

INVEST IN CÓRDOBA

SUMMARY OF
FINANCES AND INVESTMENT

FIRST QUARTER 2017

CONTACT

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GOBIERNO DE LA PROVINCIA DE
CÓRDOBA

INVEST IN CÓRDOBA

1. PUBLIC FINANCE POSITION

1.1 BUDGETARY EXECUTION

The first quarter's budget execution reveals the results of administering the province's public finances with caution and austerity. These two principles give the financial sustainability needed to finance the province's ambitious investment plan in social and productive infrastructure.

For further understanding, looking at the data for the first quarter 2017, the province's available resources are presented under the name of "current available savings". This concept, which includes resources possessed by the province –subtracting the automatic transfers to Municipalities and Communes and current expenditures– amounted to ARS\$7,157 million (US\$ 465 million)¹.

"Current available savings" is a key variable, since it consists in the resources generated by the province which are available to fund new investment plans and to cancel debt obligations. In first quarter of 2017, they represented 29% of net revenues. The improvement in the public finance's dynamics is explained in a great way by the gap between current revenue's and current expenditure's growth rate. While current nominal revenues year-to-year growth rate was of 38%, the one for current expenses grew 24%.

THE CURRENT AVAILABLE SAVINGS REPRESENTED 29% OF NET REVENUES

Parts of the savings were used to finance capital expenditure: \$3,786 million (US\$ 241 million) during the first three months of 2017. By subtracting capital expenses from savings, it can be seen that province's financial surplus was of \$3,454 million (US\$ 220 million). In comparison with the same period of the previous year, the financial result increased 36%.

The financial surpluses were mostly invested in short-term financial assets in order to acquire the necessary funds to carry out the province's infrastructure plan. By March 31st, investments in financial instruments and cash equivalents related to new debt issuance, both in pesos and in dollars, were of \$14,700 million (US\$ 937, 5 million)².

¹ The exchange rate used to convert all monetary values from pesos to dollars was average exchange rate of the first quarter of 2017 of the BCRA's "A 3500" communication.

² The exchange rate used is the mean of monthly averages for January, February and March 2017 (BCRA's "A 3500" communication).

Table 1: Córdoba's central administration income and expenses summary
(millions of AR\$ and US\$)
2016-2017

Concept	2016		2017		2017	
	\$	US\$(8)	Budget	1° Quarter	\$	US\$(8)
Total Income(1)	97.379	6.590	121.813	6.798	28.638	1.827
Automatically Distributed Resources to Municipalities and Communes (2)	11.839	801	17.005	949	3.786	241
Net Income (3)	85.539	5.789	104.808	5.849	24.851	1.585
Net Current Expenditures (4)	72.529	4.576	86.959	4.853	17.695	1.150
Current Available Saving	13.010	880	17.848	996	7.157	457
Current Saving / Net Income (in %)	15%		17%		29%	
Available Capital Income (5)	470	32	3.975	222	83	5
Works expenditures (6)	5.274	357	14.140	789	2.116	135
Other Capital expenditures (7)	4.607	312	7.289	407	1.670	107
Financial Result	3.600	244	395	22	3.454	220

Source: Ministry of Finance of Córdoba province. See: <http://www.cba.gov.ar/ejecuciones/>

Notes: (1) It includes automatic revenues of national origin (National Coparticipation regime, especial laws and Federal Solidarity Fund), provincial tax resources, Non-tax income, goods and services sells and current transfers.

(2) Includes current transfers (provincial coparticipation regime – Law N° 8,663) and capital transfers (Federal Solidarity Fund) towards Municipalities and Communes.

(3) Resources at the disposal of the province once discounted the automatically distributed resources to Municipalities and Communes.

(4) Net of current transfers to Municipalities and Communes in Coparticipation concept (provincial Coparticipation Regime – Law N° 8,663)

(5) Does not include resources received in concept of Federal Solidarity Fund.

(6) It contemplates works carried out by the Central Administration and capital transfers destined to finance of works in charge of ACIF. It excludes resource transfers towards Municipalities and Communes in concept of the Federal Solidarity Fund.

