 2,484 M.

Article 1: What happened during 2020 with international reserves in Argentina?

All along 2020, the international reserves (IIRR) presented an important drop of US$ 5,461 million, with a strong decrease between the months of August and November for US$ 4,734 million. In that sense, the evolution of the Exchange Balance financial account was a factor that made it impossible the accumulation of reserves. This was due to the cancellation of "Financial Loans, debt securities and credit facilities", which implied an important outflow of foreign currency month after month, which added to the growing dynamics of "purchase of external assets by the non-financial private sector", that is to say, the dollarization of the private investors portfolio.

This way, during the last months of 2020, the government resorted to the implementation of more exchange controls as a way to stop the increasing outflow of foreign currency due to the dollarization of the private sector.

Article 2: What happened to international reserves from January 2021?

Although since January 2021 an important income of foreign currency started to show due to exports of the Oilseed and Cereal sector, until the month of April a steady recovery of the reserves was not achieved by the BCRA. In that sense, the rise of international prices of the main commodities exported by Argentina allowed so far to have a record income of foreign currency in 2021 due to the export of agribusiness goods. Between the months of January and June 2021, the BCRA was able to recover a good share of the reserves lost during the previous year, with a net increase of US$ 3,050 million and reaching a stock of US$ 42,437 million on the last day of June. The evolution of reserves can be seen on the following graphic.

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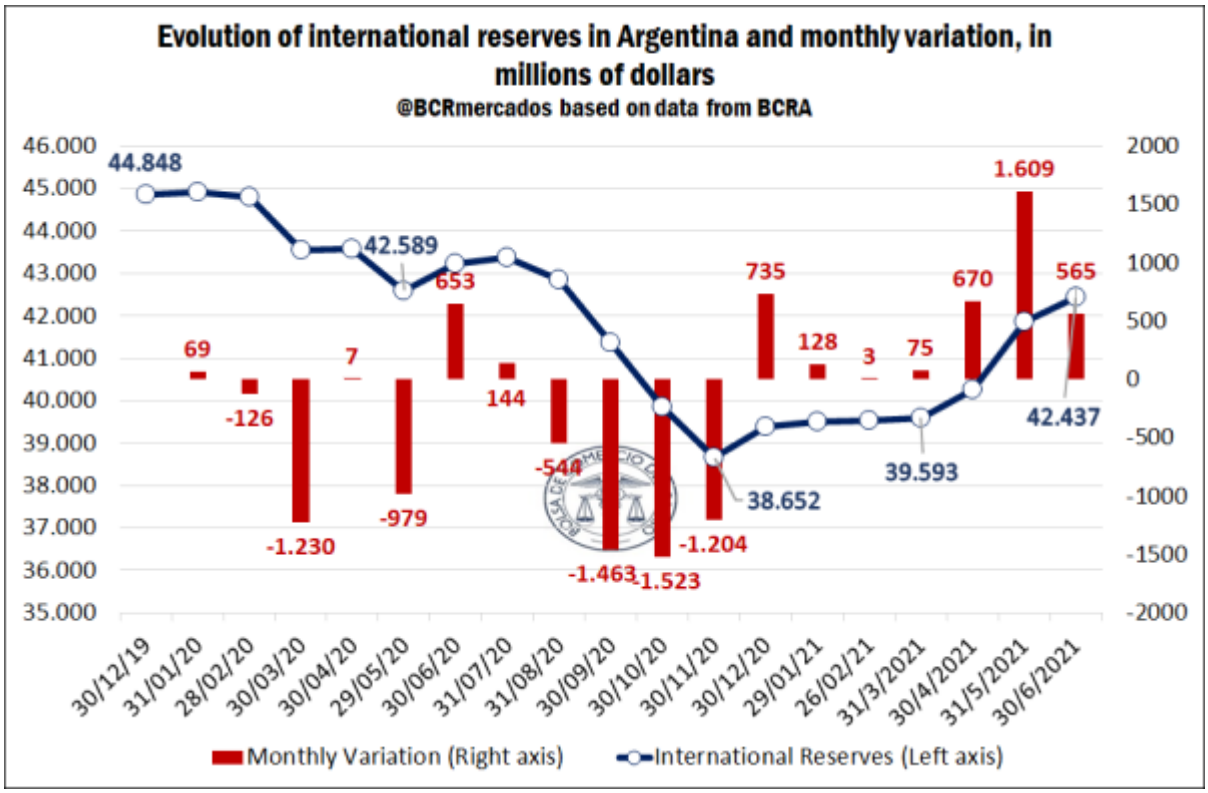

