Private Sector External Debt Report

June 2017

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Private Sector External Debt Report as of June 30, 2017

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Executive Summary

- During the second quarter of 2017, international financial markets were less volatile and most stock indicators kept their upward trend while the yields of sovereign debt securities remained stable by late June. Towards the fourth quarter, external debt risk indicators continued falling and, in October 2017, they reached the lowest value since the end of 2007.

- Within this context, external liabilities from the private sector totaled US$ 63,853 million[2] as of June 30 2017, up US$ 1,390 million in the quarter and up US$ 1,540 million against the same quarter of 2016. Out of the total external debt, US$ 62,969 million accounted for capital position while US$ 883 million resulted from interest accrued.

- The rise of the private sector external debt in the period April-June 2017 was mainly due to an increase of commercial liabilities (for US$ 826 million) and financial liabilities (US$ 563 million).

- The debt stock for advances and prefinancing of goods-related exports reached US$ 5,595 million as of June 30, 2017, recording a fall of US$ 322 million, mainly related to a drop in exports prefinancing of US$ 382 million.

- Within a context in which the imports of goods are going up, the debt stock from goods-related imports reached US$ 19,012 million as of June 30, 2017, with a rise of US$ 1,041 million (6%) during the quarter. As a result, the debt-to-import ratio related to the imports of the last twelve months stood at 34% (down 2 percentage points against June 30, 2016).

- External liabilities from services imports totaled US$ 8,182 million as of June 30, 2017, thus keeping a similar level in year-on-year terms but posting a quarterly rise of US$ 143 million (2%).

- External financial liabilities stood at US$ 30,272 million as of June 30, 2017, and recorded a rise of US$ 563 million against the previous quarter, mainly boosted by the increase in the stock of securities. Within this context, fresh funding totaled US$ 2,000 million in the second quarter of 2017. In this respect, the transactions made through securities stood out since they accounted for 70% of the total.

- As of June 30, 2017, the average life of the private sector external debt was 2.29 years (up 0.2 years in quarterly terms). It is worth pointing out that an improvement was observed in the financial debt maturity profile against the positions of late June 2015 and 2016 since short-term maturities went down and long-term maturities went up.

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[1] The data included herein result from the statements submitted by debtors within the framework of the Survey on Issues of Debt Securities and External Liabilities pursuant to the reporting system outlined in Communication "A" 3602, dated May 7, 2002, of the Central Bank of Argentina. The information is provisional and subject to revision and rectification.

[2] The statistical series as from the beginning of the survey are available at the BCRA's website. In addition, data are broken down, among other headings, by type of transaction, type of creditor, currency and economic activity sector, together with the debt maturity profile for private sector by type of transaction, type of creditor and activity sector.

I) Introduction

During the second quarter of 2017, international financial markets were less volatile. Most stock indicators kept their upward trend while the yields of sovereign debt securities remained relatively stable.

Developed economies kept their growth momentum. Particularly, during the second quarter, the United States expanded 3.1%[3] in annualized terms and exhibited a sound labor market. As a result, the US Federal Reserve (FED) decided to increase, in its mid-June meeting, its benchmark interest rate target by 0.25 percentage points (p.p.) while it announced that it will dispose of the financial assets it acquired as a response to the 2008-2009 financial crisis. In line with this scenario, the Euro Zone data continued exhibiting a consolidation of its recovery process, with GDP going up 2.8%[4] against the previous quarter. In this context, the European Central Bank (ECB) decided to keep its monetary policy interest rate at 0%. According to the last estimates of the International Monetary Fund (IMF), world leading economies are expected to keep this upward trend.

On the other hand, the conditions to issue debt in international markets have improved for both the public and the private sector with a sustained reduction of risk spreads. Particularly for the private sector, the CEMBI spread (Emerging Markets Bond Index published by JP Morgan) contracted by 40 basis points (bp) in the quarter and 95 bp in year-on-year terms. Likewise, it is worth pointing out that the data published by the Bank for International Settlements (BIS) revealed a strong boost in the issue of debt abroad by the private sector. In fact, in the second quarter of 2017, the growth rate of securities stock of companies all over the world and, particularly, of Latin America, issued abroad showed year-on-year changes of 4% and 6%, respectively. In the case of Argentina, during the period under analysis, the National Government managed to obtain a 100-year term financing at a 7.9% annual rate.

At local level, a rise in goods-related imports was observed; during the second quarter, they showed a US$ 2,453 million year-on-year hike while goods-related exports were in line with the figures recorded in the second quarter of 2016. As a result, the trade deficit exhibited a year-on-year increase of US$ 2,480 million in the second quarter of 2017[5] and in the current account of US$ 3,175 million.

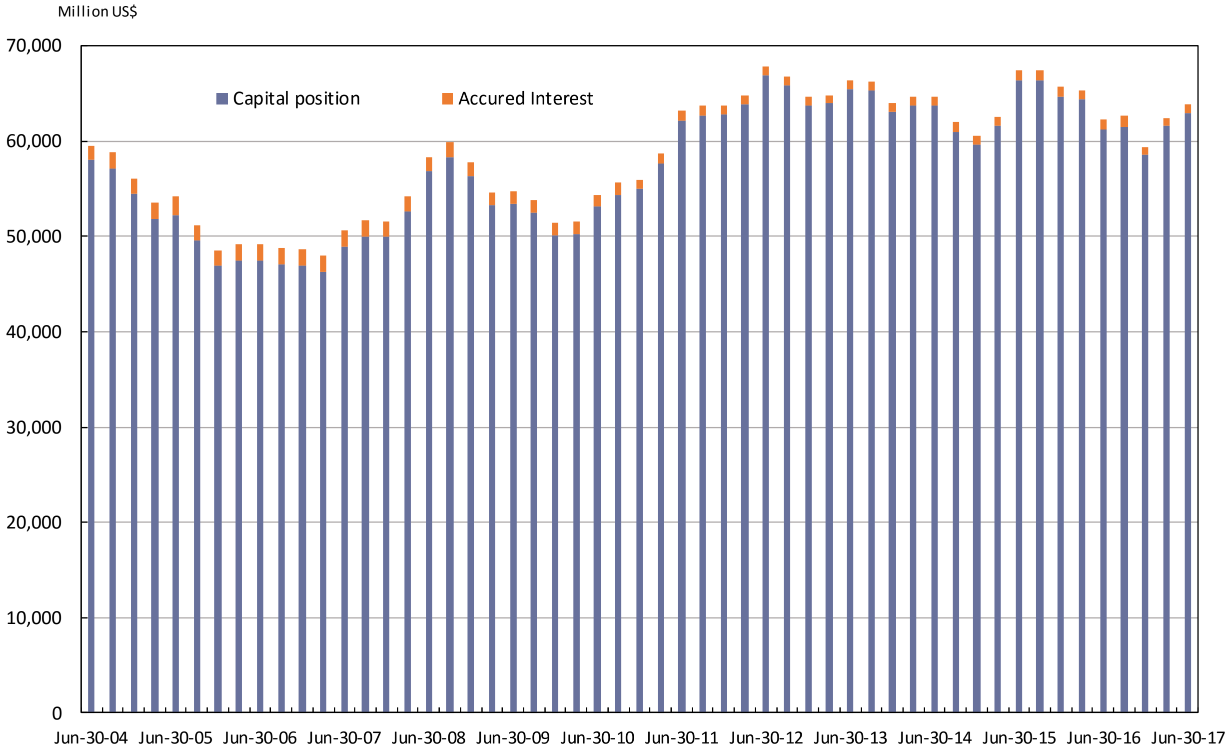
Likewise, the financial account recorded a net inflow of US$ 6,376 million, which basically resulted from the net issue of liabilities, because of the issue of debt by the General Government[6.]

[3] Seasonally-adjusted series. Change against the first quarter of 2017 (Source: Federal Reserve of San Luis).
4 Seasonally-adjusted series (Source: European Central Bank).
5 Report on Balance of Payments, International Investment Position and Foreign Debt for the second quarter of 2017. National Institute of Statistics and Censuses (INDEC).
6 Among the changes introduced by the Balance of Payments Manual (6th ed.), institutional sectors were reclassified and the non-financial public sector is now called General Government.

II) Private Sector External Liabilities as of June 30, 2017[7]

The external liabilities reported by the private sector amounted to US$ 63,853 million[8] as of June 30, 2017. Out of this total, US$ 62,969 million corresponded to the capital position owed, while US$ 883 million corresponded to interest accrued and not paid (see Chart II.1).

