

Rating Action: Moody's affirms ratings of Argentine Regional and Local Governments

29 Sep 2022

New York, September 29, 2022 -- Moody's Investors Service ("Moody's") affirmed today the issuer and debt ratings of eight Argentinian provinces, a city and a municipality. Moody's also affirmed the baseline credit assessments (BCA) and the outlook remains stable on all affected issuers.

The rating action on Argentine regional and local governments follows Moody's affirmation of the Government of Argentina's local-currency and foreign-currency sovereign bond ratings at Ca on 27 September 2022 (see press release titled "Moody's affirms Argentina's Ca ratings; outlook stable"). The action balances Argentina's history of weak governance, limited market access, and persistent macroeconomic imbalances with the government's recent and still unproven efforts to marshal long-term political support for a fiscal consolidation program with the IMF.

ISSUERS AND RATINGS AFFECTED

Please click on this link https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL469915 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

For the City of Buenos Aires, the affirmation of the caa3 BCA and Caa3 debt ratings incorporates Moody's assumption that the City will continue to exhibit a strong credit profile relative to peers as measured by its operating and financial results, lower dependence on federal transfers and refinancing needs. Moody's views that the City is resilient to capital market access restrictions because it does not face significant funding needs until 2025 and its exposure to foreign-currency debt is adequate compared with its cash generation and liquidity. At the same time, Moody's recognizes that the issuer did not pursue a debt restructuring process during the last economic downturn.

The affirmations of the ca BCAs and Ca ratings for the other nine regional and local governments reflects the very close economic and financial linkages that exist between Argentina's sovereign and sub-sovereign governments. Until the fundamental macroeconomic pressures that continue to weigh on the sovereign credit profile are addressed, capital market access will remain limited leading to elevated financing credit risks of sub-sovereign governments.

In addition to the above considerations, for Chubut, Province of and Tierra del Fuego, Province of, the affirmation of their Ca secured debt ratings incorporates Moody's view that the security on the notes, oil and gas royalties, are still subject to the federal operating environment and regulations. Although Moody's recognizes that royalties are an important credit enhancement, the creditworthiness of the secured notes cannot be completely delinked from the provinces' standalone credit profile. Furthermore, both provinces sought debt relief alternatives on its secured notes during the last period of economic contraction and tight financial conditions.

RATIONALE FOR THE STABLE OUTLOOKS

The stable outlooks for all entities reflects the stable outlook for the sovereign and captures Moody's expectation that economic and financial pressure faced by the 10 regional and local governments will not differ materially over the next 12-18 months. The outlook also incorporates our expectation that bondholders will not face losses exceeding those captured in the rating category.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

ESG considerations for the 10 RLGs are summarized as follows:

Environmental considerations are not material to the credit profiles. Neither the provinces and municipalities

infrastructure nor economic bases are subject to material risks stemming from environmental concerns. Neither spending nor revenue intake are expected to be impacted by environmental changes at this time.

Social considerations are material to the credit profiles. The Regional and Local governments of Argentina are exposed to rising social demands driven by falling purchasing power and increased poverty and unemployment. The expected further deterioration in these social indicators will erode the RLG's tax collection abilities and require an increase in social spending. Moody's also expects social discontent and pressure from labor unions - amid unrelenting inflation levels - to push the RLG's to increase personnel expenses, which represent about 50% of their operating expenses.

Governance considerations are material to the credit profiles. Regional and Local Governments in Argentina typically do not reach their budget targets and adopt weak governance practices such as regular borrowing for operating deficits or incurring into unhedged foreign currency debt. Moreover, Moody's governance evaluation for Argentine Regional and Local Governments incorporates information transparency considerations, issuers in general do not publish forward looking assumptions, and financial reports are not audited by independent auditing firms.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the strong macroeconomic and financial linkages between the Government of Argentina's and Sub-sovereigns, a downgrade in Argentina's bond ratings and/or further systemic deterioration could exert downward pressure on the ratings. Alternatively, increased idiosyncratic risks could translate into a downgrade. Moody's would also downgrade the ratings in the event future debt restructuring results in losses inconsistent with the current ratings.

Moody's does not expect upward pressures in the rated Argentinean sub-sovereigns in the near to medium term. Nevertheless, Moody's would consider an upgrade if financing conditions stabilize and the anticipated losses to private creditors from debt restructuring are less than currently forecast.

The principal methodology used in these ratings was Regional and Local Governments published in January 2018 and available at <https://ratings.moodys.com/api/rmc-documents/66129>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL469915 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Lead Analyst
- Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody.com/documents/PBC_1288235.

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