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Provinces – Argentina

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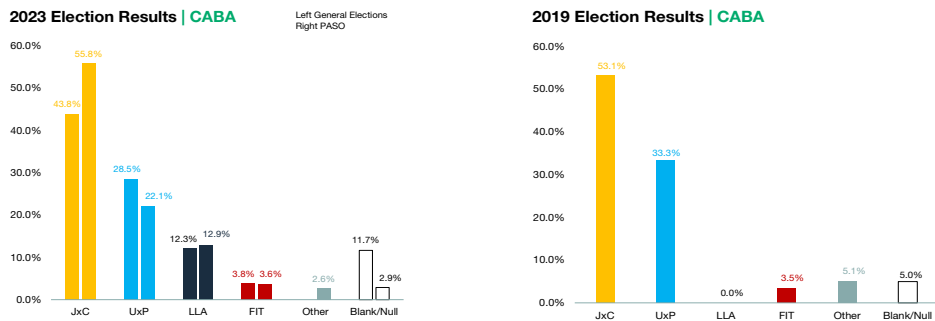
Provinces Strategy Flash: PBA, CABA & Entre Ríos Elections

In CABA, a competitive JxC primary secured a landslide win, while in PBA the race remains open.

In yesterday's election, JxC nearly secured policy continuity in CABA, with Mr. Macri coming 0.4% short of winning in the first round. Instead, it was much less competitive in PBA, where the increase in participation rates and a robust Mrs. Píparo performance helped Mr. Kiciloff to win by a landslide margin.

In yesterday's election, JxC nearly secured policy continuity in CABA, with Mr. Macri coming 0.4% short of winning in the first round. Instead, it was much less competitive in PBA, where the increase in participation rates and a robust Mrs. Píparo performance helped Mr. Kiciloff to win by a landslide margin. Starting with the CABA election, JxC did not manage to win the election in the first round, as Mr. Macri obtained 49.6% of positive votes, 0.4% short of the 50% needed to not go to a second round. As we anticipated in the PASO, the competitive primary inside JxC allowed the party to obtain more votes than expected, some of which it failed to retain, and cascaded down to Mr. Santoro, who posted a solid election, as UxP's voter tally clocked in at 32.2% of the votes, entering the second round. Closing the race, Mr. Marra from LLA was unable to gain more traction, and underperformed significantly relative to Mr. Milei, accruing 13.9% of the total votes. Finally, the FIT obtained 4.3% of the votes. Relative to the PASO, JxC lost nearly 172,000 votes, most of which went to UxP, as the latter gained 154,000 votes since the primaries. As we expected, this responds to Mr. Lousteau's political affiliations and past connections with kirchnerism, which made him a much more palatable candidate for more left-leaning voters and positioned him closer to Mr. Santoro in the political spectrum, who is also a more moderate candidate, albeit coming from the left. Without Mr. Lousteau, part of his electorate turned to Mr. Santoro, instead of remaining inside of JxC. We believe this phenomenon was also present in PBA, where the underperformance of JxC relative to the PASO came on the form of the loss of UCR voters, which switched to engross the UxP flies. This ties well with the overarching national scenario, as Bullrich failed to retain Mr. Larreta's more moderate UCR voters, especially in PBA and CABA (to access the report with our full national view, please [click here](#)). Also, blank and null votes saw a big increase in the election, clocking in at 13.2%, while the Left also gained some ground relative to the PASO. Finally, the libertarian space remained practically unchanged, being unable to harness any extra voter support, in line with Mr. Milei's performance at the national level. In terms of participation, it continued to be low, clocking in at 67.5%, well below the 73.2% historical average. And even if it was 5pp higher than in the PASO, positive votes actually fell by 1pp relative to the primaries, with a sizable portion of the increase in participation going into the blank and null vote.

Figure 1: CABA Election Results



Source: TPCG Research based on Instituto de Gestión Electoral

Looking into the second round between Mr. Macri and Mr. Santoro, we expect the former to emerge victorious.