Chart II.1. Private Sector External Liabilities



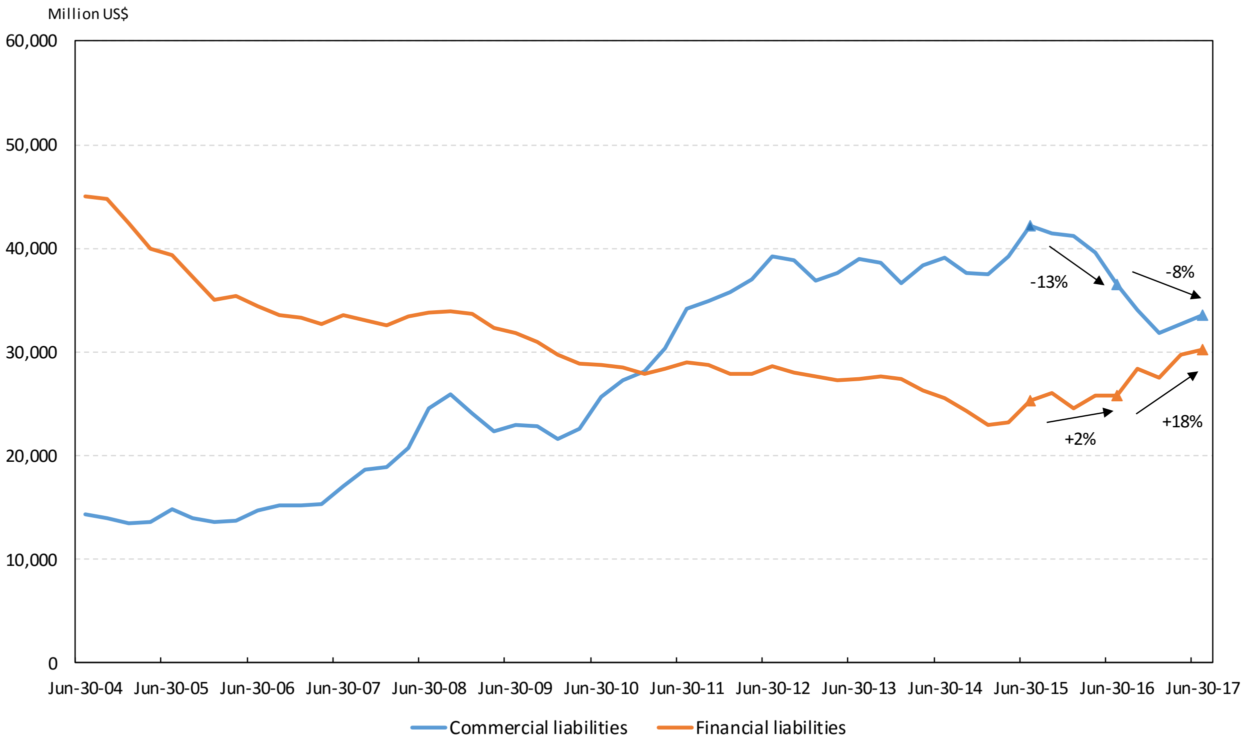
The private sector external debt went up by US$ 1,389 million during the second quarter of 2017, mainly driven by the momentum of both commercial and financial liabilities.

In year-on-year terms, private external debt went up US$ 1,539 million mainly due to the rise of financial liabilities since commercial liabilities showed a reduction of around US$ 2,990 million within the context of the commercial debt reduction process initiated in 2016 after the implementation of measures to regularize the foreign exchange market and to give more freedom to capital flows. Within this new context, companies settled the liabilities accumulated between 2011 and 2015 due to the stringent foreign exchange limits imposed in that period, and re-adjusted the previous commercial indebtedness levels. This trend seems to have reversed in 2017 in line with the rise of the activity level and the increase of foreign trade levels (see Chart II.2).

[7] The data included herein result from the statements submitted by debtors within the framework of the Survey on Issues of Debt Securities and External Liabilities pursuant to the reporting system outlined in Communication “A” 3602, dated May 7, 2002, of the Central Bank of Argentina. The information is provisional and subject to revision and rectification.

[8] The statistical series as from the beginning of the survey are available at the BCRA’s website. In addition, data are broken down, among other headings, by type of transaction, type of creditor, currency and economic activity sector, together with the debt maturity profile for private sector by type of transaction, type of creditor and economic activity sector.

Chart II.2 Private Sector External Liabilities



III) Private Sector External Debt by Type of Transaction and Creditor

The main reason behind the increase of the private sector external debt during the period April-June 2017 was a rise in commercial liabilities of US$ 826 million and in financial liabilities of US$ 563 million.

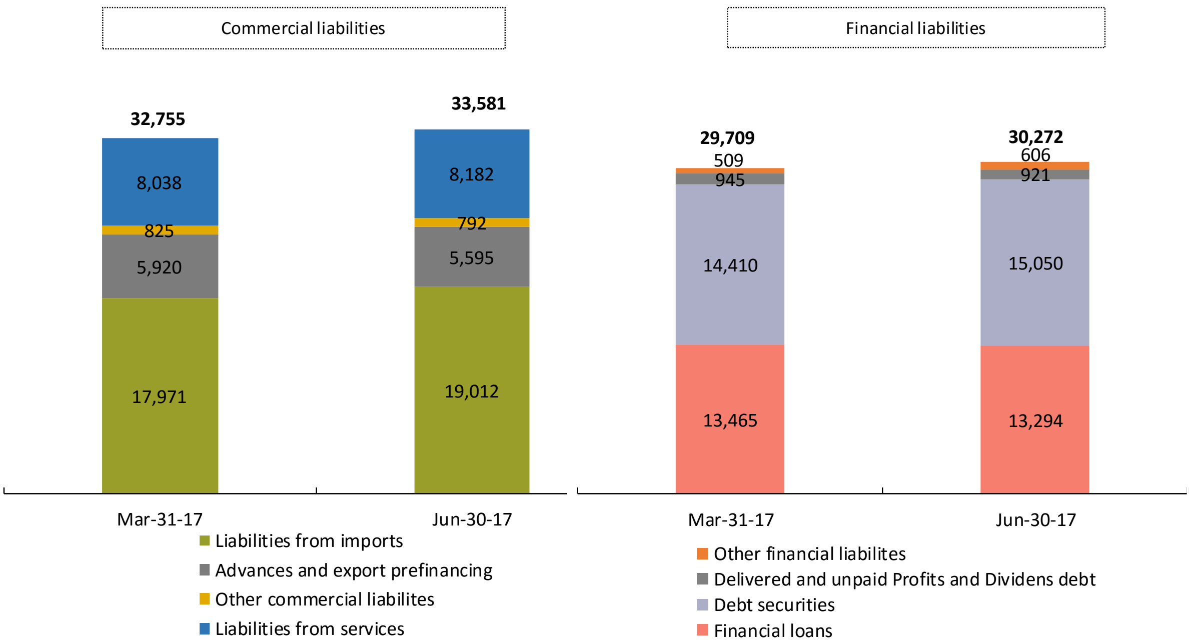
In terms of the commercial liabilities, advances and export prefinancing resulted in a drop of US$ 325 million, while liabilities from imports related to goods and services went up US$ 1,185 million.

As recorded in the previous quarter, the rise in financial liabilities continued to be accounted for by an increase in the stock of securities by US$ 640 million, partially offset by the fall of financial loans for US$ 171 million (see Chart III.1). By the end of June 2017, financial liabilities accounted for 47% of the private external debt stock; they stood unchanged against the previous quarter but went up 6 percentage points (p.p.) against the closing of the same quarter in 2016[9].

[9] This performance took place in a context of regularization of access to the foreign exchange market which has allowed debtors to return to historical debt-to-export ratios and debt-to-import ratios, which had gone up in previous years.

