# MONTHLY
# REPORT

ECONVIEWS
ECONOMÍA Y FINANZAS

**February 2021**
*Issue #200*

Recent Economic Developments:
**Glass Half Empty or Half Full?**

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Special Analysis on the **Provinces' Fiscal and Debt Situation**

**Page 8**

We are happy to celebrate the **200th edition of Econviews' monthly report**. Appropriately, our first edition in September 2003 centered on the ongoing debt restructuration, while our 100th edition in October 2012 dealt with the chances of a technical default. Almost 17 years later, much of our latest reports' analysis has gone towards the aftermath of the last debt restructuring, in August 2020.

Anyhow, we have gone a long road since that first issue and would once again like to thank our readers, customers and friends for accompanying and supporting us during these years. We remain committed to our project and will continue to make our best to provide you with insight and information to help better understand the economic and financial situation and take good decisions.


## Since our first report…

Prices went up **5027%**

The ARS/USD FX rate jumped **2955%**

There have been **2** public debt restructurings

Real GDP per capita grew **15%**

The economy has spent **7** years in recession

Argentina had **4** different presidents

# THE MONTH AT A GLANCE

## RECENT DEVELOPMENTS

- The worldwide vaccination effort continues. The US and UK are forefront among large countries, while the European Union is suffering due to Pfizer's supply issues. The Sputnik V's production is also delayed.
- By March, in-school classes are set to begin nationwide, with a range of modalities going from 5-days a week to hybrid in-school and virtual systems. Educational debate aside, this will cement the normalization of activity.
- Earlier this month President Fernandez threatened to raise export taxes on soybeans and corn but backtracked. The measure would have irritated farmers who already face high export taxes and are forced to sell at the official FX, 70% below market rates. The international price of soybeans stands at USD 508 per ton, a 45% rise compared to the average of 2020.
- A month after its initial offer, YPF managed to restructure its debt with 60% of creditors for the March maturity and much less for longer-dated papers. YPF's shares recovered 29% after the trough of mid-January. Entre Ríos also reached an arrangement with its creditors.
- A new law requires the Government to go through Congress for future foreign debt emissions not contemplated in the Budget, and for a new IMF program.

## FIGURE OF THE MONTH

CER (inflation-adjusted) deposits have grown by

**35.6%**

since the beginning of 2021

## TO BE ALERT

Argentine country risk rose to

**1,509**

basic points, its highest level since the issuance of new bonds after the debt restructuring.

## WHAT'S COMING NEXT?

- Minister of Economy Martin Guzmán is keen on reaching a new program with the IMF by May, when Argentina must face an USD 2.4 billion maturity with the Paris Club. However, other voices within the Government believe the deal should be postponed until after October, as further fiscal adjustment could hurt their chances in the midterm elections.
- The USD rose 3.7% m/m against the ARS in January. The Government projects a 25% increase over the year in line with its 29% annual inflation goal. This would leave the official FX rate at 102.4 ARS/USD by December. Dollar future contracts for that month currently trade at ARS 126, having fallen from ARS 138 in early January. Our estimate is that 2021 will close with an ARS 120.8 official dollar.
- For the 12th time, the Province of Buenos Aires extended the deadline for creditors to accept its debt restructuring proposal, now until February 26th. Worried about the lack of progress in negotiations, bondholders threaten to go to court over the USD 7 billion debt.
- The National Electricity Regulator (ENRE) called for a formal meeting with energy distribution companies, the first step towards a tariff hike. The Government is expected to aim at a 9% rise in electricity prices, although no official figures have been disclosed.

## SUMMARY OF MAIN INDICATORS

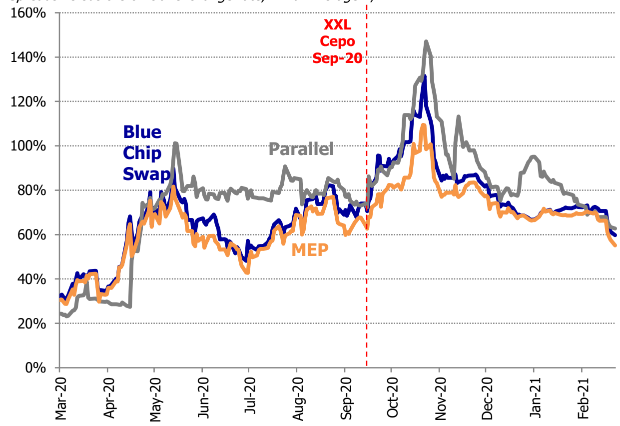
| **Economic activity** | | **Financial variables** | |
|---|---|---|---|
| Economic Activity | ↑ | Inflation | → |
| Consumer Confidence | ↓ | FX spread | ↑ |
| Industrial activity | ↑ | Country Risk | ↓ |
| **External accounts** | | **External variables** | |
| Current account | ↓ | Soybean price | → |
| Reserves BCRA | → | Brazilian GDP | ↑ |
| **Fiscal balance** | ↑ | Financial conditions | → |

Up arrow indicates improvement, down arrow worsening and horizontal no changes

## GRAPH OF THE MONTH:

**The parallel dollar is quiet and the FX spread has calmed down**

*Spreads versus the official exchange rate, in %- Average B/A*




Source: Econviews based on Reuters

# RECENT ECONOMIC DEVELOPMENTS

| JAN 21st | JAN 22nd | FEB 1st | FEB 5th | FEB 8th | FEB 11th | FEB 22nd |
|---|---|---|---|---|---|---|
| **Econviews Monthly #199:** External tailwind and the IMF + report on price intervention | The Ministry of Labor extends **the ban on layoffs,** valid since April 1st, for **another 90 days** | The Secretary of Energy authorizes a **1% rise in oil prices,** which have grown more than 10% YTD | The Bank Employees' union agrees on a **29% rise in wages for 2021**, in line with the Government's goal. | Sergio Massa, speaker of the Lower House, submits a bill to **raise the minimum taxable income.** | **YPF** and the Province of **Entre Ríos** close their respective **debt restructuring** processes. | **Econviews Monthly #200** |

## POLITICS

Stability in the FX market helped to reduce tensions within the Government. Some governors are pressing to postpone or directly cancel the August primaries on sanitary concerns, although officials closer to VP Cristina Kirchner believe they could be used to settle differences within the ruling coalition, with polls in their favor. However, high uncertainty on the length of economic recovery and the vaccination plan's progress makes it hard to predict an outcome this early. The recent proposal to raise minimum income tax (effectively exempting around 1.25 million individuals) seems aimed at improving performance among upper and middle class voters.

