

# Less whine, more stake for Argentina

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There has not been a proper project financing for a power generation asset in Argentina for nearly 20 years. The country's low sovereign credit rating and high default risk have largely deterred investors, but they are once again being lured into the country thanks to favourable government policy.

Earlier this month, it came to light that YPF and GE had received [lending commitments of \\$220 million](#) from Citi, Credit Suisse and Export Development Canada (EDC) for two power projects they are co-developing. The financing package is still in syndication as further local and international lenders are sought, but its progress demonstrates the potential revival of Argentina's power market.

### Long money

A factor behind the return of project financing to Argentina, according to one investment banker who has worked in the market for several decades, is that as of last year "long-term money" returned to the country.

Local liquidity has improved dramatically under the regime of President Mauricio Macri and his centre-Cambiamos coalition. Whereas previously, liquidity was only available to support 18-month financings, or up to three years on the very long end, bankers now report up to 10 years of liquidity in their coffers—as well as strong impetus to put that money to work.

The 10-year figure matches quite nicely with the 10-year power purchase agreement structure that was featured in the 2016 fast power auction.

### International interest

In 2016, there were more than \$40 billion in capital markets issuances in Argentina, basically replacing the total volume formerly traded by Brazil, as one banker put it at *IJGlobal's* Argentina Energy & Infrastructure Finance Forum held in Buenos Aires in late June 2017. The majority of that volume was in the institutional market, the banker said, primarily in the sovereign and sub-sovereign market in dollars with 7-10 year tenors.

Behind closed doors, investors in Zurich and London are telling underwriters that they're keen to invest in Argentine energy and infrastructure projects. Trepidation surrounding the country's sovereign credit rating remains, though S&P raised its rating from B- to B in April and Moody's has it at B3 with a positive outlook, raised from stable in March. Moody's said the uplift was due to policies that promote economic growth and the impact that growth could have on the country's ability to pay down its fiscal debt in the coming years.

The long and short of it is that the search for yield in a low interest rate environment continues to drive capital markets investors to seek opportunities that are offered by markets like Argentina, and that could work in the country's favor as it seeks to grow.

## Waiting for October

While Macri's current term extends through to 2019, an October legislative election has many international investors on the edge of their seats. Up for grabs are 40 of Cambiemos' 86 seats in the Chamber of Deputies, as well as 31 of the 72 seats held by Peronist party Front for Victory. In the senate race, on the other hand, the Cambiemos position could be greatly increased with little risk of losses considering that only three of its 17 seats are up for grabs and 15 of the Front for Victory party's 36 could change hands.

If the current government maintains a strong position, then investments could continue gathering pace, according to those market watchers. If populist sentiments sway the election in another direction as they are wont to do in Latin America, however, the country could lose a measure of the favor it has gained in the past two years.

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