It is important to mention that the statistical series of IIRR has a daily basis, so we previously presented its evolution until the month of June, while the Exchange Balance presented below has some delay in its publishing and the date refers up to the month of May.

Article 3: During the first five months of 2021, due to agribusiness exports, the exchange current account had a surplus of US$ 5,806 million, the hightest value since 2012. During that time, the BCRA managed to increase its reserves by US$ 2,484 M and the Oilseed and Cereal sector generated a record foreign currency income of US$ 14,520 M.

In order to analyse with a higher level of detail the evolution of the international reserves (IIRR), we looked into the Exchange Balance accounts of the BCRA (see respective chart) between the months of "January and May" of each year during the period 2011-2021. It is important to highlight that the monthly variation of the accounting IIRR comes from adding "current account", "capital account", "financial account" and the "adjustment per type of pass and valuation".

During the first five months of 2021, the exchange current account had a surplus of US$ 5,806 million, that is to say, the highest value since 2012. Inside that account are net exports (minus imports) of goods and services, primary income (interests, profits, dividends and other proceeds), and secondary income (other current transfers in foreign currency).

It is to be noted that a positive result in the settlement of export foreign currency is a genuine source of foreign currency that is necessary to enhance in order to help maintaining the macro-economic balances linked to the external sector. Between January and May 2021, net exports of goods reached a foreign currency income of US$ 8,792 million, a very favourable result that is only behind years 2012 and 2019 when analysing period 2003-2021.

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Exchange Balance "to the same period" and Variation of International Reserves (IRR). In millions of dollars

Period up to month 05 every year

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Exchange current account (1)	4.561	7.012	-2.241	-922	-1.913	-6.899	-4.673	-8.254	1.193	-303	5.806
Net receipts from exports of goods	7.368	9.325	3.792	3.373	3.929	5.411	3.542	1.510	9.063	3.686	8.792
Oilseeds and Cereals	*12.585*	*13.399*	*11.594*	*11.678*	*9.221*	*12.351*	*10.731*	*9.899*	*9.701*	*6.732*	*14.520*
Rest of the Non-Financial Private Sector, GG and Entities	*-5.218*	*-4.074*	*-7.801*	*-8.306*	*-5.292*	*-6.939*	*-7.189*	*-8.389*	*-638*	*-3.046*	*-5.728*
Net receipts from exports of "services"	-225	-787	-3.896	-2.117	-3.076	-4.050	-4.355	-5.609	-2.675	-210	-989
Primary Income	-2.907	-1.767	-2.239	-2.260	-2.793	-8.366	-4.036	-4.227	-5.288	-3.831	-2.014
Secondary income	326	241	101	82	27	106	176	72	93	52	17,3
Capital account (2)	27,4	22,0	8,5	15,1	31,9	41,2	52,7	69,4	70,9	49,1	35,3
Financial account (3)	-5.211	-6.319	-1.834	-1.203	3.947	11.229	10.953	70	-4.951	-1.959	-3.880
Variation of RRII by transactions (4 = 1+2+3)	-622	715	-4.067	-2.110	2.066	4.371	6.333	-5.363	-883	-2.213	1.961,8
Adjustment by type of pass and valuation (5)	493	-114	-672	51	-190	237	505	406	-124	-47	522
Accounting Variation RRII (4+5)*	-130	602	-4.739	-2.059	1.875	4.608	6.838	-7.708	-3.811	-2.260	2.484

*@BCRmercados based on data from BCRA * There may be differences with the series of international reserves for rounding reasons.*

Also, if we analyse net export of goods in more detail, the "Oilseed and Cereal" sector was the most important of all good export sectors. During the period from January to May 2021, it reached a foreign currency income of US$ 14,520 million, setting a historical record for the period considered between years 2003 and 2021 and solidifying as the main foreign currency supplier for the Single Open Foreign Exchange Market (MULC, for its acronym in Spanish), as reflected in the BCRA exchange balance.