## PANDEMIC

Despite an early start, the vaccination plan is behind schedule due to production delays in the Russian vaccine. Recently, authorities closed a deal with the Chinese government for 1 million doses of the Sinopharm vaccine, which should arrive in late February. This month, Argentina also received 580,000 doses of AstraZeneca's variant from the WHO's Covax program. Cases shot upwards after Christmas and New Year's Eve, leading to fears of a second wave, but the outbreak was quelled, and contagion levels have been falling since mid-January. New cases are at 5,500 per day on average. The scandal about influential politicians jumping queues of vaccination is a blow to government's credibility.

## ECONOMIC ACTIVITY

Manufacturing and construction, which jointly weigh 22% on GDP showed growth in y/y terms by the end of last year. Further normalization of the economy after schools reopen could allow the badly lagging service economy to catch up with the recovery. Although this year's harvest will be below 2020's, prospects improved in the last weeks due to increased rainfall. However, other storm clouds are forming on the horizon: credit contracted in real terms in December and January, and restrictions on imports will hamper industry beyond the initial rebound. The construction sector is one of the best positioned, in part due to investment in public works. Overall, we expect 6% growth in 2021.

## INFLATION

Prices are at the center of debate as 2021 kicked off with 4% monthly inflation, matching December's record, the highest in all 2020. In y/y terms, the general CPI was up 38.5%. Telecommunication prices shot up by 15.1% m/m after companies adjusted tariffs without the Government's authorization. Restaurant and hotel prices grew by 5.4% in the beginning of the summer holidays, while food and beverages, the heaviest item on the CPI, rose 4.8%. Unlike previous months, regulated prices (5.1%) grew more than general inflation, and both utilities and gas prices are set to adjust in the coming months. We estimate inflation will end the year around 50%.

## MONETARY SECTOR

An external tailwind has allowed the Central Bank to buy back USD 613 million in reserves YTD and brought some calm to the FX market: the parallel dollar trades at ARS 145 while the BCS hovers around ARS 143, meaning 63 and 60% spreads against the official exchange rate (ARS 89.4), respectively. Also, the monetary entity has so far avoided hiking the monetary policy rate, which stands at 38%. In this context, time deposits have grown 6.7% in 2021, with higher demand for inflation-indexed ones (35.6%). In February's first auction, the Treasury was able to raise ARS 83.9 billion in peso denominated instruments. This week it will issue new debt to rollover an ARS 210 billion maturity at the month's end.

## FISCAL ACCOUNTS

The primary deficit for 2020 totaled 6.5% of GDP, in line with our previsions. Adding interest payments, the deficit reached 8.5%. The Government is betting on the economic rebound and the elimination of pandemic-related expenditures to hit its 4.5% primary deficit target for 2021 without a large fiscal adjustment, although we expect the number to be closer to 4%. In January, tax revenues grew above inflation for the fifth month in a row (46.6% y/y), mainly thanks to export taxes (231%). However, both VAT-DGI (28.8%) and credits and debits (34.6%), two items which correlate closely with activity, exhibited weak y/y growth. This month, export taxes will likely have another good performance.

# I. Short-term optimism, doubts on the medium-term

**The recent news on the economic front has been overall good**. The recovery remains on track in line with the normalization of mobility indicators and a gradual reopening of different business that were affected by Covid-19. The parallel exchange rates remain calm, interest rates have stayed relative stable despite the rise of inflation, fiscal revenues are improving markedly and getting a boost from the export and wealth taxes, while there has been an improvement in the outlook for reserves thanks to the big rise in soybean prices, and new round of capital increase at the IMF.

**There are of course some negative spots that blur the overall picture**. Inflation remains high, Argentina's credit risk does not abate and remains at levels of countries that are on the verge of default. The spread between the official and the parallel exchange rates continues to be an unsurmountable obstacle to turn around the external outlook, the business climate is still poor and worsening, as the government introduces more and more controls on prices and on imports to deal with inflation. International reserves remain low, and there is a buildup of distortions in relative prices that are bound to hit with a vengeance when the time comes to correct them.

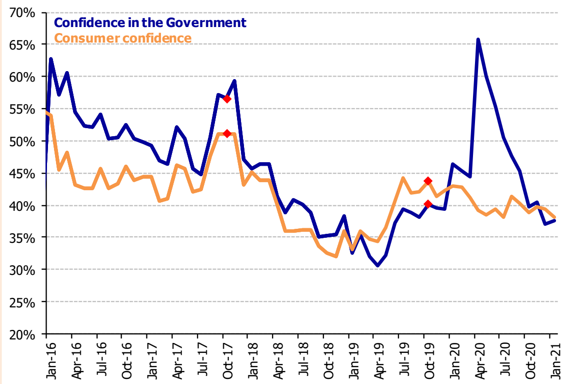
**One could argue that the glass looks half full in the short-term though more than half empty from a medium-term perspective**. Economic policies are likely to deepen this difference, as most policies will be decided looking at the election as opposed to their effects on their soundness and sustainability.

**Governments that do well many times benefit from some luck, and Fernandez is having a good dose of it.** Most of the help came on the external front, where the rise in th e price of the soybean in combination with some much-needed rain is going to provide abundant, much needed dollars, to which we need to add a generous gift from the capital increase in the IMF that could amount to more than 3 billion dollars in liquid reserves. The combined effect could total 11 billion dollars, and while the export proceeds will not come for free (the central Bank needs to buy those dollars by issuing pesos, which sometime can be a headache), the IMF money does. This needs to be offset by the increase in imports.

**These developments have taken a lot of heat out of reserves, though the Central Bank is likely to still face pain and suffering in its efforts to allocate the scarce reserves**. Better does not mean good, and Argentina is still far away from having a comfortable position in the external front and being able to remove the FX restrictions.

