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Provinces – Argentina

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Provinces Strategy Flash

Some thoughts on the conflict with provincial pension funds

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Recently, there was another round of shots fired between the governors and the federal administration, this time regarding the fact that the national government has failed to transfer some provinces the funds to plug the gap in their pension systems. For context, Argentina's retirement system is very fragmented, and beyond the Argentine Integrated Pension System (SIPA), which covers the majority of registered workers and is administered by ANSES there are also provincial systems, which generally cover a significant portion of the provincial and municipal public servants, and professional funds. However, there are only some provinces which have their own pension system, as back in the 1990's, the national government offered the entire space to integrate their systems to the federal retirement funds. Between 1994 and 1997, the national pension system absorbed the retirement programs of 11 provinces, including the City of Buenos Aires, Catamarca, Jujuy, La Rioja, Mendoza, Río Negro, Salta, San Juan, San Luis, Santiago del Estero and Tucumán. So, while these provinces were released of the burden of financing their own provincial systems, there were other jurisdictions which continued to fund their own pension structures. So, in 1999 a new agreement was reached between these provinces and the federal government, on which the national administration committed to cover the deficits of the pension systems of said provinces. And so, this commitment is the origin of the conflict that this weekend pitted the national government against the provinces, as the administration has failed to transfer the funds to plug the gap in local pension systems since January.

Figure 1: Provincial pension systems posted a 0.4pp of GDP deficit in LTM3Q23

	Feb-23 ARSmn	USDm (Feb-23 FX)	USDm (Period Average)	as % of Period Revenues	as % of GDP
Buenos Aires	660,913	792	837	2.7%	0.10%
Córdoba	289,398	347	406	4.2%	0.05%
Corrientes	69,994	84	95	3.6%	0.01%
Chaco	120,777	145	168	4.6%	0.02%
Chubut	48,612	58	66	2.9%	0.01%
Entre Ríos	332,032	398	458	11.0%	0.05%
Formosa	95,690	115	131	5.4%	0.02%
La Pampa	59,735	72	83	4.6%	0.01%
Misiones	-28,877	-35	-38	1.2%	0.00%
Neuquén	94,254	113	128	2.8%	0.02%
Santa Cruz	117,201	140	162	8.4%	0.02%
Santa Fe	393,580	472	538	6.1%	0.06%
Tierra del Fuego	18,136	22	19	1.4%	0.00%
Total	2,271,445	2,722	3,053	2.7%	0.36%

*CABA, Catamarca, Jujuy, La Rioja, Mendoza, Río Negro, Salta, San Juan, San Luis, SdE and Tucumán transferred their provincial pension systems to the federal government back in 1994.

Source: TPCG Research based on the Economy Ministry.

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The deficit of these provincial pension systems is substantial, amounting to 0.4pp of GDP, and while the administration has stated that it is currently auditing the transfers, and will proceed to send the monies once said process finishes, the move still results in the provincial governments having to plug the gap out of their own pocket in the meantime. The provinces which maintained their pension system, and therefore are due to receive funds from the national government are Buenos Aires, Córdoba, Corrientes, Chaco, Chubut, Entre Ríos, Formosa, La Pampa, Misiones, Neuquén, Santa Cruz, Santa Fe and Tierra del Fuego. While most of these systems present a current deficit, there is one exception, as Misiones last posted a moderate surplus for its provincial scheme. Unsurprisingly, the largest deficits correspond to the more

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populous provinces. Considering the LTM up to 3Q23, at the current FX rate, Buenos Aires', Santa Fe's, Entre Ríos' and Córdoba's systems present the largest deficits, amounting to USD792mn, USD472mn, USD398mn and USD347mn respectively. In terms of the provincial revenues, Entre Ríos' deficit stands out, totaling 11% of its income sources. Following that metric, the provincial systems of Santa Cruz (8.4%), Santa Fe (6.1%), Formosa (5.4%), La Pampa (4.6%) and Chaco (4.6%) exhibit the largest deficits. In a context where the national government is squeezing provincial funding to the limit, this move seems to be designed to amp up the chokehold on sub-sovereign finances. However, the official position of the federal administration is that it is currently performing an auditing process of the ANSES, the institution, which is responsible for the fund transfers, and it will proceed to send the monies once said process is finished, as it needs to determine the exact amount each province must receive, as the calculations regarding each pension system deficit are quite complex.

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In our view, this is just another chapter in the long war of attrition the administration has planned to subdue the provincial space and give viability to its fiscal and legislative programs. In our latest provincial report (please [click here](#) to see more) we argued that the federal government is planning to discipline the provincial space, with twin objectives. Firstly, to make the provincial (and by some extent municipal) fiscal bias consistent with that of the national administration. This is key to provide extra viability to the administration's stabilization plan, as it ensures a faster convergence of inflation, as a hawkish fiscal bias avoids cushioning the blow in activity levels, and therefore avoids the persistence of the inflationary process. Moreover, the federal government has no governors of its own, making the provincial administrations the perfect enemy, and a space ripe for gathering legislative support, of which the administration needs a whole lot, especially if it plans on passing the new omnibus bill or other legislation pointed at shoring up its program institutionally. And its strategy to achieve that is also two-fold. On the one hand, the administration is offering the provinces further fiscal relief, and even a new copa law, if they agree to cooperate. And on the other hand, it is refraining itself from transferring the resources the national government provided to the space in order to make it fiscally viable after the 1994 constitutional reform, pushing most provincial administrations to the brink of financial distress. In our view the federal government is aware that time is in its favor and is preparing for an attrition war with the provincial space, one it has all the tools to win. And the strategy is starting to bear some fruit, with some governors allegedly starting to pledge their support to the new omnibus bill.

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