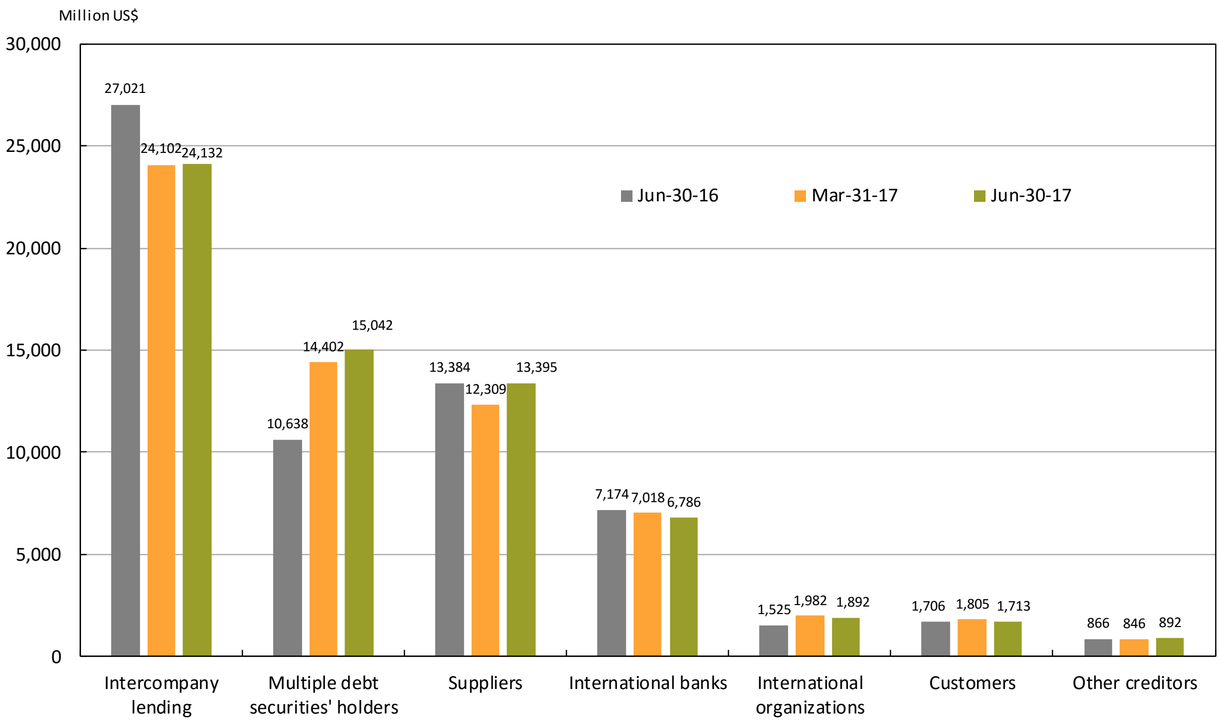
Chart III.1. Private Sector External Liabilities by Type of Transaction

Million US$



Regarding the type of creditor, the segment of “Suppliers” posted the most significant growth during the quarter amounting to US$ 1,086 million, basically due to an increase of the goods-related imports debts. This segment is followed by “Multiple Debt Securities’ Holders” with US$ 640 million. Likewise, a drop in liabilities of US$ 232 million was observed among “International Banks” (see Chart III.2).

Chart III.2. Private Sector External Liabilities by Type of Creditor

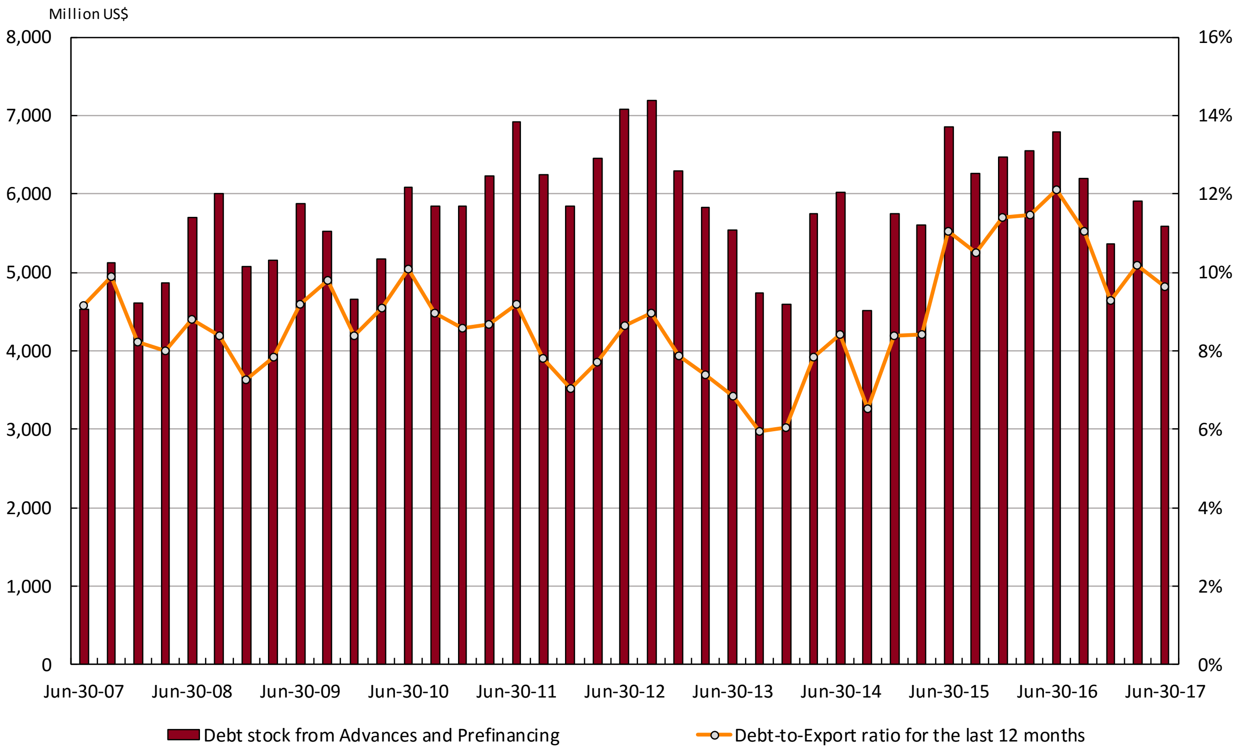


III) a. External Commercial Liabilities

III) a.1. Liabilities from advances and prefinancing of goods-related exports

The external debt resulting from advances and prefinancing of goods-related exports totaled US$ 5.595 million as of June 30, 2017, thus exhibiting a 5% drop during the quarter (see Chart III.3). The main reason behind the debt fall for US$ 322 million was the cut in the prefinancing of exports for US$ 382 million while advances from customers have gone up US$ 57 million.

Chart III.3. Debt Stock from Advances and Prefinancing, and Debt-to-Export Ratio



In year-on-year terms, this debt stock fell by 18%. This drop might be related to the performance observed in the local financing in foreign currency, which went up significantly, especially in the facilities related to export financing. In turn, local lending to the private sector in foreign currency[10] amounted to US$ 12,463 million as of June 30, 2017 (up 102% year-on-year).

The foregoing occurred in a context where FOB exports totaled US$ 15,382 million in the second quarter of 2017, in line with the level observed in 2016 and with an increase in prices (3.6%) and a contraction in quantities in a similar proportion (3.5%)[11].

On a sector-by-sector basis[12], the quarterly fall recorded in this type of transaction encompassed all sectors, but was mainly due to the performance of "Manufacture of Food Products," the sector with the highest share in the stock, which concentrated 50% of the total stock by the end of the quarter (see Chart III.4). The debt of this sector went down US$ 150 million during the quarter (5%) and US$ 500 million (15%) in year-on-year terms within a context of a higher use of domestic financing in foreign currency. For the "Manufacture of Food Products and Beverage" sector, such financing recorded a 72% hike, going from US$ 1,771 million as of June 30, 2016 to US$ 3,041 million as of June 30, 2017[13].