**Despite this good news, the spreads on foreign debt indicate that investors are looking at a different movie.** How come more reserves, which in principle improve the capacity to pay, have been accompanied by increases in the yields of Argentine debt? This apparent puzzle has an easy answer; Argentina has been sending the wrong signals when it comes to its willingness to pay. The government does not seem to have any intention of reducing the fiscal deficit even as it gets a windfall from export

**Consumer confidence and Goverment confidence**
*In %*

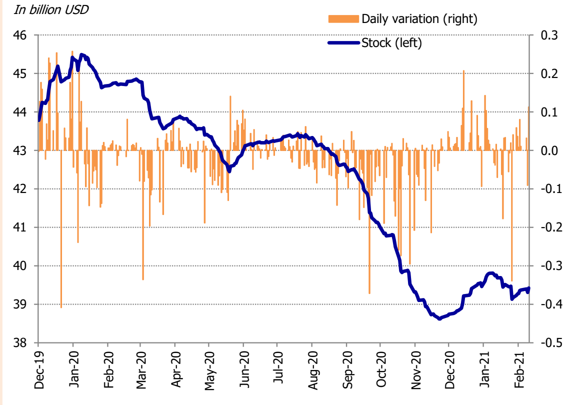



Source: Econviews based on UTDT

| | Electoral calendar |
|---|---|
| Aug-21 | Midterm election primaries* |
| **Oct-21** | **Midterm elections** |
| Aug-23 | Presidential election primaries |
| **Oct-23** | **Presidential election** |

*Facing possible suspension due to economic and sanitary concerns

**Gross reserves**
*In billion USD*

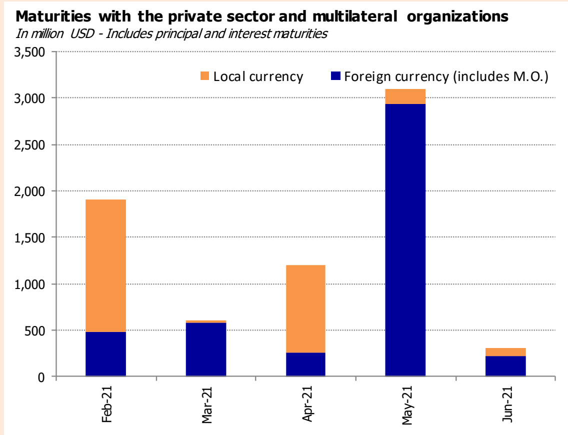



**Country Risk for Argentina**
*EMBI, in percentage points*

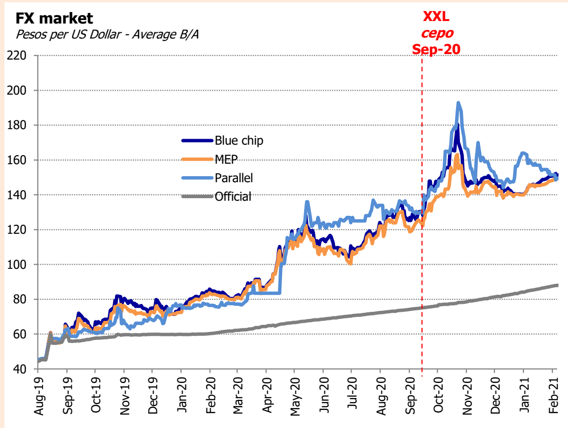

Source: Econviews based on JPMorgan

taxes and from the ill designed wealth tax. It seems that the extra money will be spent and that there is no intention to reduce the primary balance.

**A second reason is that the government is sending a signal that debt restructurings that reduce debt are commendable even when the debtor has the capacity and willingness to pay**. In fact, the Central Bank and the Treasury have been dictating the terms on the provinces, on private corporations and on YPF to restructure debt. It is thus not surprising that investors are skeptical to buy anything coming from Argentina and hence that the price of bonds remain in the doldrums with little chance to recover in the near term.

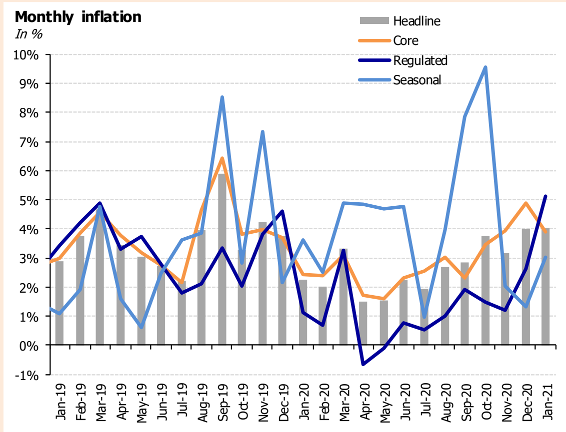



**One of the few things that can turnaround this medium-term gloomy outlook is an IMF program, which is largely expected and recurrently delayed**. The latest announcement by Minister Guzman is that it could be ready by May, mainly to avoid a new default with the Paris Club. But the bet in town is that it will be postponed one more time, as the elections are likely to override any type of policy that has the appearance of adjustment. True, in the end this decision might be more costly, as some of the imbalances might become larger. But governments in Argentina, as everywhere else, focus on the elections much more than on the soundness of policies.




**Despite the difficulties of reaching an agreement with the IMF in coming months, it seems likely that in the end Argentina will have a program, probably by the end of this year**. It seems paradoxical that it is easier to imagine economic policies for 2022 than for 2021. The blessing of a non-election year.

**To reach an agreement there are at least four hurdles to pass. The first and most obvious one is the size of the fiscal deficit, though with the windfall in revenues there should be room to compromise, especially if one looks at 2022**. Exchange rate policy and the accumulation in international reserves will be the second one, which could be somewhat tougher to overcome if the Central Bank fails to reduce the spread between the official and parallel rates to more acceptable levels (whatever that means, but probably less than 20%). The third is monetary policy, because the Fund has this "farfetched view" (that is unclear where it comes from) that interest rates and money supply have some influence on inflation. Finally, as the IMF will aim for a program that supports growth, it will also look at the overall policy framework, especially whether it promotes investment and higher productivity and will hence look at whether relative prices, the real exchange rate and foreign exchange and import controls look reasonable or need to be adjusted.

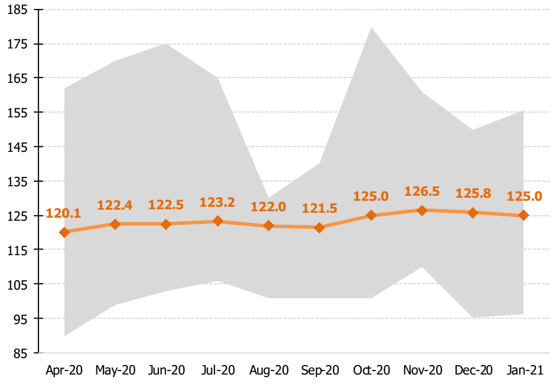



**From the government's perspective it seems that all four will be difficult to address in an election year**. The fight against inflation is seen as critical to win the elections, though monetary or fiscal policies are not part of the toolbox to deal with it now. Instead, the approach seems to center on setting prices controls, putting ceiling on increases in utility rates and slowing down the depreciation of the exchange rate. This last decision represents a clear departure from the previous policy of depreciation the currency in line with inflation, and instead it starts to use the exchange rate as an anchor to inflation.