Article 4: How was that foreign currency income by the "Oilseed and Cereal" sector assigned during period January-May (inclusive) 2021?

Those U$S 14,250 million might have been assigned in the following manner:

- 39.5% of those U$S 14,250 million were used to cover the deficit of goods in the rest of the private non-financial sector, General Government and Entities, since they present net purchases of foreign currency in the exchange market for US$ 5,728 million. This is due to the fact that the sale of foreign currency for exports of goods by these sectors are not enough to cover the needs of foreign currency purchase to import products, so that the "agribusiness foreign currency income" facilitates the necessary foreign currency so that other industries or activities can operate.

- 6.8% were used to cover the deficit on the service sector, since along the period under analysis there was a trend of net purchase of foreign currency accumulating US$ 989 million between January and May 2021.

- 40.6% were destined to cover the need of foreign currency by the rest of the Exchange Balance accounts. In that sense, it can be mentioned that the sub-account "primary income" connected to the payment of interests and net outflow of dividends and profits, added to the result of the "financial account", consolidate as the two sources of foreign currency outflow outside payments and charges for goods and services.

- The remaining 13.1% allowed for the collaboration in the increase of BCRA reserves by US$ 1,909.2 million.

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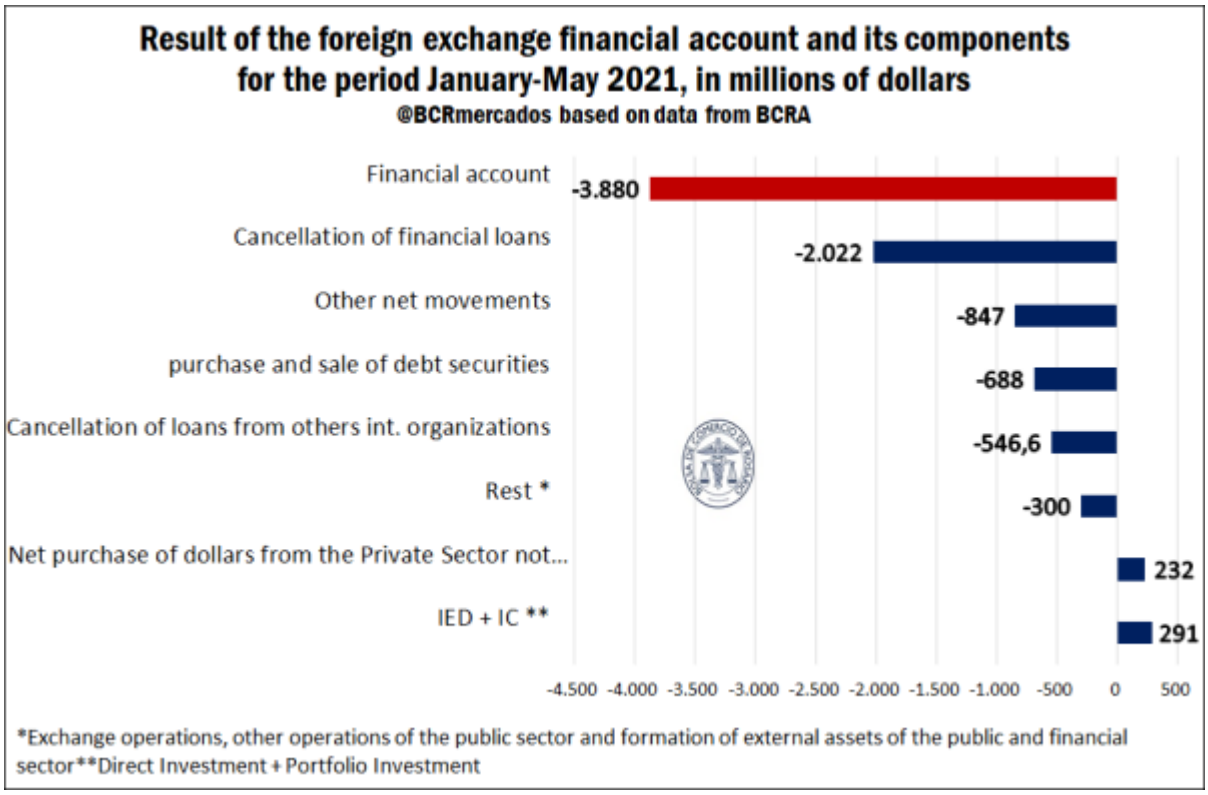
In that sense, if we add the result of primary income (US$ 17.3 million) and the capital account (US$ 35.3 million), we reach the positive variation of total international reserves for the period under consideration for US$ 1,961.8 million. It is important to mention that in order to reach this accounting variation the adjustments per type of passes and valuations need to be taken into consideration.