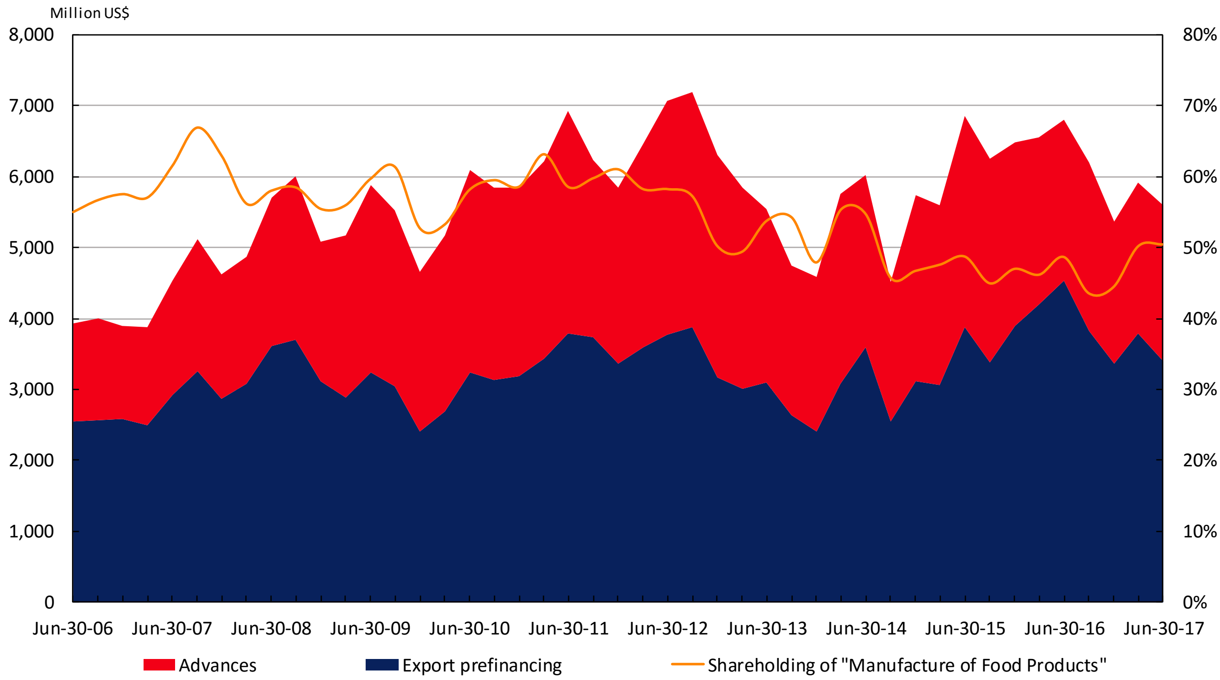
[10] For the calculation of the stock of loans to the private sector, lending provided through Advances, Promissory Notes, Credit Cards and Other was considered. Source: Daily Monetary Report of the BCRA.

[11] This value is due to a rise in Manufactures of Industrial Origin (MOI) of 13.3% (Price: 3.2%; Quantity: 9.8%), offset by falls in Fuel and Energy -20.2% (Price: 15.9%; Quantity: -31.1%), Agriculture and Livestock Manufactures (MOA) -5.0% (Price: -0.2; Quantity: -4.8%) and Primary Products -3.3% (Price: 7.5%; Quantity: -10.1%); this drop mainly resulted from falls in the following subheadings: Oilseeds and oleaginous fruits, not processed vegetables and legumes, and dairy products. Source: Foreign Trade Prices & Quantities, National Institute of Statistics and Censuses (INDEC).

[12] At a two-digit level, according to the National Classification of Economic Activities (CLANAE 2010).

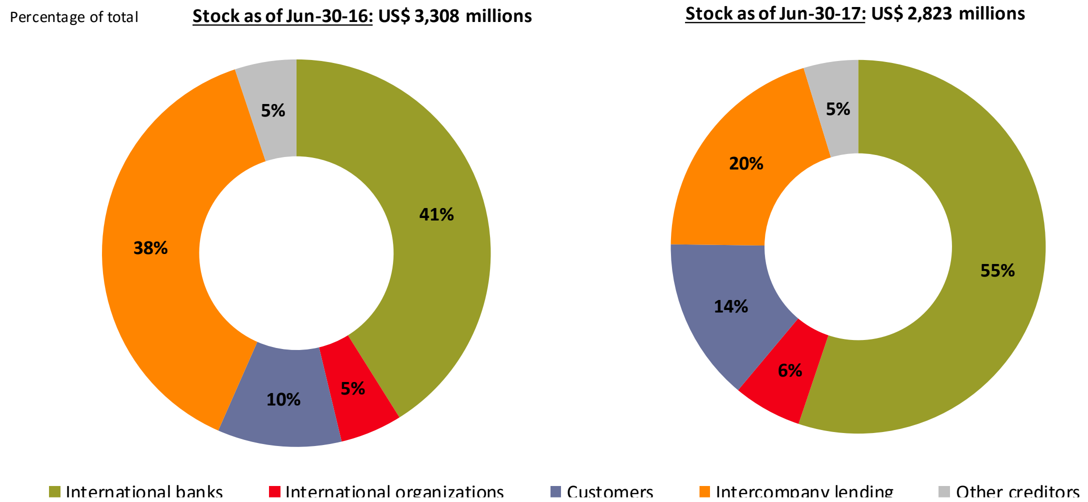
[13] Source: Monetary Statistics Department (BCRA), statistical series standardized charts; lending by activity.

Chart III.4. Private Sector External Liabilities from Advances and Export Prefinancing from Abroad



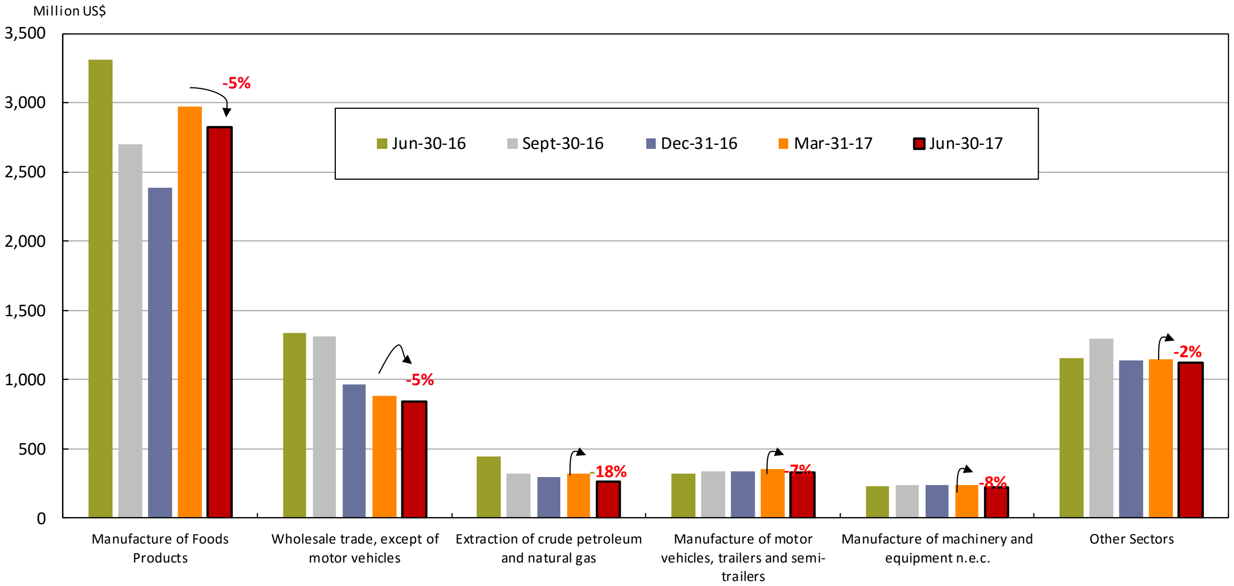
With reference to the type of creditor of the “Manufacture of Food Products” sector, a remarkable change was observed in the share of the different agents financing the sector against the previous year; the share of international financial institutions and, to a lesser extent, of customers from abroad recorded a rise of 14 p.p. and 4 p.p., respectively., to the detriment of the share of intercompany lending, which contracted 18 p.p. (see Chart III.5).

Chart III.5. Liabilities from Advances and Prefinancing from Abroad corresponding to the “Manufacture of Food Products” Sector by Type of Creditor



The remaining most relevant sectors also evidenced debt drops for advances and prefinancing. The second most significant sector was “Wholesale Trade, except for Motor Vehicles”[14] (accounting for 15% of the total), which recorded a quarter-on-quarter debt drop of US$ 50 million (5%; see Chart III.6).

Chart III.6. External Liabilities from Advances and Export Prefinancing by Economic Activity Sector



III) a.2. Liabilities from imports of goods

The debt stock related to the imports of goods reached US$ 19,012 million as of June 30, 2017 recording an increase of US$ 1,041 million (6%) during this quarter (see Chart III.7), but posting a year-on-year decline of US$ 1,682 million (8%). This y.o.y. fall was recorded within a context of a set of measures introduced by the Central Bank by late 2015 tending to release the foreign exchange restrictions in force that, eventually, led to the payment of the debt accumulated in previous periods.