**Nobody expects that these policies can bring down inflation in a durable way without the support of a smaller fiscal deficit and less growth in the money supply**. But they might be effective to slowdown the growth in prices for a while, perhaps till September, which is what the government really cares about. Of course, it will come at a cost: utility rates will get out of line and there will be an increase in energy and public transportation subsidies, so the required adjustments in utility rates and in some prices after the elections could be sizeable or there could be a step depreciation towards the end of the year.

**Despite these caveats, it seems that the government can achieve the objective of keeping some of the imbalances from "exploding".** The external front is a case in point. Last year there was consensus about the fact that the government would continue to lose reserves and hence that a devaluation during the summer appeared to be all but unavoidable. However, something happened along the way, namely the rise in soybean prices, an event that changed altogether the external dynamics. All of a sudden the Central Bank started to gain some limited amount of reserves, and the new outlook was that the exports proceeds from the crop would be plenty and that they would continue until late June or early July, and hence a devaluation could be avoided prior to the elections. These developments also lessened pressures on the parallel rates and added much needed calm to the domestic financial markets.

**Official exchange rate forecasts for Dec-21**
*ARS/USD, REM-BCRA median and range*



## II. A provincial outlook amid the wave of debt restructurings

**There has always been concern about the provincial finances and whether they can pose a threat to macroeconomic stability, as it happened a few times in the past.** But last year, and despite the prolonged economic downturn, exacerbated by the pandemic and the associated lockdown measures, many provinces still managed to display primary surpluses. In particular, the City of Buenos Aires, together with the provinces of Buenos Aires, Cordoba, which are the three largest districts and account for 60% of national GDP, registered primary surpluses. On the expenditure side, they were helped by the freezing of salaries, which constitute half of spending in the provinces, while on the revenues side, they were helped by the higher percentage of national tax revenues that goes to the provinces, together with discretionary transfers that increased 0.6 points of GDP.

**According to our estimations, provinces managed to display a consolidated primary surplus in 2020.** It was 0.2% of GDP, slightly below 2019 figures (0.4%), while the total stock of provincial debt reached only 6.2% of GDP. Even though these figures indicate that the provincial accounts should not generate large imbalances from a macroeconomic perspective, many provinces are finding it difficult to reach an agreement with creditors and cannot afford the forthcoming debt maturities, despite being solvent. Many provinces do not have income in foreign currency, such as oil or mining royalties, and the relationship between self-generated resources measured in USD and debt in foreign currency has worsened both by the sharp devaluation of the exchange rate in 2019 and the fall in revenues due to the pandemic.

**It is difficult to dissociate the fiscal health of the provinces from that of the National Government.** The latter is the lender of last resort of the former. Conversely, it is hard to imagine a sustainable fiscal path at a national level if provinces run large deficits and cannot meet their debt obligations. At the very same time, provinces are suffering the consequences of the government's lack of confidence and creditors are pushing for better deals than those secured at national level.

**The wave of provincial debt restructuring processes which at first sought to benefit from the tailwind of the national restructuring, then shifted the strategy.** Now the pillar seems to be the reduction of foreign exchange requirements above and beyond the fiscal health of the provinces. This is pushing creditors too hard at times. The problem is that dollars in the Central Bank are so scarce that the Federal government would rather make provinces default or restructure aggressively even if they are solvent. The Central Bank does not want to sell dollars. But all these decisions have severe reputational costs, as it was seen with YPF, a different kind of sub-sovereign credit.

In this report we will make an analysis of the provincial fiscal accounts, the state of the provincial debt and how the restructuring processes are progressing. Most of the provincial statistics have a significant lag in their publication, so much of the figures included are our own estimates.

**Main Districts in Argentina**

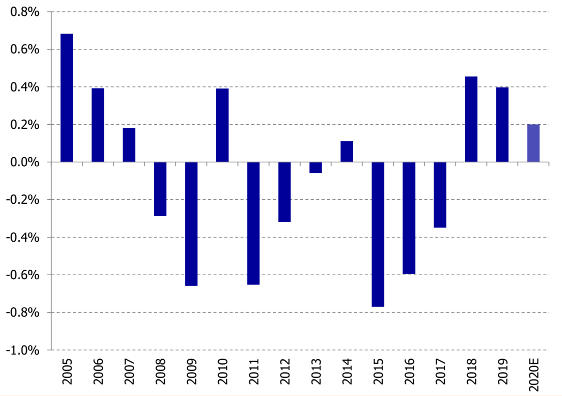
As % of total country

| | Area | Population | GDP |
|---|---|---|---|
| Province of Buenos Aires | 8.2% | 38.6% | 32.3% |
| City of Buenos Aires | 0.0% | 7.1% | 18.6% |
| Córdoba | 3.6% | 8.0% | 8.3% |
| Santa Fe | 4.4% | 8.4% | 8.7% |
| Mendoza | 4.0% | 4.5% | 3.8% |
| **Top 5 Provinces** | **20.2%** | **66.6%** | **71.7%** |

### *i. A look at the fiscal health of the provinces*

**While the Central Government displayed a large fiscal deficit in 2020, boosted by the extraordinary expenditure to mitigate the negative effects of the quarantine, the provinces managed to display a small primary surplus**. Although all provinces have deteriorated their fiscal accounts last year, many of them still showed positive balances. In fact, the consolidated primary deficit of provinces amounted to around AR$ 68 billion in 2020, compared to AR$ 85.1 billion in 2019. However, the fiscal balance (including interest payments) showed its tenth consecutive deficit, of around 0.5% of GDP.

**Primary result of the provinces**
*Consolidated data, % of GDP*




**The Province of Buenos Aires was hardly hit with one of the nation's highest infection figures. It also put pressure on the province's health care and social safety net expenditures**. However, we estimate that its primary surplus stood at around 3.5% of self-generated revenues last year (8.7% in 2019). Meanwhile, the province of Cordoba also showed a lower primary surplus compared to a year ago, reaching 3.8% of its total revenues (6.0% in 2019), but displayed the largest surplus in per capita terms. The fiscal performance of the provinces of Buenos Aires and Cordoba are crucial for consolidated figures of provinces, as they represent together about 40% of total public expenditures executed by the provinces.