Looking into the second round between Mr. Macri and Mr. Santoro, we expect the former to emerge victorious. Even if the JxC performance was significantly worse than the one posted in 2019 (-9.3pp), Mr. Macri almost managed to win in the first round and still holds a sizable lead relative to Mr. Santoro. Considering all votes, Mr. Macri obtained 43.8% of the total, while Mr. Santoro 28.5%, accounting for a 15pp spread. Now, the final showdown will take place on 19th November, simultaneously with the ballotage at the national level between Mr. Massa and Mr. Milei. It is difficult to envisage how UxP could snatch the second round away from JxC, especially as the latter already has nearly all the votes it needs to win. In addition, Mr. Marra voters should align ideologically more closely with Mr. Macri than Mr. Santoro, nearly assuring the win for the former. While the more-left-leaning voters should favor UxP, Mr. Santoro has the deck stacked against him. He needs to muster all non-JxC votes, rallying them to his cause, which seems incredibly difficult, or hope to capture some of the blank and null votes from this election, which also seems unlikely, at least in the volume he needs to be competitive. So, in our view, we find Mr. Macri is the heavy favorite to win in the second round, securing another four-year stint for JxC in the City of Buenos Aires.

All in all, policy continuity in CABA looks nearly assured, with Mr. Macri parting as a heavy favorite for the second round.

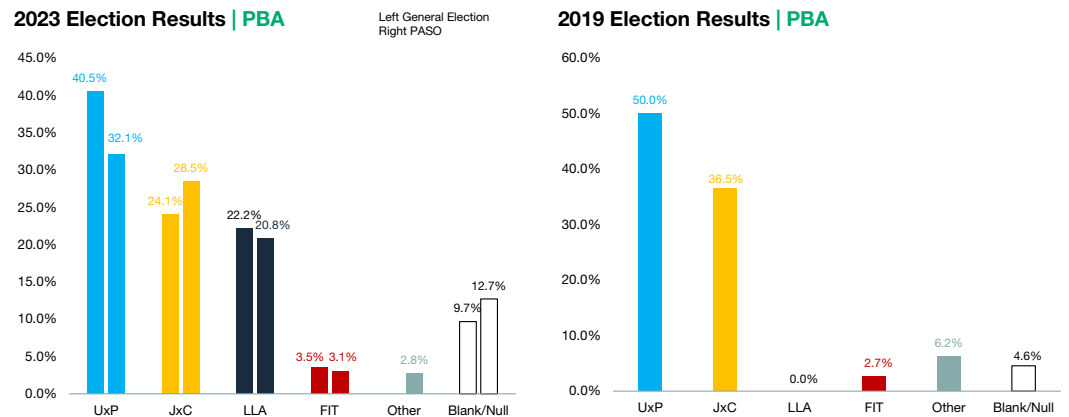
All in all, policy continuity in CABA looks nearly assured, with Mr. Macri parting as a heavy favorite for the second round. With JxC having obtained over 49.6% of positive votes, the race for CABA seems nearly over, as JxC only needs to muster a few extra votes to its current base to win the second round in November. This would guarantee policy continuity in the City of Buenos Aires, which in our view is a positive development, even if the change of political color at the national level will not match the current administration's political affiliations. We believe that, in either a UxP or LLA government, CABA should have little to no problem in fiscal terms, as its income base mostly depends on local taxes, and not on the national government. In addition, some tax revenue categories closely follow inflation, which makes income sources less flexible to the downside, albeit a hit in activity levels will surely make a dent in the City's extremely solid fiscal position. In addition, with CABA's strong liquidity position, we find the credit continues to have a strong outlook not only from a political standpoint but from a fundamental basis too.

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In PBA, a spike in participation rates and JxC's failure to retain UCR voters handed the province to Mr. Kiciloff.