(7) Includes financial assets items and others capital transfers destined to other organizations that make up the Non-Financial Administration. For 2017, it includes loans to the Caja de Jubilaciones destined to cover up the pension deficit.

(8) The exchange rate used corresponds to the average exchange rate of the first quarter of 2016 and the first quarter of 2017. For the 2017 Budget, the “Marco Macro Fiscal” exchange rate (\$17.92) was used.

1.2 PUBLIC INCOME

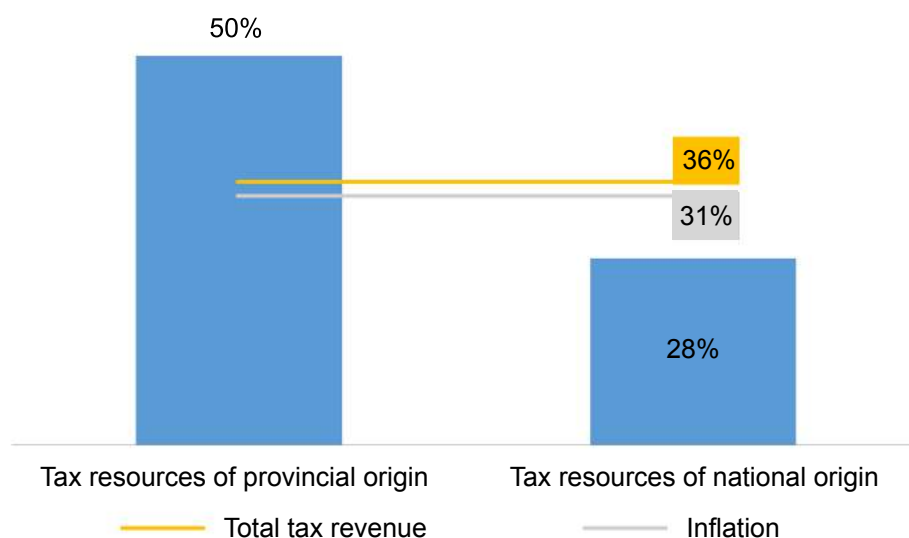
On the first quarter of 2017, the tax collection was of \$25,117 million (US\$ 1,602 million). Compared with the same period of 2016, it increases 36%. This growth is explained by good performance of tax incomes from provincial origin, which had a nominal year-over-year growth of 50%. This result was compensated by tax resources from national origin's weak performance, which had an annual growth of 28% in nominal terms. Discounting for inflation, the year-over-year growth of province's income was 14%, while resources of national origin fell by 2% in real terms.

The province's tax collection improvements are mostly explained by the tax administration modernization plan carried out by Córdoba's Ministry of Finance, since increases in the tax rate and the creation of new taxes were not carried out. These are the first results achieved due to the implementation of the Tax Equity Program (or PEI, in its Spanish acronym). This program improved the quality of attention to taxpayers (especially by web services), the efficiency in the debts administrative management, the control of tax evasion and the agility in tax deals.

THE YEAR-OVER-YEAR GROWTH OF PROVINCE'S INCOME WAS 14%, WHILE RESOURCES OF NATIONAL ORIGIN FELL BY 2% IN REAL TERMS

Graph 1: Tax income and inflation

Nominal annual change, in %
1st quarter of 2017



Source: Ministry of Finance of Córdoba province. See: <http://www.cba.gov.ar/ejecuciones/>