**Primary Balance by Main Provinces**
*% of National GDP*

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 E |
|---|---|---|---|---|---|---|
| Buenos Aires | -0.30% | -0.22% | 0.01% | 0.19% | 0.34% | 0.16% |
| City of Buenos Aires | -0.10% | -0.12% | -0.07% | 0.09% | 0.06% | 0.06% |
| Córdoba | -0.02% | 0.10% | 0.03% | -0.10% | 0.07% | 0.05% |
| Santa Fe | -0.08% | 0.00% | -0.06% | 0.02% | -0.05% | 0.00% |
| Mendoza | -0.05% | -0.01% | 0.00% | 0.03% | -0.01% | 0.00% |
| Rest | -0.23% | -0.35% | -0.27% | 0.24% | -0.02% | -0.02% |
| **Total** | **-0.77%** | **-0.60%** | **-0.35%** | **0.45%** | **0.40%** | **0.25%** |

**Despite the quarantine adverse effects, in the first half of the year total revenues of the provinces grew 32.4% relative to 2019 and managed to grow slightly over expenditures, which increased 29.4%.** This result was due to operating costs practically frozen, while the economic package to alleviate the effects of the crisis largely came from the National Government, and at the same time the provinces received discretionary transfers from the Treasury. Thus, revenues from national origin represented in 2020 around 52% of total provincial revenues, increasing from 50% in 2019. If we look at the share of tax revenues from the Central Government that goes to the provinces, it increased 5 points during Macri´s Administration, from 26.6% to 31.7%, and reached 33.7% in 2020.

**The main concern of the provinces at the macroeconomic level is that overall provincial primary expenditures have increased from 13 to 16% of GDP between 2005 and 2020**, and hence today they represent nearly 40% of overall public expenditure. This ratio was 30% in 2012. Fiscal consolidation and moderation in primary expenditure was more of a priority in the Federal government than in the province during the Macri's years. Provinces employ more than 2 million people while the formal private sector is made of less than 6 million people. Provincial staff more than doubled in 15 years while population growth was less than 20% in that period. Thus, the problem is not the provincial deficit, but the size of their public sector.

### *ii. Provincial debt: hostage of the national restructuring process*

**Total provincial debt amounts to USD 23.7 billion,** and the bulk is concentrated in the Province of Buenos Aires (43%), the City of Buenos Aires (10%), Córdoba (10%), Neuquén (5%) and Mendoza (5%). When we analyze the ratio of debt to provincial income, there is also a large heterogeneity among provinces: Chubut, Jujuy, Buenos Aires, Mendoza, and Cordoba record debt ratios above 40% of revenues, while other provinces' ratios, such as San Luis, La Pampa and Santiago del Estero, stand well below 5%.

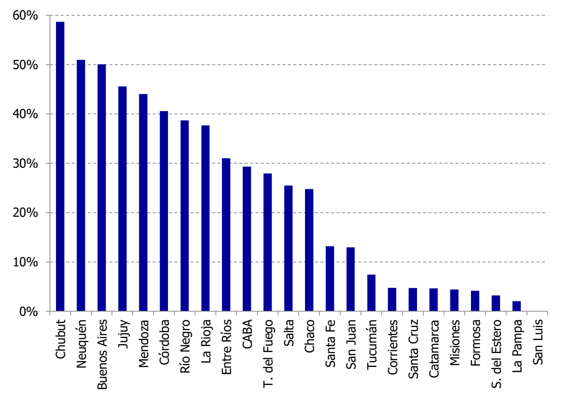
Around the 80% of the current stock of provincial bonds and bills was issued during Macri´s Administration, when the country was able to return to international credit markets. **The stock of provincial debt went from 20% of revenues in 2012 to 45% in 2018.**

**12% of provincial debt is with multilaterals.** And of this debt, 65% corresponds to the three largest economies: the Province of Buenos Aires (25%), the City of Buenos Aires (23%) and Córdoba (17%). But if we analyze how much of the debt of each province is in the hands of multilaterals, the City of Buenos Aires (24%), and the provinces of Córdoba (18%) and Santa Fe (22%) stand out. In other words, these provinces have been able to finance themselves to a greater extent at relatively lower rates. Only 8% of the debt of the province of Buenos Aires is with multilaterals. IFIs seem to prefer to lend to provinces that are relatively rich and have better bureaucracies to carry out projects.

**When we look at the debt in the hands of the National Government (10% of total provincial debt), we see that in the poorest provinces its weight as a creditor is very important.** In the provinces of La Pampa (98%), Santiago del Estero (88%), Formosa (86%) and Catamarca (81%), the Federal Government holds more than the 80% of total debt. These provinces have very limited access to the debt market. These are examples of lender of last resorts, as some of these provinces would not be able to raise money in the markets.

**Around 85% of provincial bonds and bills were issued in foreign currency, largely under foreign law**. **Fourteen of the 24 provinces have outstanding debt issued under foreign law**. The province of Buenos Aires (US$ 7.2 billion), Cordoba (US$ 1.7 billion) and the City of Buenos Aires (US$ 1.1 billion) concentrate almost 70% of this debt. While the province of Cordoba has recently reached an agreement with its creditors and the City of Buenos Aires has been meeting its debt payments on time, the Province of Buenos Aires has not reached a deal yet and entered into default.

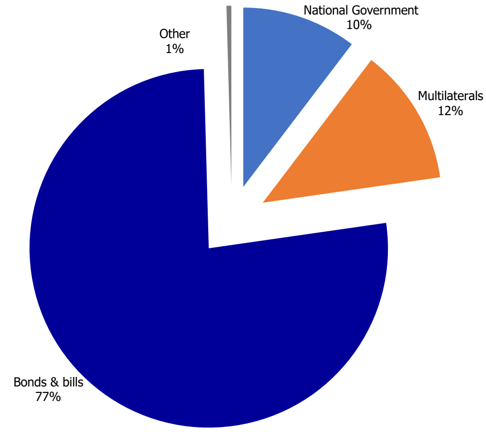
**Provincial public debt 2020**
*As % of total provincial revenues (estimated)*




**A glance at provincial debt**
*In million USD - consolidated figures*

| | 2020 E |
|---|---|
| Total debt | 23,671 |
| *% GDP* | 6.2% |
| Bonds & Bills | 18,456 |
| *Foreign currency* | 15,768 |
| Local Law | 1,268 |
| Foreign Law | 14,500 |
| *Local currency* | 2,688 |

**Consolidated Provincial Debt**
*2020 E*



Of the 14 provinces with debt issued under foreign legislation, only 2 are paying normally and do not plan to restructure, while the other 12 have started (or even completed) restructuring processes. Regarding this last group, while five provinces have already reached an agreement with their bondholders without defaulting, three are still negotiating while paying (avoiding default), and four are also carrying out negotiations but have defaulted.