In PBA, the increase in participation rates, JxC's failure to retain UCR voters and a very split opposition allowed Mr. Kiciloff to secure a second term with a landslide win. In the Province of Buenos Aires, UxP managed to secure the governorship, obtaining 40.5% of the votes, edging both JxC and LLA by a wide margin, as the former obtained 24.1% and the latter 22.2%. Even if there was some tactical voting in favor of JxC, with ballot cuts causing Mrs. Piparo to trail Mr. Milei by 200k votes in PBA, this was nearly not enough to help JxC close the gap with Mr. Kiciloff, who overperformed its PASO tally by a very large margin. In this context, the key to the comfortable win was the increase in participation rates, which primarily benefitted UxP. The latter gained nearly 1.17 million votes relative to the PASO, with JxC losing 210k, while the libertarians improved by 333k. Again, we believe the main reason behind the JxC underperformance comes on the back of radical voters switching to UxP. In addition, positive votes rose by 1.1mn, while blank votes dropped by 200k. This also explains the massive lead Mr. Kiciloff was able to achieve, as not only he was able to profit from the large increase in participation (Which rose by 7.7pp to 75.5%, albeit still down from the historical average of 78.8), but its main competitor, JxC, weakened, which also gave way for Mrs. Piparo to close some ground, ending the race mostly level with Mr. Grindetti. Therefore, relative to the PASO, UxP grew by 8.5pp, while JxC dropped 4.5pp, LLA rose by 1.4pp, and the FIT also experienced a marginal rise (+0.4pp), closing with 3.5% of the votes. Relative to 2019, both UxP and JxC underperformed, as the former lost 9.5pp, while the former bled even harder, weakening its tally by 12.5pp, space which was mainly capitalized by the surge of the Libertarian parties. Even if opposition votes totaled 46.3% of the total, number which would have edged Mr. Kiciloff's tally, the fact that they were split relatively evenly between two similarly sized blocks gave him all the advantage he needed to win the election.

Figure 2: PBA Election Results



Source: TPCG Research based on Dirección Nacional Electoral

All in all, we believe the news are mixed from a credit standpoint and largely depend on the result of the second round at the national level, which will hold the key to PBA finances going forward.

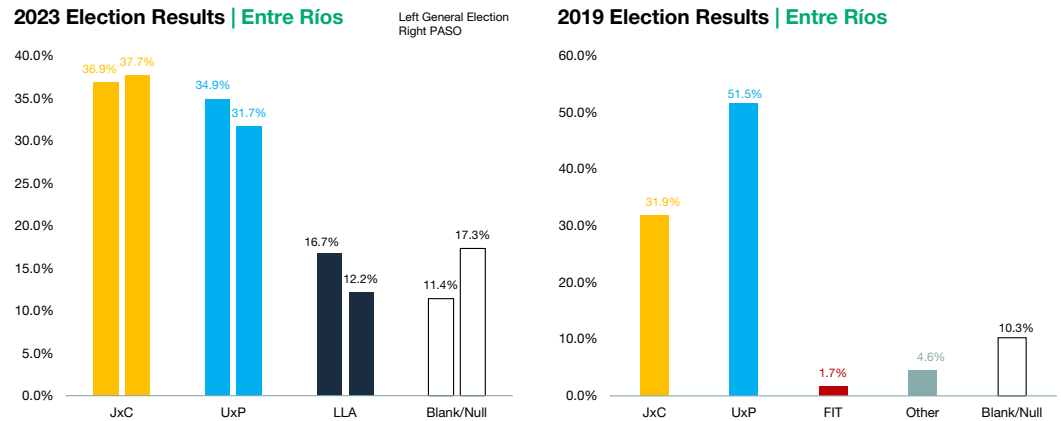
All in all, we believe the news are mixed from a credit standpoint and largely depend on the result of the second round at the national level, which will hold the key to PBA finances going forward. With the PBA race having a winner, the fate of the province depends mostly on the result of the race at the national level. If Mr. Massa is able to emerge victorious from the second round against Mr. Milei, then the news looks slightly better, as a shared political color at both levels should ensure the situation of the province remains as it currently is. The fiscal outlook of the province looks bleak headed into 2024. The province will be strongly hit by the Income Tax law, losing 2.3% of its income sources. This compounds with the fact that PBA receives nearly 50% of all discretionary transfers handed out to provinces, representing 7.6% of its total income, the highest in any province. Therefore, its fiscal position largely depends on it, as taking away this revenue stream, would turn a primary surplus of 4.9% of revenues into a 4.7% deficit. So, with the robustness of the fiscal position dictated by the path of discretionary transfers, the political color at the national level is paramount. In the event of a Mr. Massa victory in the second round, the PBA-National Govt. relationship should continue to be fluid, and liquidity conditions should remain as they are. Instead, a Mr. Milei win in the ballottage could mean a taper down in transfers, which could be devastating for the fiscal position. Additionally, in the event Mr. Kiciloff also needs to use the PBA to give refuge to Kirchnerist political exiles from the national government, then the situation would become increasingly dire for the provincial treasury. Still, any hit to economic activity (and therefore revenue sources) or a strong acceleration of inflation will likely hurt the fiscal balance, whichever scenario materializes. So, all in all, we believe the fat of the province will ultimately be decided on November 19th, when who the next administration will be is finally clear. In our view, chances are tilted towards a Mr. Milei win in the second round, which makes the outlook for the province ultimately more negative. However, the chances of seeing a national administration of the same political color as the one at the provincial level increased after yesterday's result. This means, the chance of discretionary transfers continuing and even compensating a dire economic situation are higher, which in turn should result in an overperformance of the PBA bonds relative to the sovereign space.