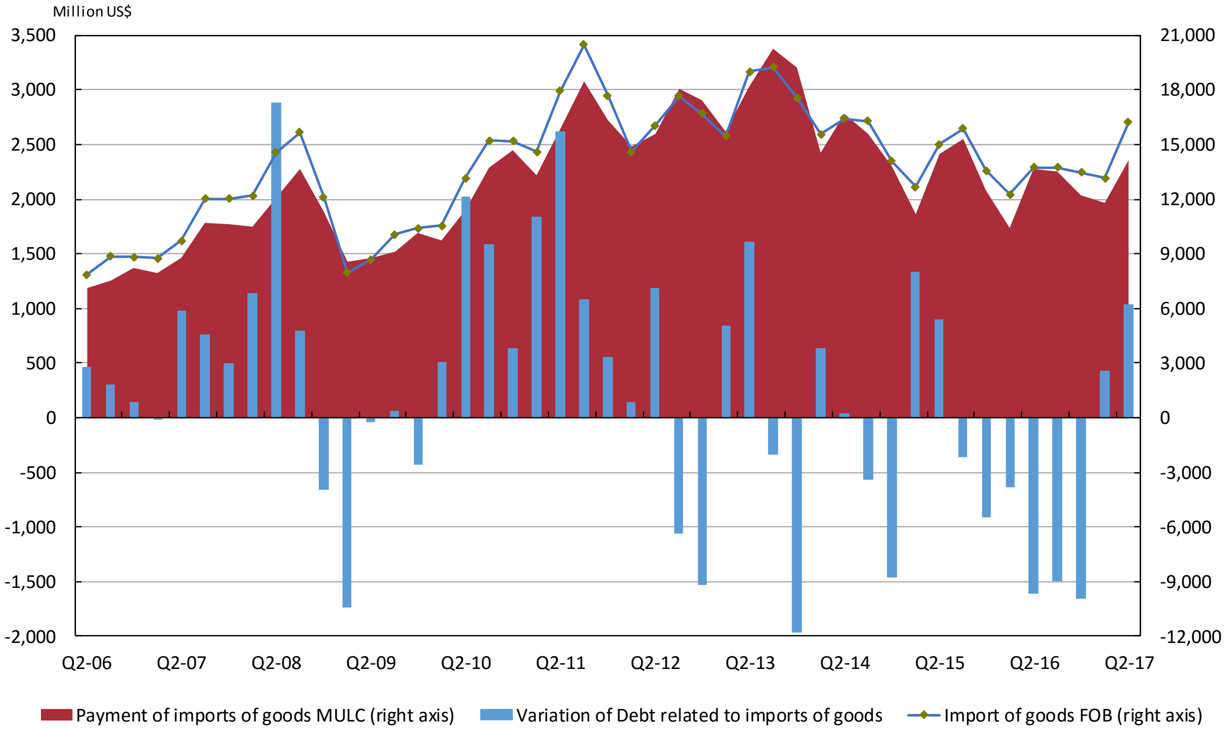
It is worth stating that, during the second quarter of 2017, FOB imports totaled US$ 16,217 million[15], while the payment for the imports of goods made through the foreign exchange market amounted to around US$ 15,000 million[16].

[14] It corresponds to the “Wholesale Trade and/or in Commission or Consignment, except for Motor Vehicles and Motorcycles,” at two-digit level according to the National Classification of Economic Activities (CLANAE 2010).

15 Source: Balance of Payments, Second Quarter of 2017, and Argentine Foreign Trade (ICA), National Institute of Statistics and Censuses (INDEC).

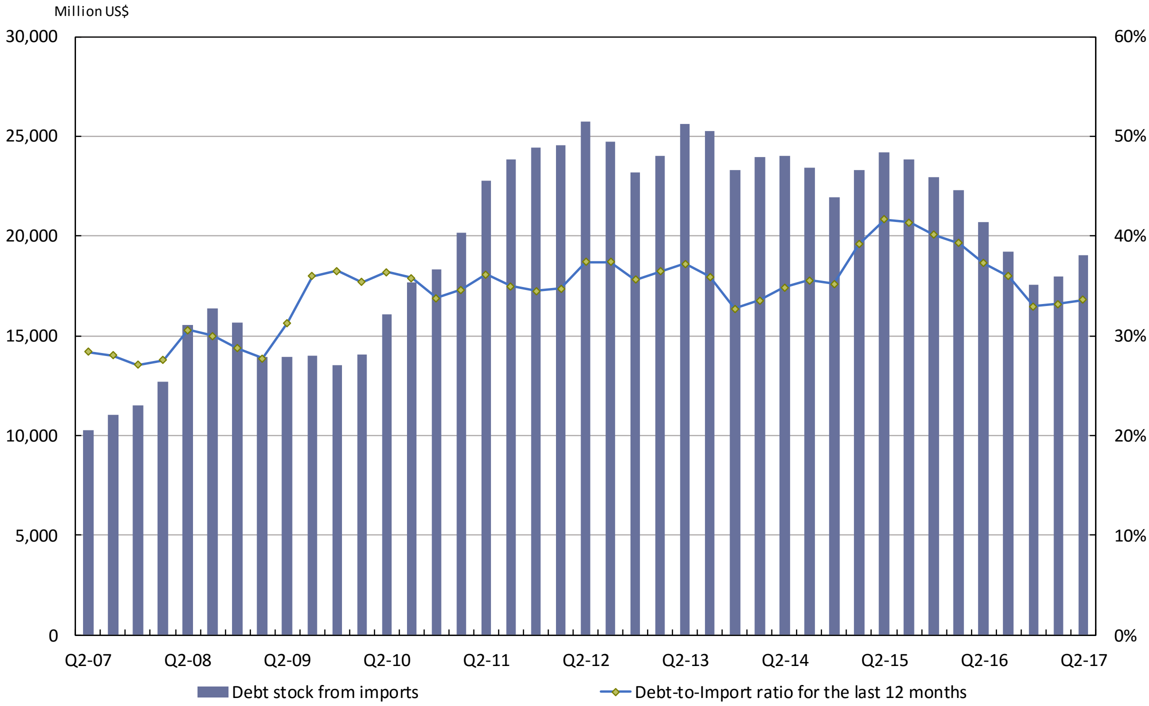
16 Estimated number considering the payments made through the Free and Single Foreign Exchange Market (MULC) using the concept codes of payments of imports of goods and an estimate for the transfers abroad without reporting the final destination according to the customer’s import profile.

Chart III.7. Change in External Liabilities from Imports of Goods



Consequently, the debt-to-import ratio related to the imports of the last twelve months stood at around 34%, down 2 p.p. against the figure recorded in the second quarter of 2016, and down 8 p.p. against the record-high 42% of the second quarter of 2015 (see Chart III.8).