**Until now, the provinces have restructured debt for USD 3,919 million but another USD 8,187 million are still in the process of restructuring.** The government was expecting that the national debt restructuring would help to regain access to foreign financing and would also be a starting point for success in provincial debt restructurings. Many Argentine provinces began their restructuring processes last year, but only a few of them were able to reach an agreement with creditors. The main creditors of provincial debt issued under foreign law are the same ones that gave their support to restructure sovereign debt a few months ago (i.e. real money investors and a few hedge funds). But the sovereign debt restructuring is still far from showing the results expected by the market, and the yields of the new bonds have never fell below 12%. They even touched peaks of 17%, while the market was expecting exit yields of around 10%. Thus, it is logical for creditors to get firmer in their position and look for better deals in provinces.

On the one hand**, the Province of Córdoba is an example of success**. **It has restructured its outstanding USD 1.6 billion debt**, avoiding a default on due payments. The agreement did not imply a principal reduction but improved the maturity profile of the debt. **Mendoza (USD 590 million), Neuquén (USD 694 million), Chubut (USD 620 million) and Río Negro (USD 320 million) are also among the provinces that have successfully restructured their eligible debt.** The performance of post-restructuring provincial bonds has been mixed. The shorter-term ones have shown greater increases in their prices, while the longer ones showed an initial enthusiasm that later was deflated. Any similarity to debt restructuring at the national level is not pure coincidence.

**Jujuy, Tierra del Fuego and Salta are carrying out their negotiations, but still paying their debt services.** Salta has already announced an agreement with Ad-Hoc bondholders' group to introduce amendments to its bonds in foreign currency maturing in 2024. This group holds approximately 40% of the bonds. The province of Salta owes USD 350 million of debt it issued in 2016, which is currently trading at distress levels with yields of around 30%.

**The City of Buenos Aires and the province of Santa Fe are among the best students of the class:** they have been complying with their obligations and did not express any desire to restructure debt. On the contrary, **the province of Buenos Aires, Entre Ríos, Chaco and La Rioja have already defaulted,** although negotiations with creditors are ongoing. In particular, the province of Entre Rios has practically closed its agreement.

The province of Buenos Aires has recently extended until February 26th the deadline to renegotiate 23 bonds and bills for USD 7.1 billion (more than 70% of its total debt). The renegotiation of the provincial debt was formally launched last April and the original deadline for submitting offers has already been extended twelve times. The official proposal includes a

**Stock of public debt issued by Provinces**

*In million USD*

| | Bonds & bills | Other debt | Total |
|---|---|---|---|
| Buenos Aires | 9,233 | 1045 | 10,278 |
| CABA | 2,060 | 345 | 2,405 |
| Córdoba | 2,034 | 390 | 2,424 |
| Neuquén | 852 | 375 | 1,227 |
| Mendoza | 676 | 550 | 1,226 |
| Chubut | 739 | 140 | 879 |
| Entre Ríos | 500 | 360 | 860 |
| Santa Fe | 555 | 170 | 725 |
| Jujuy | 210 | 380 | 590 |
| Río Negro | 415 | 160 | 575 |
| Salta | 388 | 130 | 518 |
| Chaco | 302 | 250 | 552 |
| La Rioja | 300 | 70 | 370 |
| San Juan | 0 | 220 | 220 |
| Tierra del Fuego | 170 | 40 | 210 |
| Tucumán | 4 | 180 | 184 |
| Misiones | 11 | 75 | 86 |
| Corrientes | 0 | 80 | 80 |
| Formosa | 7 | 55 | 62 |
| S. del Estero | 0 | 60 | 60 |
| Santa Cruz | 0 | 60 | 60 |
| Catamarca | 0 | 55 | 55 |
| La Pampa | 0 | 25 | 25 |
| San Luis | 0 | 0 | 0 |
| **Total** | **18,456** | **5,280** | **23,671** |

**Stock of public debt issued by Provinces**

*In million USD - Bonds & bills*

| | Foreign currency | | Local currency | Total |
|---|---|---|---|---|
| | Foreign Law | Local Law | | |
| Buenos Aires | 7,174 | 1,009 | 1,050 | 9,233 |
| City of Buenos Aires | 1,060 | 0 | 1,000 | 2,060 |
| Córdoba | 1,685 | 234 | 115 | 2,034 |
| Neuquén | 702 | 0 | 150 | 852 |
| Chubut | 676 | 11 | 52 | 739 |
| Mendoza | 590 | 0 | 86 | 676 |
| Santa Fé | 500 | 0 | 55 | 555 |
| Entre Ríos | 500 | 0 | 0 | 500 |
| Río Negro | 300 | 0 | 115 | 415 |
| Salta | 383 | 0 | 5 | 388 |
| Chaco | 250 | 7 | 45 | 302 |
| La Rioja | 300 | 0 | 0 | 300 |
| Jujuy | 210 | 0 | 0 | 210 |
| T. del Fuego | 170 | 0 | 0 | 170 |
| Others | 0 | 7 | 15 | 22 |
| **Total** | **14,500** | **1,268** | **2,688** | **18,456** |

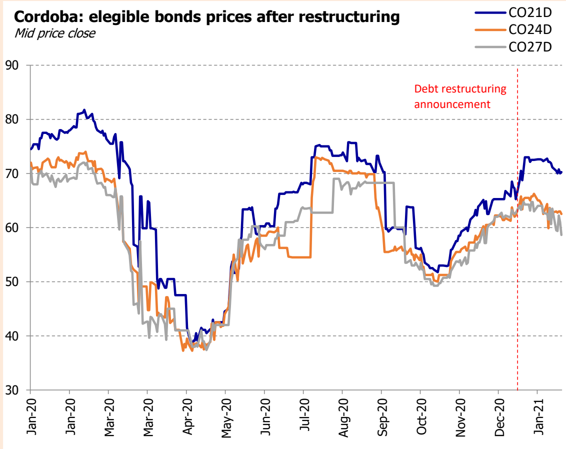
3-year grace period, a 55% interest reduction and 7% capital cut, together with an extension of the maturity terms.

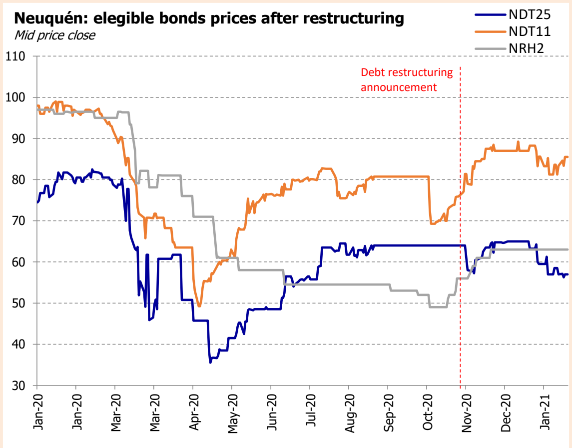
The default of Entre Rios draws attention. The province began its restructuring process in early September, after missing an interest payment for US$ 21.9 million, equivalent to AR$ 1,570 million, on August 8th. Between January and August, the province had accumulated a fiscal surplus (cash basis) of AR$ 10.7 billion. Moreover, the province has recently announced an accrued fiscal surplus of AR$ 1,981 in 2020.