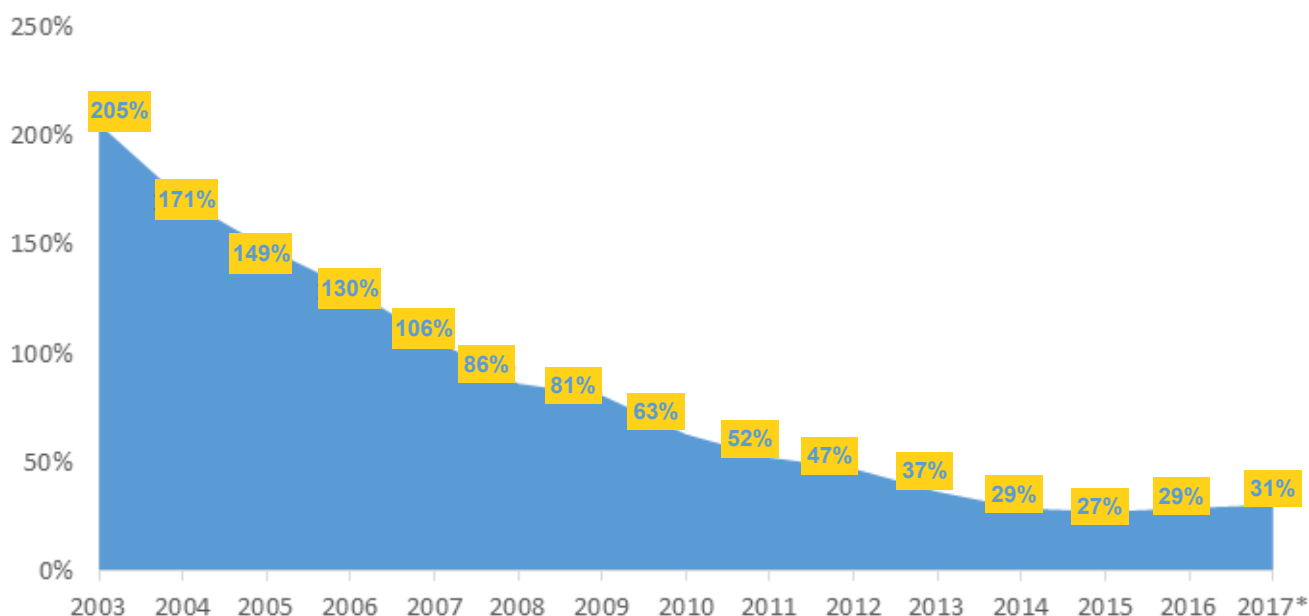
1.3 PUBLIC DEBT

By March 31st of 2017³, the debt stock was of \$35,360 million (US\$ 2,298 million)⁴. This amount is equivalent to approximately 28% of total budget incomes for the year. The level of indebtedness of the province of Córdoba, measured as the percentage of its total income, has shown a downward trend in the recent years. While 15 years ago the indebtedness represented more than double of the income, currently it is equivalent to less than a third of the province total income.

A more relevant way of assessing the public indebtedness level is by associating it to payment capacity shown by the public finances. It is estimated that by the end of 2017, projected current available savings will be \$17,848 million (about US\$ 996 million)⁵, this means that with little more than two years savings entire debt could be paid.

**WITH LITTLE MORE THAN
TWO YEARS SAVINGS,
ENTIRE DEBT COULD BE
PAID**

Graph 2 – Provincial public debt
Debt stock as % of total income
2003-2017*



* 2017: It is considering a local bond issued of U\$S 150 million by April, a potential public bonds issued of U\$S450 million and a loan from IFC of 150 million. The payment for next August of BONCOR 2017 of USS 396 million was discount. Total Revenues are those in the Central Public Budget 2017.