Chart III.8. Debt Stock from Imports and Debt-to-Import Ratio

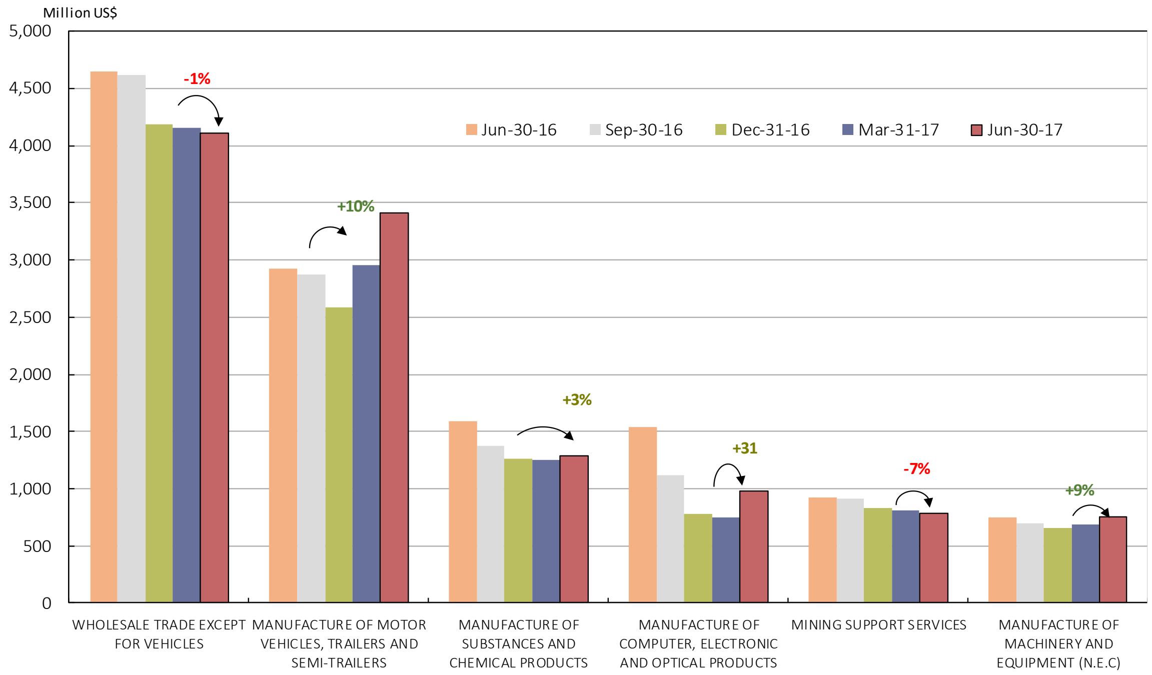


On a sector-by-sector basis of the economic activity, the quarterly increase in the debt from imports was mainly boosted by the following sectors: "Manufacturing" (US$ 929 million), "Information and Communication" (US$ 85 million), "Administrative and Support Service Activities" (US$ 67 million) and "Electricity, Gas, Steam and Air Conditioning Supply" (US$ 34 million).

In turn, the drop of the abovementioned debt was mainly accounted for by the subsectors of "Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles" with net debt settlements of around 9% (US$ 506 million), followed by "Manufacturing" and "Mining and Quarrying," which went down US$ 452 million (4%) and US$ 401 million (28%), respectively.

Particularly, within "Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles," the sector of "Wholesale Trade and/or in Commission or Consignment, except for Motor Vehicles and Motorcycles" stands out since it accounts for 83% of the total on a sector-by-sector basis, and it posted a slight drop in the quarter (1%; see Chart III.9).

Chart III.9. External Liabilities from Import of Goods. Main Economic Activity Sectors

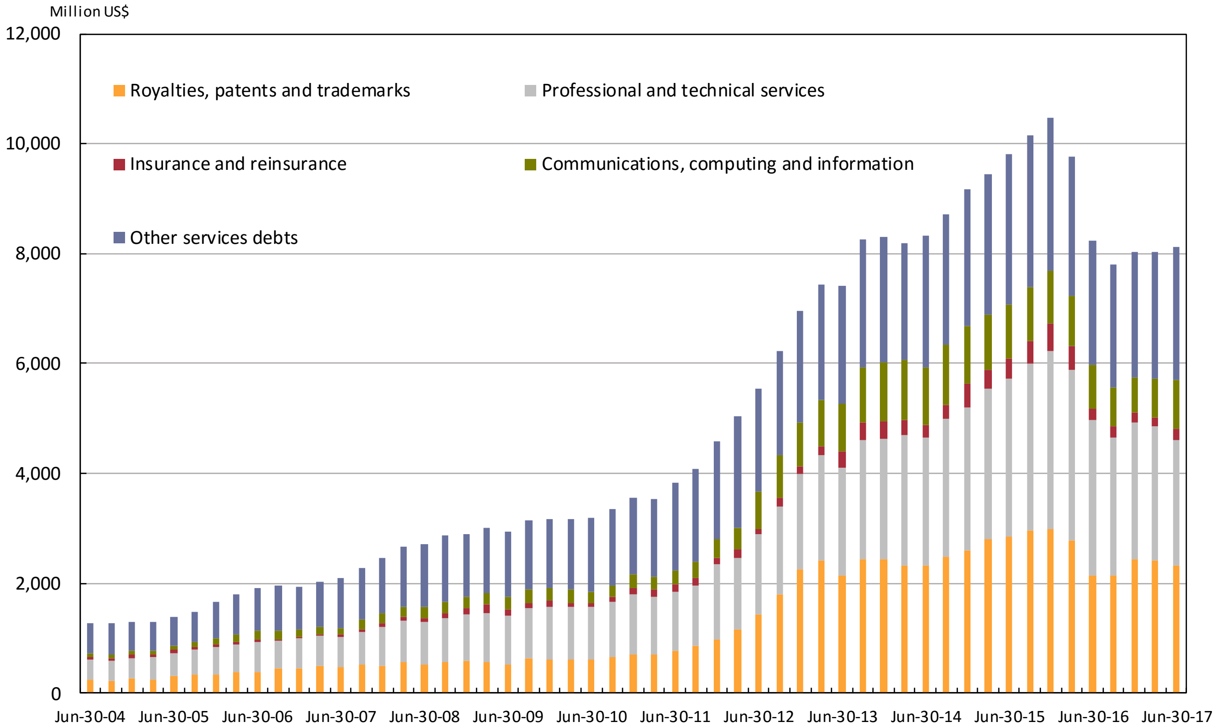


Regarding the type of creditor, debts from imports with foreign suppliers expanded US$ 705 million in the second quarter of 2017 to a total stock of US$ 10,420 million as of June 30, 2017, while the year-on-year comparison showed a drop of US$ 177 million (2%). In this respect, external liabilities resulting from intercompany lending evidenced an increase of US$ 194 million between April and June and a contraction of 16% y.o.y., with a debt stock amounting to US$ 7,386 million as of June 30, 2017.

III) a.3. Liabilities from services

The stock of external obligations related to services totaled US$ 8,182 million as of June 30, 2017, thus exhibiting a quarterly rise of US$ 143 million (2%) but standing at a level similar to that of the previous year. The increase recorded in the quarter mainly resulted from an increase in the positions of "Communications, computing and information" for US$ 214 million, and "Other Debt for Services" for US$ 102 million, partially offset by a reduction in the debt for "Business, Professional and Technical Services" (US$ 120 million) and "Royalties, Patents and Trademarks" (US$ 74 million).

Chart III.10. External Liabilities from Imports of Services

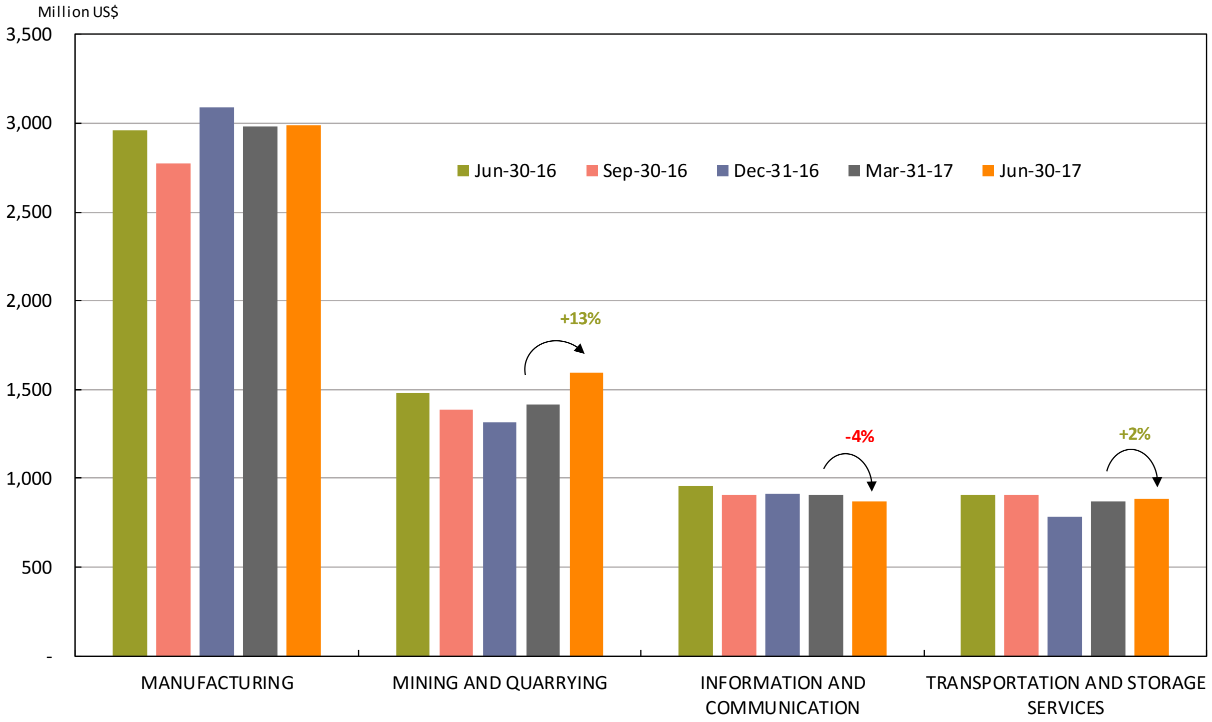


A sector-by-sector breakdown[17] shows that "Manufacturing" exhibited the highest debt stock from service imports, amounting to US$ 2,986 million as of June 30, 2017, and no significant changes in both quarter-on-quarter and year-on-year terms (see Chart III.11).

