

# INVEST IN CÓRDOBA

SUMMARY OF FINANCES AND INVESTMENT  
THIRD QUARTER 2017

Ministerio de  
**FINANZAS**



GOBIERNO DE LA PROVINCIA DE  
**CÓRDOBA**

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# PUBLIC FINANCE POSITION

## BUDGET EXECUTION

During the first three quarters of the year, budget execution was oriented to support the most ambitious infrastructure plan in the province's history: 2017 public works include hospitals, schools, roadworks, sewers, among others. In this context, the austere management of the provincial public administration has strategic importance to generate the necessary savings for social and productive infrastructure works carried out by the province.

"Net current result" is the key variable to better understand the province's ability to finance the infrastructure plan. This variable represents the province's available savings, since it is the difference between the net resources –minus those automatically distributed to the municipal states– less current expenses.<sup>1</sup> The cumulative value for the third quarter of the year was \$ 18,395 million (US \$ 1,132 million), which represents 22.7% of net income. Compared with last year, when savings represented 15% of net income, there is a significant increase in available resources. This increase in net income is the result of the Province's income growing at a higher rate (32.7% year-on-year variation, equivalent to 4.6% in real terms<sup>2</sup>) than net current expenditures (23.9% in nominal values, which is equivalent to a 2.3% real decrease).

For the 2017 projection, savings are forecasted to be 16.3% of the net income, this level implies an improvement of 7.2% in comparison to 2016.

1 This methodological change was implemented the first quarter of 2017 and consists of subtracting from the total resources - excluding the recovery of loans and other capital transfers - those resources that are distributed automatically to the municipal states in accordance with the legal provisions (Régimen de Coparticipación Provincial -Law 8.663- and Fondo Federal Solidario).

2 To transform nominal values to real values, the average inflation of the three first quarters of 2017 is used based on the Consumer Price Index calculated by the Statistics and Census Bureau of the Province of Córdoba.

## Córdoba's Central Administration Income And Expense Summary

(Million of AR\$ and US\$)

Concepto	2016		Budget 2017*		3° Quarter 2017 (cumulative)	
	\$	US\$(8)	\$	US\$(8)	\$	US\$(8)
Total Income (1)	97.379	6.590	125.619	7.010	93.733	5.768
Automatically Distributed Resources to Municipalities and Communes (2)	11.839	801	17.351	968	12.614	776
Net Income (3)	85.539	5.789	108.268	6.042	81.119	4.992
Net Current Expenditure (4)	72.529	4.908	90.618	5.057	62.724	3.860
<b>Net Current Result</b>	<b>13.010</b>	<b>880</b>	<b>17.651</b>	<b>985</b>	<b>18.395</b>	<b>1.132</b>
<b>Net Current Result / Net Income (%)</b>	<b>15%</b>		<b>16,3%</b>		<b>22.7%</b>	
Available Capital Income (5)	470	32	1.975	110	1.364	84
Works expenditures (6)	5.274	357	10.403	581	7.775	478
Other Capital expenditures (7)	4.607	312	8.448	471	5.553	342
<b>Financial Result</b>	<b>3.600</b>	<b>244</b>	<b>774</b>	<b>43</b>	<b>6.430</b>	<b>396</b>

Source: Ministry of Finance of Córdoba Province. See: <http://www.cba.gov.ar/ejecuciones/>  
This table is exposed under the methodology of subtracted from total revenues –recorded by the accounting of the Province– those that are distributed automatically to the Municipalities and Communes –according to the legal statements of Coparticipation Regime Law No. 8.663 and Federal Fund of Solidarity.

\* Forecasts for 2017 whole year

(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 Nº 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 Nº 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. Excludes resource transfers towards Municipalities and Communes in concept of the Federal Solidarity Fund.

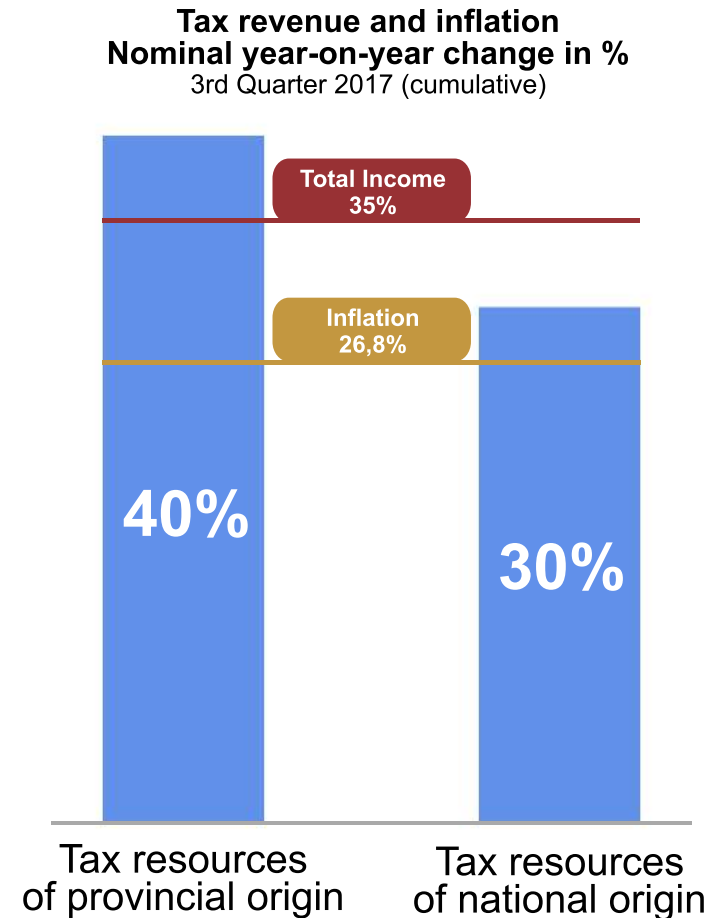
(7) Includes financial assets items and others capital transfers destined to other organizations that make up the Non-Financial Administration. For 2017, it includes loans to the Caja de Jubilaciones destined to cover up the pension deficit.