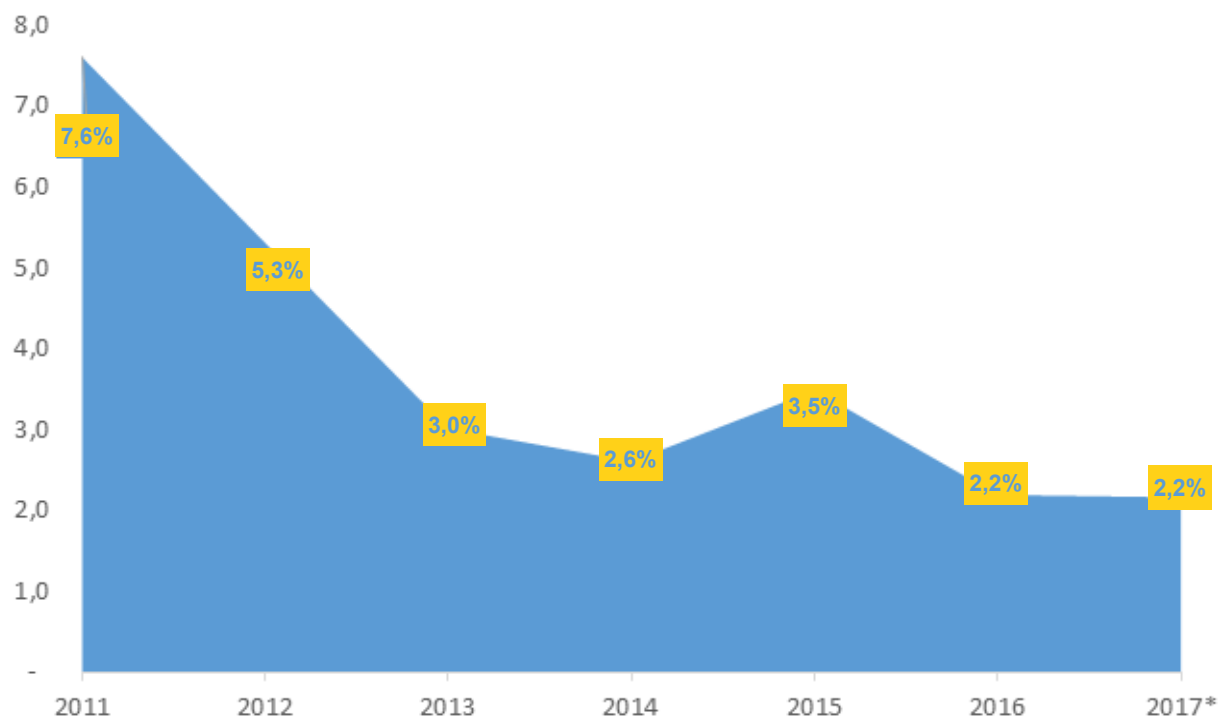
Source: Ministry of Finance of Córdoba province. See: <http://www.cba.gov.ar/deuda-publica-finanzas/>

³ Includes debt stock of the Central Administration and the Córdoba Financing Investment Agency (ACIF, for its Spanish acronym), excluding the period's floating debt.

⁴ The exchange rate used to convert all monetary values from current pesos to dollars was Banco Nacion sellers exchange rate of the last business day of the month 03/31/2017 (\$15.39)

⁵ According to the Central Administration's 2017 Budget. The calculation is made in accordance with the methodology set out in section "1.1 Budgetary Implementation". See Table 1. Córdoba's Central Administration Income and Expenses Summary

Graph 3: Debt stock
In terms of current available savings
2011-2017



* 2017: It is considering a local bond issued of U\$S 150 million by April, a potential public bonds issued of U\$S450 million and a loan from IFC of 150 million. The payment for next August of BONCOR 2017 of USS 396 million was discount. Total Revenues are those in the Central Public Budget 2017. The current available savings are for the whole year 2017, Table 1.

Source: Ministry of Finance of Córdoba province. See: <http://www.cba.gov.ar/ejecuciones/>

