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Provinces – Argentina

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Provinces Strategy Flash

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All in all, we find the overarching changes in the national government to be credit negative for the province, as a different political color at the national level reduces the chances of PBA keeping the discretionary transfers level required to maintain an orderly fiscal position.

Yesterday, Mr. Kicilloff met Mr. Massa, in order to try to secure some extra financing from the national government, before the Economy minister's term expires. According to local media outlet La Nación, Mr. Kicilloff met yesterday with Mr. Massa, and discussed financing alternatives for the province of Buenos Aires, trying to blindside Mr. Milei before he takes office. The reelected governor is trying to accelerate the sending of funds owed by the national government to PBA and trying to tidy up the year-end numbers before Mr. Milei takes office on December 10. Mr. Kicilloff expects the payment of funds in October and part of November from the national government, but he must also review the entire 2023 budget closure, before the start of the new administration of La Libertad Avanza. In addition, Mr. Kicilloff must now also re-work the draft of the 2024 budget he was prepared to send to the provincial congress, which largely depended on Mr. Massa becoming president to be financially consistent.

This year, the province had forecast a primary deficit of ARS81bn and a financial deficit of ARS249bn. Everything indicates that this guideline was exceeded: the province has already granted, with the majority of unions, salary increases of +120%yoy, in a context where its wage mass accounts for nearly 41.6% of the provinces' total outlays. In addition, the province assisted some 60 municipalities to comply with their salary payment obligations in September, in order to grant increases perhaps with those established by the Buenos Aires government. Mr. Kicilloff will also have to adjust the forecasted outlays for next year after the national budget is approved. In addition to a massive spending spree, the provincial administration is overly reliant on discretionary transfers, which make up a significant part of its income sources. In our last provincial report (for more information, please [click here](#)), we argued that PBA could be left in a very fragile position if the drop in automatic transfers due to the Income tax law compounded with a hostile administration at the national level, which funneled less resources to PBA via the discretionary transfer channel. By 2Q23, discretionary transfers represented roughly 7.6% of the province's income sources. If said were removed, the buoyant fiscal position of the province would quickly turn red, with its primary balance going from a +4.9% of revenues surplus to a -4.7% deficit, with the financial deficit following suit, going from a timid +2% surplus to a -7% deficit. By end-October, PBA received ARS620bn in discretionary transfers from the national government, the figure being 109% of the budgeted transfers for the year. This represents a whopping 43% of the YTD discretionary transfers sent out to the entire provincial space. In addition, the province still must account for the expected loss of income due to the reduction in Income tax. Said loss is estimated at roughly 2.3% of revenues (ARS364bn, or USD601mn at the forecasted 607USDARS rate).

All in all, we find the overarching changes in the national government to be credit negative for the province, as a different political color at the national level reduces the chances of PBA keeping the discretionary transfers level required to maintain an orderly fiscal position. As we argued (please [see here](#)) in the last weeks since the general election, Mr. Massa's preliminary victory gave a breather to the PBA bonds, which rallied significantly, as the province's reliance on national funding to keep its debt current meant a friendly national government was probably going to support PBA financially to honor its obligations. However, Mr. Milei's victory in the second round put this scenario off the table. Now, Mr. Kicilloff's administration is poised to face a hostile national government, which surely has fewer qualms about reducing national

financing to PBA, with discretionary transfers taking a relevant place in the discussions on the upcoming balancing of fiscal accounts at the national level. Even if the cuts were split evenly between the provinces, PBA would still be the main loser, receiving nearly half of the total. Therefore, we expect the fiscal position to be hit hard in the next period. In addition, PBA is now the main Peronist stronghold, which means it is poised to receive many political refugees from the national administration and will surely be where the Peronist remnants entrench to wait out Mr. Milei. The only mitigating factor for the province is the fact that the administration could use discretionary transfers as a bargaining chip with the provincial administration, with the most likely outcome being a carrot-and-stick scheme, with a blend of cuts in discretionary transfers and provision of financing sources given the provincial administration complies with the national government. Still, this will largely depend on Mr. Milei's plan, of which we still have little certainties. All in all, we find PBA's fiscal position is poised to be constrained in the medium run.

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