Finally, JxC posted another win at the provincial level, with Mr. Frigerio obtaining the governor's seat in Entre Ríos, ending a 20-year Peronist stint.

In Entre Ríos, JxC obtained a tight win, flipping the province.

Finally, JxC posted another win at the provincial level, with Mr. Frigerio obtaining the governor's seat in Entre Ríos, ending a 20-year Peronist stint. The results showcase JxC having obtained 36.9% of the votes, trailed closely by UxP, which managed to muster 34.9% of the votes, with just a 2pp lead between the two. As a far third, LLA clocked in at 16.7% of the votes. Even if participation rates increased less than average relative to the PASO, from 75.7% to 77.3%, blank votes did collapse from 17.3% to 11.4% of the total. Still, participation remained low, with the historical average for the province closer to 81.2pp. This triggered a compression in the gap between JxC and UxP, which tightened from both ends. Firstly, JxC lost some votes relative to the PASO, weakening by 0.8pp. Secondly, UxP rose by 3.3pp, being benefited by the reduction in blank votes. However, the side that improved the most relative to the PASO was LLA, as it hiked by 4.6pp, and again benefited from the weaker tally of blank votes, even if it was not nearly enough to close the gap with either JxC or UxP. Looking at the difference with the 2019 election, the largest loser was without a doubt, peronism, going from 51.5% of the votes to 34.9 (-16.6pp) while JxC did post a better result, going from 31.9% to 36.9% (+5pp), just enough to edge UxP this time around, ending a 20-year Peronist stint in the province.

Figure 3: Entre Ríos Election Results



Source: TPCG Research based on Dirección Nacional Electoral

We believe the news are positive for the province, even if the national elections and the economic scenario still hint at a negative outlook for the space as a whole.

We believe the news are positive for the province, even if the national elections and the economic scenario still hint at a negative outlook for the space as a whole. The victory in Entre Ríos added one extra governor to the JxC list, with the space being the biggest winner at the provincial level, victories which were paradoxically not seconded by a strong performance at the national level. Then, JxC will have a significant amount of territorial control, from a local standpoint, albeit none at the national level. This poses the question of how the relationship between the two sides, which will not share political color, goes along, and how this could strain the financial and fiscal status of the provincial credits (for an in depth analysis, [click here](#)). In the case of Entre Ríos, we believe the province should be able to manage with either Mr. Massa or Mr. Milei running the show at the national level. Fiscal metrics for the province are solid enough, posting twin primary and fiscal surpluses of +13.1% and +11.5% of revenues respectively. However, looking at the consolidated deficit, which includes social security, this figure turns into a -0.4% deficit. Looking at discretionary transfers, Entre Ríos receives the equivalent of 3.1% of its income sources through this channel. This means that, without this income stream, the fiscal position of the province drops by 4.2pp of revenues, stressing the fiscal position. With neither Mr. Milei nor Mr. Massa being of the same political color, none have large incentives to keep discretionary transfers running. In this context, even if Entre Ríos has an adequate fiscal position, it could be poised to suffer some strain in the short term. In addition, we find fiscal positions are very vulnerable to a spike in inflationary pressures, as most of their spending is indexed, while in turn the impact on revenues would be mixed. On average, Personnel expenditure composes 43% of provincial outlays (46.5% of Entre Ríos). These are both inelastic, and indexed, meaning that in a context of crisis, they will mostly keep up with inflation, or at the very least, trail it closely. All in all, even if the next administration in the province should be as, or even more market-friendly than the last, and given its adequate fiscal position, we identify the current economic scenario, the recent tax cuts, and the dependence on discretionary transfers as potential risks going forward.

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