2. OTHER NEWS

2.1 YIELD ON BONDS ISSUED BY THE PROVINCE

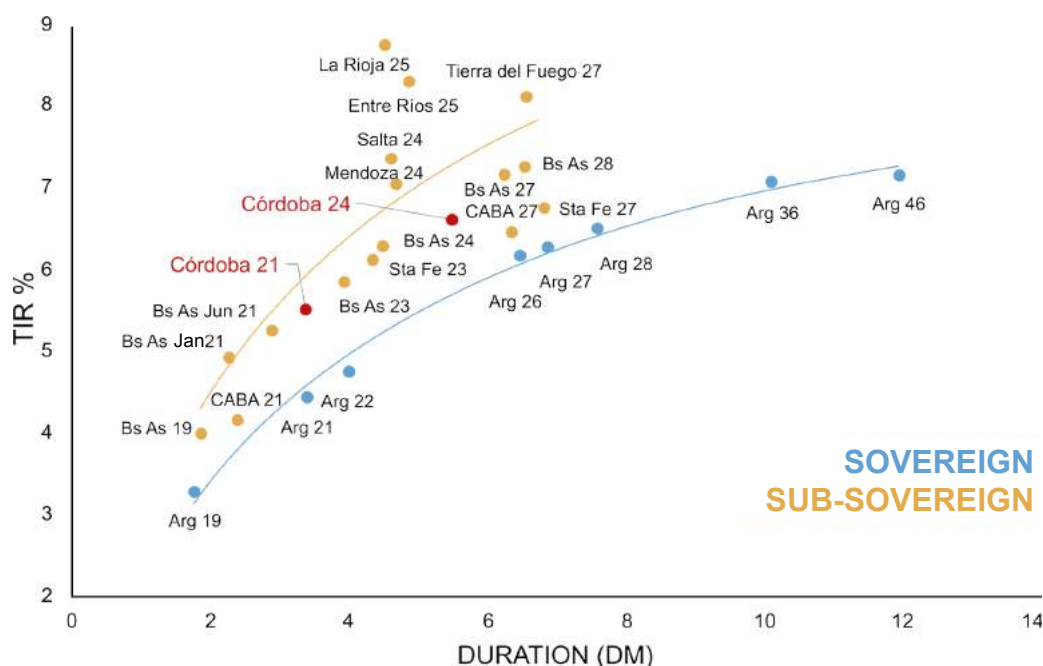
Even though Argentina remained 15 years without access to the capital markets, the country normalized its situation, allowing the provinces to finance their expenditures through the issuance of public bonds. In this context, Córdoba issued debt during 2016 and the first quarter of 2017.

The first outing to the international financial markets was in June 2016, with a bullet-type title for an amount of US\$ 725 million, a coupon of 7.125% and 5 years duration. Later, in March 2017, debt securities were reissued for US\$ 510 million, a 7.45% coupon and a 7-year period. Both public bonds were placed at par value.

At a local level, the province made its first issuance of public bonds for US\$ 150 million in October 2016, with a 7.125% rate and 10-year duration. This issuance took place within the framework of a broader indebtedness program of US\$ 460 million. In April 2017 the first reopening of the program was carried out adding, to the initial one, an issuance of US\$ 150 million, with a 7.125% coupon. This placement was made at par value price, enabling a 6.8% effective rate for the province.

Compared with other province's debt securities, the yield of Córdoba province's public bonds was similar to the ones in Santa Fe, Buenos Aires and the Autonomous City of Buenos Aires (CABA, for its Spanish acronym). This places them below the rest of the Argentine provinces and with a gap that has been decreasing regarding of the National Government's titles.

Graph 4. Yield curves of international bonds of the sovereign and sub-sovereigns



Source: Banco de Córdoba based on Bloomberg/Reuters.

2.2 UPGRADE IN CREDIT RATINGS

In April 2017, Standard and Poor's Global Ratings raised its long-term national scale ratings of the province of Córdoba to 'raA+' from 'raBBB' and stated a stable trend. The rise in the ratings follows a similar path on Argentina's sovereign rating. They also raised the province's rating on a global scale to 'B' from 'B-', with a stable trend.

According to the S&P report, "Córdoba's stable trend reflects the one on the sovereign rating. The trend reflects our view about a more consistent and institutionalized dialogue between LRGs⁶ and the federal government to address the fiscal and economic challenges". Standard & Poor's believes

believes that "local governments and the national government have maintained a constructive dialogue, demonstrating political willingness to address local economies' long-term demands to ensure fiscal sustainability over time".

**CÓRDOBA'S STABLE TREND
REFLECTS THE ONE ON
THE SOVEREIGN RATING**

2.3 NEW AFIP FINANCING SCHEME

An AFIP financing mechanism was established in 2001 that distributed the operational costs incurred by the collector organism in an unequal way between the provinces and the national government. This was questioned by the provinces and some, including Córdoba, raised the claim before the Supreme Court of Justice.

In order to solve this controversy, at the end of last year the National Government and the majority of the provinces signed an agreement that established a more equal distribution of the AFIP operational costs. The agreement began to apply in 2017 and it involves savings in the order of \$5,100 million (US\$ 285 million) for the provinces. For Córdoba, it implies an improvement in its revenues of approximately \$400 million (US\$ 22 million). This amount comes as tax resources from national origin and is freely available by the province.

