

Rating Action: Moody's assigns Ca rating to the Province of Mendoza USD 590 million notes due 2029 and affirms Ca issuer ratings

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New York, November 05, 2020 -- Moody's Investors Service, ("Moody's") has assigned a Ca debt rating to the \$590 million senior unsecured notes due 2029 issued by the Province of Mendoza in exchange of its \$590 million senior unsecured notes due 2024. Moody's also affirmed the ca baseline credit assessment and Ca issuer (domestic and foreign currency) ratings. The outlook on the ratings remains stable.

Assignments:

..Issuer: Mendoza, Province of

...Senior Unsecured Regular Bond/Debenture, Assigned Ca

Affirmations:

..Issuer: Mendoza, Province of

.... Issuer Rating, Affirmed Ca

Outlook Actions:

..Issuer: Mendoza, Province of

....Outlook, Remains Stable

RATINGS RATIONALE

The assignment of a Ca rating to the new \$590 million 2029 notes reflects Moody's expectation that risk to the bondholders of potential losses remains consistent with the 35%-65% range associated with Mendoza's Ca issuer rating despite the recent debt restructuring undertaken by the province.

On 5 October, the Province of Mendoza finished restructuring \$590 million of its foreign-currency debt issued under foreign legislation. The Province issued new 2029 notes in exchange of its 2024 notes. The debt restructuring extended upcoming maturities and reduced interest payments. As a result, the Province's annual debt service on the newly restructured debt will remain around \$20 million until 2023, but will spike markedly thereafter. In Moody's view, the risk of future debt restructurings remains high as debt payments are set to rise materially and Mendoza's ability to meet them remains uncertain because of restricted market access and a challenging operating environment.

The affirmation of the ca/Ca baseline credit assessment and issuer ratings of the Province of Mendoza reflects the very close economic and financial linkages that exist between Argentina's sovereign and sub-sovereign governments. Moody's notes that Argentina faces a series of macroeconomic challenges that include a weak economy now in its third year of recession, persistently high inflation bolstered by central bank funding of fiscal deficits, and heightened pressures on the exchange rate and international reserves. In Moody's opinion, until the fundamental macroeconomic problems that continue to weigh on the sovereign credit profile are addressed, capital market access will remain limited for the Argentine sub-sovereign governments leading to the elevated credit risks of Mendoza.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook captures Moody's expectation that economic and financial pressure faced by Mendoza will not differ materially over the next 12-18 months and therefore lead to fiscal pressure consistent with recent results. Mendoza will likely continue to face a heightened likelihood of further debt mispayments, with losses to bondholders consistent with levels captured in the Ca rating.

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

Given the strong macroeconomic and financial linkages between Argentine Sub-sovereigns and the Government of Argentina, which currently carries a stable outlook, Moody's does not expect upward pressures in the near to medium term for the Province of Mendoza. Nevertheless, Moody's would consider an upgrade if financing conditions stabilize and the anticipated losses to private creditors in future debt restructurings are less than currently forecast.

Alternatively, a downgrade in Argentina's bond ratings and/or further systemic deterioration could exert downward pressure on the ratings. Increased idiosyncratic risks could also translate into a downgrade. Moody's would also downgrade the ratings in the event a debt restructuring results in losses greater than those reflected in the current ratings.

The principal methodology used in these ratings was Regional and Local Governments published in January 2018 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1091595. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

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 at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

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