The initial proposal that the province made to its creditors was to reduce coupon payments in coming years and to extend the amortization of the debt until 2028, which was initially agreed for 2023, 2024 and 2025. Between last September and January, the provincial government presented three restructuring proposals. All of them involved cuts of between 42% and 30% and all proposed not to pay any principal for the rest of the current administration. In turn, the bondholders presented two proposals that implied a reduction of approximately 15%, which were not accepted at that moment. A group of bondholders (holding more than 50% of the province's debt) finally filed a lawsuit against Entre Ríos in New York courts earlier this year. On February 8th, a new interest payment for another US$ 22 million expired.

But last Friday, the governor announced that the province reached an agreement with "Ad-Hoc Group", which holds 58% of its total outstanding debt. The agreement contemplates that the provincial administration will formally launch a consent request addressed to all bondholders to obtain the necessary consents to restructure the eligible debt. If the request is accepted, the province would be able to get out of default and avoid the NY courts. In addition, it would achieve significant debt service relief in the form of coupon reductions and rescheduling of maturities.

Why has Entre Rios defaulted having the money? Mainly political and FX reasons. On the one hand, the province has no foreign currency income, and the Central Bank is not shedding its reserves very easily. In any case, this hypothesis loses some force if we think that in just one month the Central Bank is currently selling more than 300 million dollars for hoarding. But there are also political reasons. The National Government wants to remove pressure on the Central Bank reserves and at the same time, the provincial government appreciates the excess cash for an election year, in a context in which it would not have access to international credit markets anyway. This hypothesis gains strength if we mention that in last December the province suspended the application of the Fiscal Responsibility Law for 2021. Thus, the province got rid of all the limits it had since 2017 to increase spending and rise the number of public employees, among others.



**Main Provincial Bonds Under Foreign Law**

*In USD million*

| Restructuring Condition | Province | Bond | Performing | Guaranteed | Maturity | Outstanding debt |
|---|---|---|---|---|---|---|
| Completed | Mendoza | PMM29 | Yes | No | 19/3/2029 | 590 |
| | Neuquén | NDT25 | Yes | No | 27/4/2030 | 377 |
| | | NDT11 | Yes | Yes | 12/5/2030 | 317 |
| | Chubut | PUL26 | Yes | Yes | 26/7/2030 | 620 |
| | Rio Negro | RND25 | Yes | No | 10/3/2028 | 320 |
| | Córdoba | CO21D | Yes | No | 10/12/2025 | 722 |
| | | CO24D | Yes | No | 1/6/2027 | 516 |
| | | CO27D | Yes | No | 1/2/2029 | 456 |
| In process | PBA | BP21 | No | No | 26/1/2021 | 250 |
| | | BPJ21 | No | No | 9/6/2021 | 450 |
| | | PBE23 | No | No | 20/1/2023 | 500 |
| | | PBF23 | No | No | 15/2/2023 | 750 |
| | | PBM24 | No | No | 16/3/2024 | 1,250 |
| | | PBJ27 | No | No | 15/6/2027 | 1,750 |
| | | BP28 | No | No | 18/4/2028 | 400 |
| | | BPLE | No | No | 15/5/2035 | 578 |
| | | BPLD | No | No | 15/5/2035 | 488 |
| | Salta | SA24D | Grace period* | No | 7/7/2024 | 350 |
| | Entre Rios | ERF25 | No | No | 8/2/2025 | 500 |
| | Chaco | CH24D | No | No | 18/8/2024 | 250 |
| | Jujuy | JUS22 | Yes | No | 20/9/2022 | 210 |
| | TdF | TFU27 | Yes | Yes | 17/4/2027 | 160 |
| | La Rioja | RIF25 | No | No | 24/2/2025 | 300 |
| Without explicit plans of restructuring | CABA | CABA21 | Yes | No | 19/2/2021 | 170 |
| | | CABA27 | Yes | No | 1/6/2027 | 890 |
| | Santa Fe | SF23D | Yes | No | 23/3/2023 | 250 |
| | | SF27D | Yes | No | 1/11/2027 | 250 |
| | Chubut | PUY23 | Yes | Yes | 19/5/2023 | 24 |
| | Neuquén | NRH2 | Yes | Yes | 26/4/2021 | 3 |
| | Salta | SARH | Yes | Yes | 16/3/2022 | 27 |

*Note: on January 29, 2021, Salta reached an agreement with a majority group of bondholders that allowed to extend the grace period.

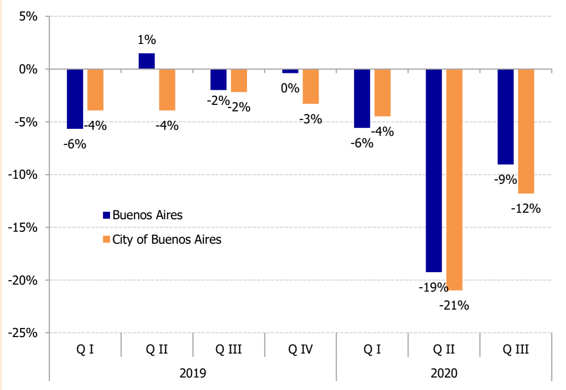
### iii. *Provincial activity indicators: as diverse as the geography*

**There is a wide diversity in terms of economic activity and outlook in Argentina's provinces. The effects of Covid-19 hit them differently**. For instance, the areas with greater share of services suffered the most. This is mainly the City of Buenos Aires and big chunks of the Province of Buenos Aires as well as Santa Fe and Cordoba. In addition, the metropolitan area of Buenos Aires was the most affected in terms of infection rates, a double whammy for the area who suffered greater and longer lockdowns than most provinces in the interior, where the virus hit later. Another drawback for the central region is that the harvest in 2020 was lower than in 2019, a factor that is not related to the pandemic but has important effect on consumption.

**The newly created regional activity index showed that for the Central region, which includes Buenos Aires activity tumbled by 12.4% y/y in Q3.** The other 4 regions the contraction was much lower: of 4.7% in the West in the country, 5.5% in the Northeast, 5.9% in the Northwest and 7.5% in Patagonia (South). The activity index published by the City of Buenos Aires contracted by 12.3% in the first 9 months of the year. In the Province of Buenos Aires, the same indicator showed a decline of 11.9%. As expected, the recession was more severe for service sector providers.

