

# Argentine Provinces

## Can we differentiate the provinces from the sovereign?

Industry Overview

### Highlights from investor call with the rating agencies

Today we hosted an investor call with Fitch and Fix (local affiliate of Fitch) to discuss the outlook for the Argentine provinces. Key topics of discussions included: 1) provinces which are rated above the sovereign, 2) FX restrictions for the provinces, 3) the relationship between the sovereign and the provinces.

### Provinces rated above the sovereign

Fitch rates three provinces above the sovereign: the City of Buenos Aires and the province of Santa Fe at B-, and the province of Cordoba at CCC+. The sovereign is rated CCC-. They don't rate the province of Buenos Aires. They highlighted lower refinancing risks and good liquidity levels for the City of Buenos Aires and the province of Santa Fe. Rating a province above the sovereign is subject to: 1) maintaining a strong budget, 2) no need to refinance debt in the external market for the next 1-2 years, 3) having sufficient liquidity available not to face an imminent default.

### FX restrictions don't apply to the provinces at this time

While Argentina's Central Bank implemented restrictions for corporates to get dollars from the Central Bank to repay their foreign currency bonds back in 2020 (corporates can get dollars for only 40% of their maturities, and need to propose an extension to bondholders for the remaining 60%), these FX restrictions don't apply to the public sector, including the provinces. Fitch assumes that the provinces will continue to have access to dollars at least in the near term, and this includes the province of Santa Fe for the last amortization of USD 125 million on the 2023 bonds later this month. Fitch estimates that the provinces account for a relatively small percentage of all FX debt service needs in Argentina, including the sovereign, the provinces and corporates (11% in 2023, and 18% in 2024). Fitch estimates FX debt services for the provinces of USD of USD 2.0 billion in 2023, and USD 2.6 billion in 2024.

### Weaker institutional framework with sovereign

Fitch observed a deterioration in the institutional framework regarding the relationship between the sovereign and the provinces, evidenced in the federal government not complying with the recent Supreme Court ruling to reinstate the co-participation to the City of Buenos Aires that was cut in 2020. Regarding the sovereign's agreement with the IMF, Fitch said that, while the agreement is considered neutral for the provinces, it hasn't been a strong anchor for sovereign policies so far, and any interruption in the loan disbursements for the sovereign could put additional pressure on the FX and higher risk on FX restrictions for the provinces. In any case, Fitch noted that discretionary transfers from the provinces represent a small portion of provincial revenues with the exception of some smaller northern provinces.

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## Royalty bonds

Fitch explained that, while the provinces own their natural resources such as oil and has and can collect royalties on these, the federal government can discretionally set the prices that determine the royalties collected by the provinces (what's known in Argentina as "*Barril Criollo*"), with Fitch assigning the same ratings to the unsecured and royalty-backed bonds – for example, the royalty-backed and unsecured bonds of the province of Neuquen are both rated CC.

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