In order of relevance, "Manufacturing" was followed by "Information and Communication," with external liabilities from services amounting to US$ 1,596 million (with a quarter-on-quarter and year-on-year increase of US$ 178 million and US$ 118 million, respectively), "Transportation and Storage Services" which showed a debt position of US$ 887 million (up US$ 18 million in the quarter and net settlements amounting to US$ 22 million in year-on-year terms). Finally, such sectors were followed by "Mining and Quarrying," with a debt stock for services of US$ 867 million (down US$ 38 million on a quarter-on-quarter basis and down US$ 92 million on a year-on-year basis).

[17] At letter level, according to the National Classification of Economic Activities (CLANAE 2010).

Chart III.11. External Liabilities from Imports of Services. Main Economic Activity Sectors



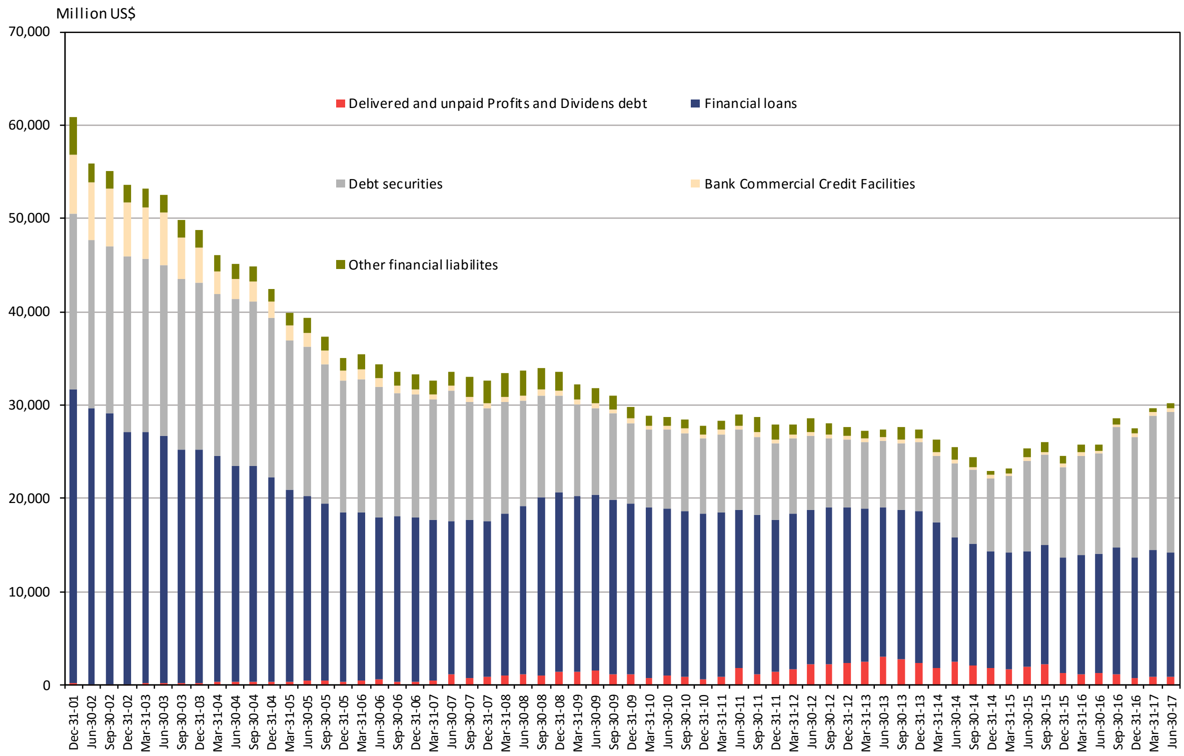
III) b. External Financial Liabilities

External financial liabilities totaled US$ 30,272 million as of June 30, 2017, up US$ 563 million against the figure recorded in the previous quarter, and up US$ 4,529 million against the same quarter of 2016.

The quarterly increase was mainly accounted for by the issue of debt securities for US$ 640 million, which was partially offset by a drop in financial loans for US$ 171 million (see Chart III.12).

From a year-on-year perspective, this rise was mainly due to a rise of the stock of securities, a phenomenon that gained momentum after the regularization of the public debt by the National Government in April 2016.

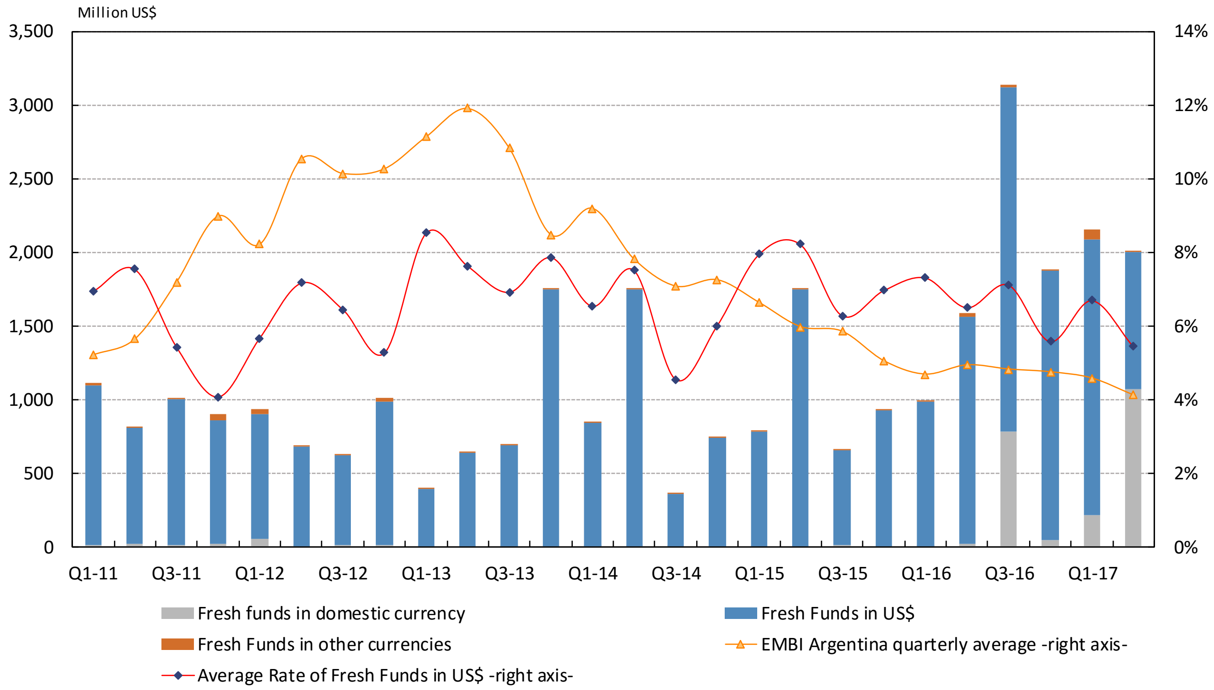
Chart III.12 I External Liabilities by financial sector. Type of Transaction and creditor



Against a backdrop of favorable conditions to attract foreign financing by the private sector (see Introduction), fresh funding[18] totaled US$ 2,013 million in the second quarter of 2017, in line with what had been observed in the previous quarter (see Chart III.13). In particular, financing arranged through securities (70% of the total) stood out. Fresh funding was obtained for an average term of 5 years.