⁶ Local and Regional Governments.

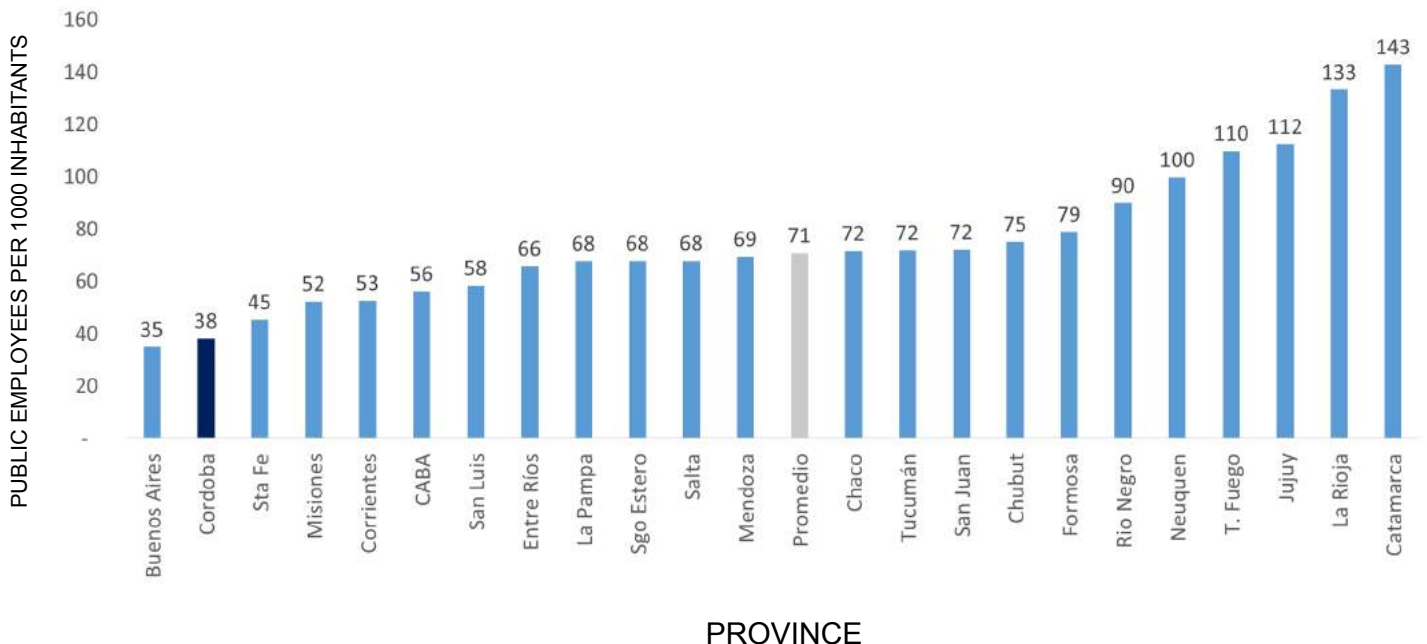
2.4 PROVINCIAL PUBLIC EMPLOYMENT'S DYNAMICS

According to the National Ministry of Labor, provincial public employment increased 0.9 percent between 2015 and 2016. Although the situation is different among districts, only 5 provinces decreased public employees: Buenos Aires, Córdoba, San Luis, Mendoza and Santiago del Estero. In the case of Córdoba, the report shows that there were 138,638 public employees on December 2016, decreasing 0.4 percent -520 fewer jobs compared- compared to 2015.

In relative terms, Córdoba has 38 employees per 1,000 people. This situation locates Córdoba in second place at province's ranking with less public employment and below national average (71 public jobs per 1,000 inhabitants).