**Quarterly Indicator of Economic Activity**

*Var. % y/y*

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**The top five districts of Argentina (out of 24) represent roughly 75% of GDP**. So, even with disparity, national GDP will hardly divorce from what happens in these 5 provinces (Buenos Aires, Cordoba, Santa Fe, Mendoza, and the City of Buenos Aires).

**If we look at formal employment, we find that 3.7% of private formal jobs vanished in the last year to November 2020 with just one province adding formal employment: Tierra del Fuego where the number of jobs soared by 8.7%.** TDF suffered on tourism but benefitted from the push to recreate the assembler hub for home appliance in the southernmost province. This is something quite inefficient for the economy, but quite good for the province.

**Among the losers, the worst affected is Neuquén who shed almost 10% of private formal jobs, mainly on the paralysis of the fracking activity, something that promises to recover this year.** Other losers include Salta (-7.5%), Mendoza (-6.6%), Jujuy (-6.2%), Entre Rios (-5.7%) and City of Buenos Aires (-5.2%). Those who faired reasonably well the recession are Chaco, Chubut, La Pampa, Misiones, and Province of Buenos Aires all of them with employment decreases of less than 3%.

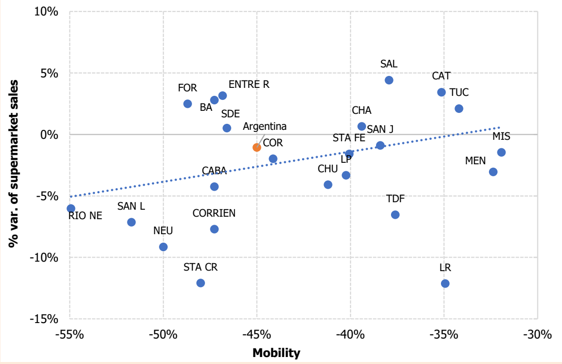
**If we look at supermarket sales, we find a good correlation between mobility and sales**. While globally sales rose 0.6% in 2020, in provinces such as Catamarca, Jujuy and Entre Rios sales jumped over 5% y/y. La rioja is in the other end with a decrease of over 11% while Tierra del Fuego (-5.8%) and Misiones (-4.8%) also fared poorly. The City and the Province of Buenos Aires did better than the average at 1.3 and 3.2%. This indicator is helpful up to a point because the penetration of supermarket chains differs from province to province. For instance, in Misiones retail activity improved, as the border closure prevented Argentine citizens from buying in Paraguay as they have done for years.

If we use car registrations as a proxy for activity, we find a decrease in car purchases across the country. But while in Jujuy the reduction was 44%, in Formosa and Santiago del Estero 40% in rural La Pampa sales only dropped by 12.4%.

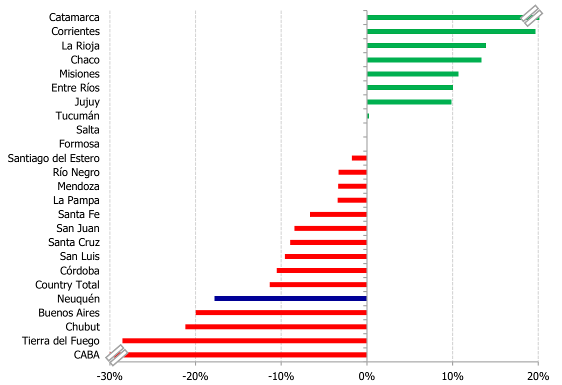
**In terms of construction cement deliveries fell by 11% in 2020. But some provinces managed to do well**. Cement sales skyrocketed in Chaco, Corrientes, Catamarca, Jujuy, Misiones, all provinces in the north of the country. Meanwhile in the City of Buenos Aires sales declined by 43% and 20% in the Province of Buenos Aires. In Cordoba, the decline was 10.5% and 6.6% in Santa Fe.

**Argentina's economy is quite diverse. During the pandemic, the provinces that are more focused in goods and those who could get access to federal funds seems to have done relatively better than large players**. The gradual normalization of services will play in favor of the biggest districts, as schools, public transports, restaurant come back to life. In Q3 Buenos Aires GDP has accelerated more than national GDP measured on a q/q basis as a proof of the trend. The reshuffle of Plan Gas will probably reinvigorate the status of Neuquén, a hardly hit province. The interior of the country will not see such strong recovery, more so with a second decline in row for the harvest.

**Mobility and supermarket sales**
*YoY variation in real terms - November 2020*




**Cement Deliveries**
*Accum. 2020*



# Base Scenario

| | 2019 | 2020 E | 2021 E | 2022 E | 2023 E |
|---|---|---|---|---|---|
| Inflation (eop) | 53.8% | 36.1% | 50.0% | 40.0% | 35.0% |
| Exchange rate ARS/USD (eop) | 59.9 | 84.1 | 120.8 | 172.8 | 228.1 |
| Real exchange rate ARS/USD (eop, Dec-01=100) | 151.6 | 158.8 | 155.0 | 161.5 | 161.1 |
| Paralell exchange rate ARS/USD (eop) | 74.6 | 140.3 | 205.3 | 267.8 | 342.1 |
| Spread with official exchange rate (eop) | 24.6% | 66.8% | 70.0% | 55.0% | 50.0% |
| Gross reserves (USD billion, eop) | 44.8 | 39.4 | 41.9 | 44.4 | 46.5 |
| Policy rate (eop) | 55.0% | 38.0% | 43.0% | 35.0% | 28.0% |
| GDP (YoY) | -2.1% | -10.0% | 6.0% | 1.5% | 3.0% |
| Private consumption (YoY) | -6.6% | -13.5% | 7.2% | 2.0% | 2.9% |
| Primary surplus (% GDP) | -0.2% | -6.5% | -4.0% | -2.0% | -1.0% |
| EMBI Argentina (spread in bps, eop) | 1,744 | 1,350 | 1,000 | 850 | 750 |
| Public net debt (% GDP) | 43.6% | 53.1% | 50.3% | 53.2% | 52.8% |
| Soybean price in USD per ton (annual average) | 327 | 350 | 515 | 420 | 420 |
| Exports of goods (USD billion) | 65.1 | 54.9 | 60.6 | 65.2 | 69.5 |
| Imports of goods (USD billion) | 49.1 | 42.4 | 47.6 | 50.0 | 54.1 |
| Trade balance (USD billion) | 16.0 | 12.5 | 13.0 | 15.2 | 15.4 |
| Current account (% GDP) | -0.8% | 1.3% | 1.1% | 0.9% | 0.4% |

Source: EconViews

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