[18] Fresh funding includes debt securities issues and/or financial loans received over the period but not associated with swap transactions or refinancing of previous liabilities with the same creditor. Term and interest rate data correspond to US$ 1 million indebtedness or above.

Gráfico III.13 Fondos frescos del sector privado recibidos del exterior



The lending obtained through debt securities totaled US$ 1,414 million, out of which 67% was issued in domestic currency. In turn, the external liabilities denominated in domestic currency were arranged at an average rate of around 18% while those denominated in US dollars were obtained at an average rate of 6.5%[19].

In addition, the funds received through financial loans (35% of fresh funding) totaled US$ 764 million at an average rate of 7.6% and an average term of 2 years.

IV) Maturity Profile of Principal of the Private Sector Debt[20]

By the end of June 2017, the debt immediately due stood at US$ 21,341 million[21], while the maturities corresponding to the next twelve months accounted for US$ 18,944 million. Lastly, debt with maturities longer than 12 months reached US$ 22,680 million.

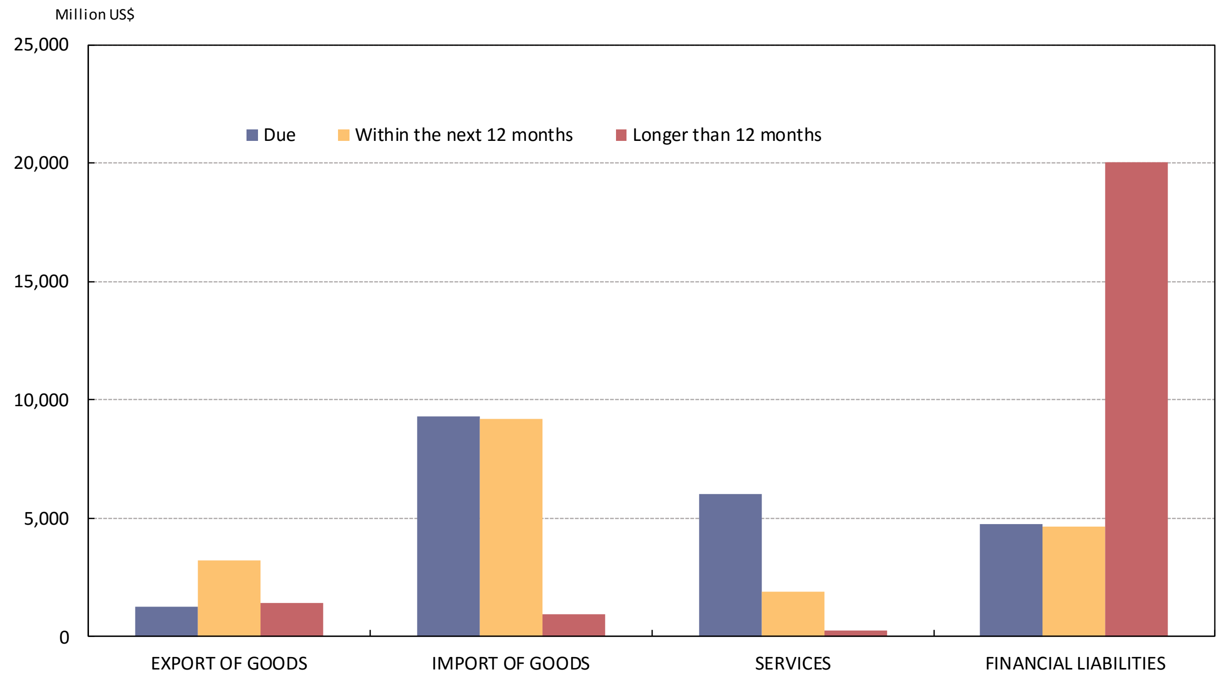
This maturity profile (where 30% of the debt matured within the next 12 months) was mainly related to the private sector shares by type of transaction. It is worth noting that the financing for trade in goods and services has an impact on the maturity profile, giving rise to a short-term debt burden. As of June 30, 2017, 92% of commercial liabilities had a maturity term shorter than 12 months (the same as in the previous quarter.) Instead, financial liabilities, and especially financing through debt securities, had maturity terms longer than one year and accounted for 75% of this type of indebtedness (see Chart IV.1).

[19] The average rate was made up with the information recorded by the private sector within the framework of the survey set by Communication "A" 3602, for US$ 1 million debts or above.

[20] The breakdown of maturities for the private sector per type of transaction, type of creditor and economic activity sector is available at the BCRA's website.

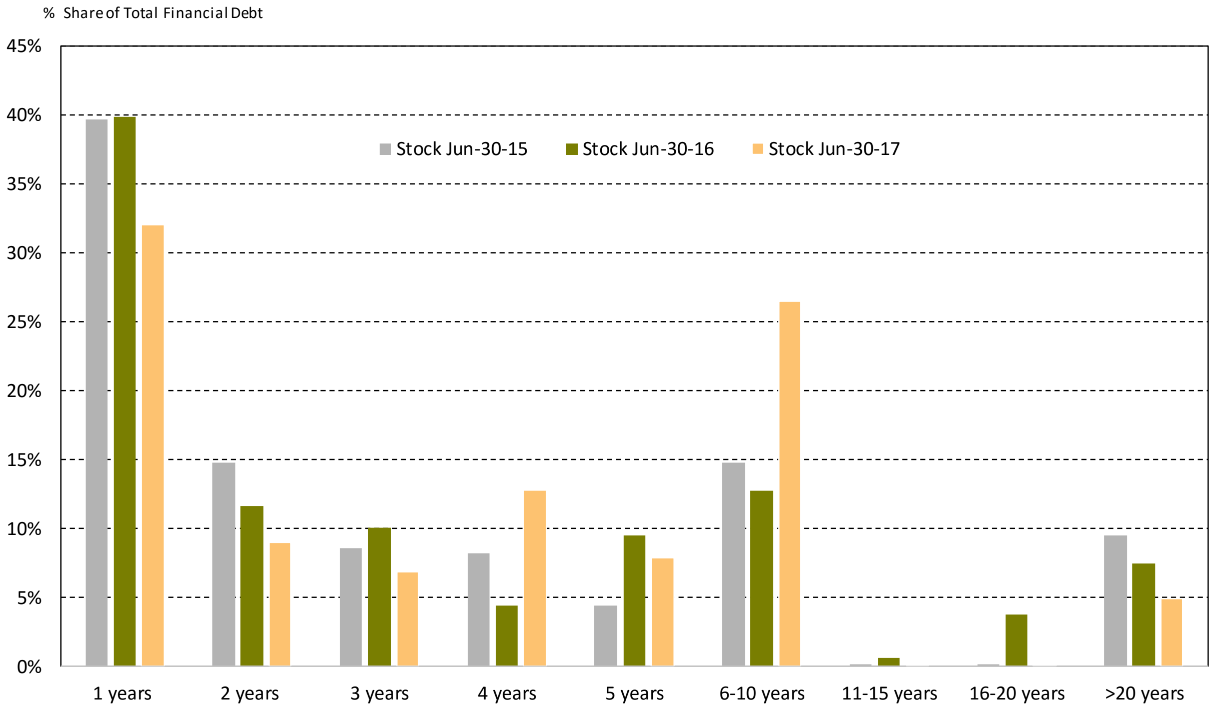
[21] It includes outstanding installments pending cancellation, debt that became enforceable due to the application of acceleration clauses for defaults and debt for current account operations with no specific maturity or "at sight".

Chart IV.1. Maturity Profile of Principal and Interest Overdue as of June 30, 2017. Type of transaction.



As regards financial debt, it is worth mentioning that the maturity profile evidenced an improvement against the positions as of June 30, 2016 and 2015 since the maturities to be faced in the next year contracted by 8 p.p. In addition, the share of maturities between 6 and 10 years stood at 27% as of June 30, 2017, against the 13% and 15% positions as of June 30, 2016 and June 30, 2015, respectively (see Chart IV.2).

Chart IV.2. Maturity Profile of Principal and Interest of Financial Debt



As regards average life, commercial liabilities evidenced an average life below one year (among which debts for import of goods stand out with an average life of 0.36 years), while financial liabilities showed an average life of over 4 years (among which debt securities stand out with an average life of around 5 years, as well as financial loans with an average life of 4.2 years).

As a result, the average life of the private sector external debt stood at 2.29 years as of June 30, 2017 (up 0.2 years against the previous quarter).