CÓRDOBA IS IN THE SECOND PLACE AT PROVINCE'S RANKING WITH LESS PUBLIC EMPLOYMENT

Graph 5 – Public employment at a provincial level
Public employees per 1,000 inhabitants – 2016



Source: National Ministry of Labor, Employment and Social Security

2.5 NISSAN STARTS BUILDING ITS NEW HEADQUARTERS IN CÓRDOBA

Nissan began last march the construction of its administrative headquarters in Santa Isabel –Córdoba– after announcing investments of US\$ 600 million in 2015. The headquarters are being built inside Renault's automobile park. The offices of the new park will be ready mid-2017, and according to the company, the Nissan pick-up NP300 Frontier, now currently imported from México, will enter the assembly line next year.

Currently, Nissan is one of the world leaders in the production of pick-ups, therefore the new industrial park has the mission of strengthening this leadership, as well as creating an export hub for all Latin America. Together the Nissan-Renault and Mercedes-Benz alliance estimates a production capacity of 70,000 units per year.

These investments add up to the US\$ 500 million scheduled by Fiat in the context of the X62 Project, which plans to produce a global scale Sedan to replace the Linea and Grand Siena models. It is estimated that by October the new car will enter the production phase and its launch in the market would be in the beginning of 2018. This demonstrates the high dynamism of the automotive sector within the province.

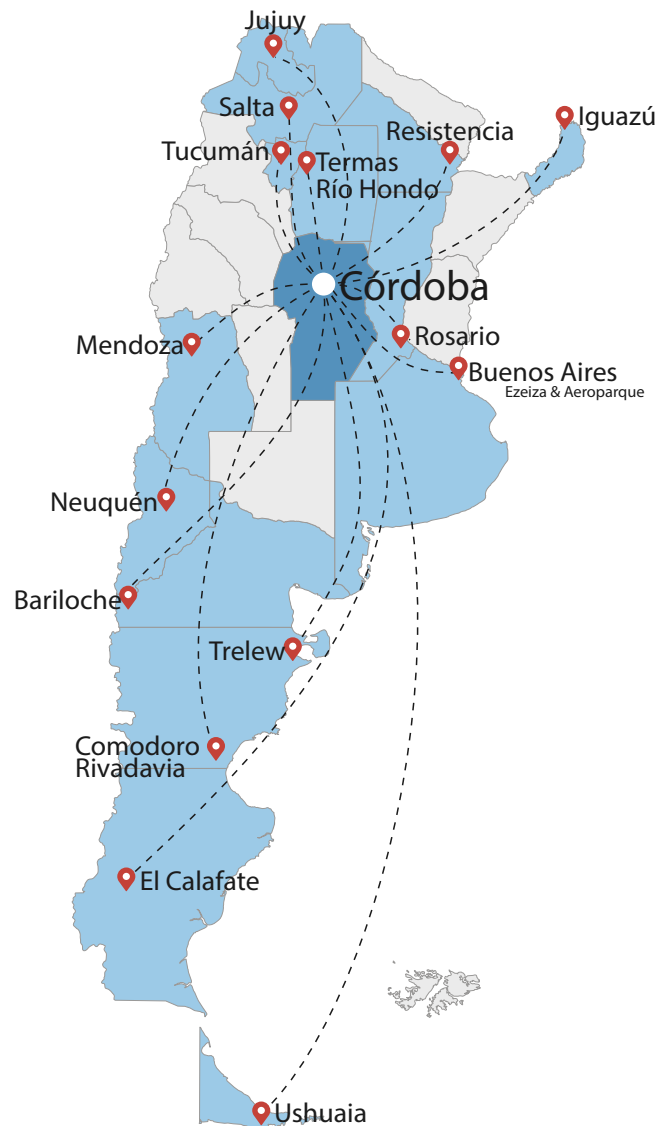
2.6 NEW CÓRDOBA AERO-COMMERCIAL HUB CREATED BY AEROLINEAS ARGENTINAS

Since April 2017, "Córdoba Hub" began to operate, which allows greater connectivity between Córdoba and the north and south of the country, without the need to fly to Buenos Aires to connect flights. The northern destinations include Jujuy, Tucumán, Salta, Iguazú and Resistencia, and the southern ones includes Mendoza, Bariloche, Ushuaia, El Calafate, Trelew, Neuquén and Comodoro Rivadavia. This allows Córdoba to have direct access to 16 out of the 37 destinations offered by Aerolíneas Argentinas within the country.