On a general level and following the account breakdown of the BCRA Exchange balance, during the first five months of the year an increase of international reserves was reached for US$ 2,484 million. Although there are still no data from the Central Bank for the month of June, as showed on the first graphic, the international reserves rose by US$ 565 million and there is a total increase in reserves of US$ 3,050 million for the first semester of 2021.

Article 5: What is shown by the financial account of the Exchange balance during the first 5 months of 2021?

During the first five months of the year, this financial account registered a negative foreign currency result for US$ 3,880 million, that is to say, a worse result than the one recorded during the previous year in the same period of analysis.



Among the main causes for the outflow of foreign currency from the financial account are two areas:

a) The net cancellation of "financial loans, debt securities and credit facilities" for US$ 2,022 million, where the most impact was made by the cancellation of the Oil sector debt (US$ 670 M), payments made by "Others private non-financial sector" (US$ 633 M) and the Public sector (US$ 247 M) without including the National Government (it is included under "Other operations by the public sector").

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b) On second place, it stands out the sub-account "Other net movements" for US$ 847 million. It is made up by movements that, without being exchange or income operations and direct cancellations of the BCRA or the National Government, affect the level of international reserves of the BCRA. Among them we can find, mainly, movements of holdings of entities in BCRA foreign currency accounts.

Finally, among the main sub-accounts that help to improve the financial account we identify the positive result of US$ 291 million per direct foreign investment and portfolio investment. At the same time, higher exchange restrictions allowed for net purchase of foreign currency by the BCRA from the private non-financial sector (US$ 232 million).

Article 6: Final conclusions

Year 2021 had a favourable start due to an important increase of international prices of the main agribusiness commodities, which allowed, at least until the month of May, a record income of foreign currency per net exports of goods from the Oilseed and Cereal sector for US$ 14,520 million. Such a volume of foreign currency settlement -from the main export sector of Argentina- is 47% above the net foreign currency income due to export of goods, considering the average of the last five years between January and May in the mentioned sector (US$ 9,883 million)

On the other hand, the rest of the sectors of Argentinian economy started to import a larger amount of goods, alongside the recovery of the activity during the current year. As a consequence, they obtained a deficit per net import of goods for US$ 5,728 million until the month of May, above the average of the last five years (US$ 5,240 million). In that sense, in order to solidify a recovery of the local economy, there is a need of bigger imports for production, which implies the need to renegotiate in the short-term the external debt in order to relieve the interest and capital payment program that affect negatively the "primary income" and "financial account" result altogether.

Also, with the aim of finding a quick solution to the current external restriction faced by our country, it is necessarily required to focus the efforts on generating incentives to increase production of goods where Argentina is already competitive on the international market, so as to increase the exportable supply and not damage the domestic market. Among those sectors are the meat industries, just as the rest of the regional economies in and out of the Pampa.

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