So far, Córdoba airport has been showing increasing passenger activity. During 2016, 2.2 million people used its facilities, rising 13.6% in comparison to 2015 and 32.2% in comparison to 2014. The new Hub is expected to increase from 50 thousand to 80 thousand the number of passengers flying with Aerolíneas Argentinas through Córdoba each month.

THE NEW HUB IS EXPECTED TO INCREASE FROM 50 THOUSAND TO 80 THOUSAND THE NUMBER OF PASSENGERS FLYING WITH AEROLINEAS ARGENTINAS THROUGH CÓRDOBA EACH MONTH

Graph 6 - Flights
National flights connections



2.7 AVIANCA TO INVEST US\$ 100 MILLION IN CÓRDOBA

The Colombian group announced an US\$ 100 million investment to be made between 2017 and 2018, in order to put into operation a regional airline with an operation center located at Córdoba's Airport. The company expects to have 18 aircrafts and plans to create between 250 and 300 jobs. The airline will have an eminently regional approach using Córdoba as a connection center, from where it plans to fly to different cities such as Santa Fe, Santa Rosa, Resistencia, Rio Hondo, Mendoza, San Juan, Santiago del Estero, Iguazú, Rosario, Tucumán, Salta and Jujuy.

2.8 INNOVATION ON PROPERTY TAXES ADMINISTRATION

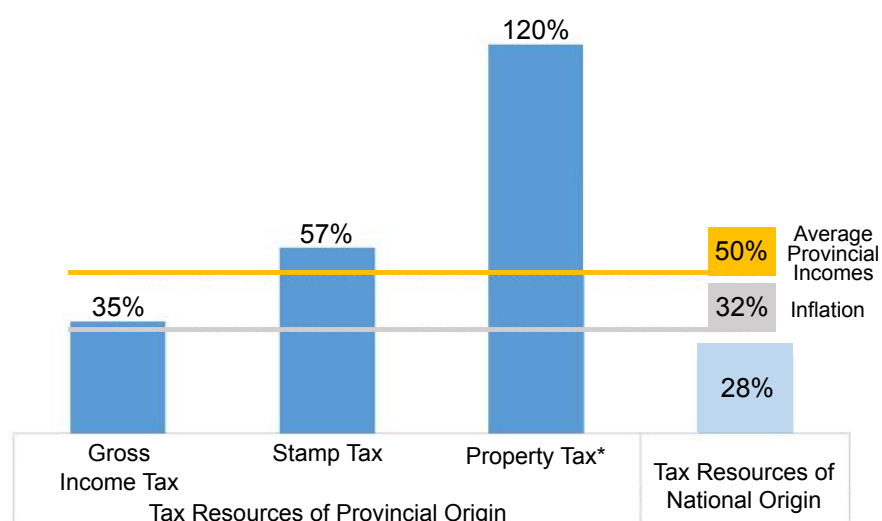
Córdoba implemented changes in the administration of real estate and motor vehicle taxes. These taxes were usually collected through massive issuance of paper-based tickets. Then, they were distributed by traditional mail services and taxpayers pay them in certain collection points. This mechanism was extremely expensive for both tax collector authorities and citizens and also environmental unfriendly.

Within a framework of provincial public administration modernization process, the website of the tax administration office was redesigned in 2017. Thus, debts enquiries, both delayed and near to expire payments, were simplified by digital media.

At the same time, the paper-based tickets stopped being sent via mail anymore. Thus, the issuance and distribution of about six million paper-based tickets per year was avoided, resulting in savings of about \$60 million (US\$ 3,3 million). But, the most important thing is the positive reception by the citizens, which was shown by significant increase of both taxes.

These policies had direct and positive impact on the property taxes collection. This explains that although increase on resources from provincial origin was of about 50%, when observing real estate and motor vehicle taxes, as a whole, they more than double tax collection compared with the previous year.

Graph 7: Evolution of tax resources
Annual change in %



Source: Ministry of Finance of Córdoba province. See: <http://www.cba.gov.ar/ejecuciones/>

Note: * Consider the average increase in the revenues from real estate and motor vehicles tax.