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

## INCOMES

During the first three quarters of the year, the Province's total revenues –excluding loan recovery and other capital transfers- reached \$ 93,733 million (US \$5,768 million). In this positive dynamics of the Province's income, the very good performance of tax collection of provincial origin stands out.

Tax collection was of \$ 81,332 million (US \$ 4,992 million), 33% higher than the same period of 2016. During this period, tax revenue of provincial origin grew 40% in nominal terms (equivalent to 10% in real terms), while that the tax resources of national origin increased 30% (2% real increase). In these results have high incidence the improvements in tax administration within the framework of the Tax Equity Program: it could compensate the fall –in real terms– of resources of national origin.



Source: Ministry of Finance of Córdoba Province and AFIP (Federal Administration of Public Incomes).  
<http://www.cba.gov.ar/ejecuciones/>

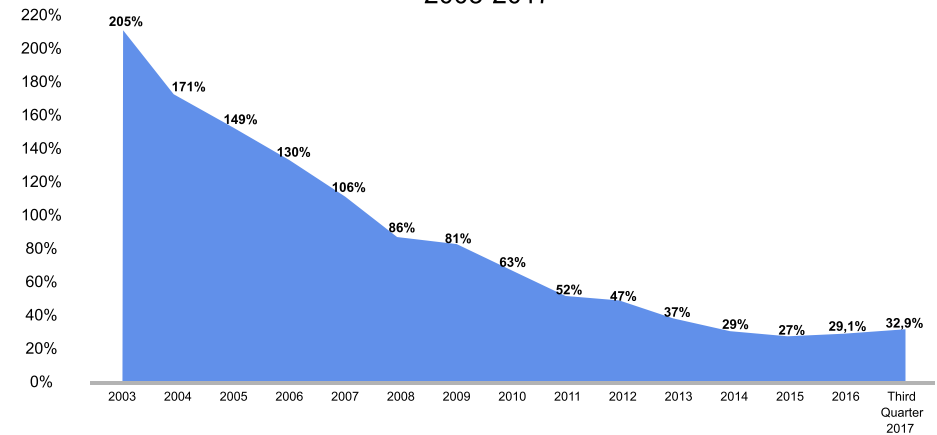


## DEBT

The projected debt stock in September 2017 amounts to \$ 42,858 million (US \$ 2,391 million). This quantity is equivalent to 37.8% of the total revenues for the 2017 budget. Córdoba's province level of indebtedness, measured as the percentage of its total income, has been showing a decreasing trend. While 15 years ago it represented two times the province's income, **now it represents a little more than a third of the province's total income.**

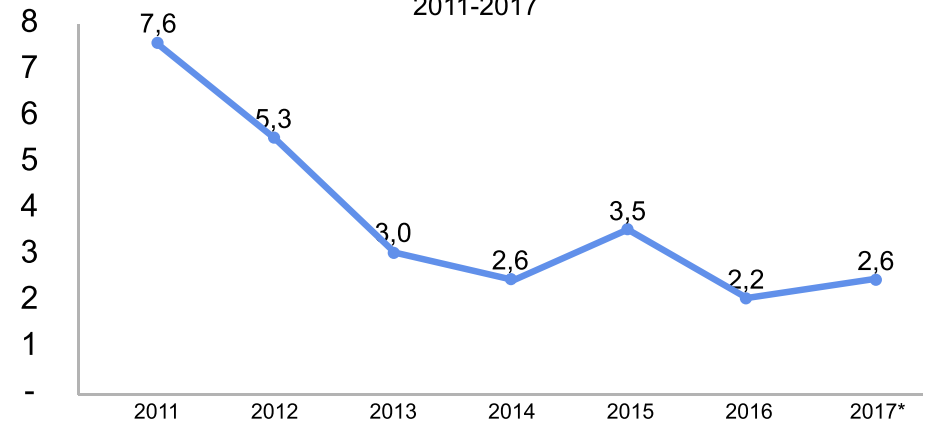
A more appropriate way to evaluate the level of public indebtedness is to compare it with the province's payment. Thus, with the current levels of 'net current result' it can be seen that with **less than 3 years of savings, the entire debt could be canceled.** Likewise, given the fact that debt has an average maturity of 6.2 years, **with half of the province's savings, debt can be repaid in a timely manner.**

**Provincial Public Debt**  
Debt stock as % of total income  
2003-2017



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

**Debt Stock**  
In terms of Net Result  
2011-2017



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

# OTHER NEWS

## MOODY'S MAINTAINS POSITIVE RATINGS FOR THE PROVINCES

According to the new Moody's Investors Service report, the growing dependence on foreign borrowing increase risks for the Argentine provinces. The share of Argentine sub-sovereign bonds issued in foreign markets, in comparison to those issued in the domestic market, reached 83% in the first three quarters of 2017, compared to 72% during 2016 and 31% in 2015. Foreign bonds have become the main funding source for the provinces, surpassing the funds granted to the provinces by the federal government. According to the report, the growing dependence on international bond markets increases the risks of currency mismatches, creates greater volatility and higher refinancing risks.

Alejandro Pavlov, the top analyst of the sub-sovereign sector of Moody's, highlighted that **Córdoba Province is better positioned than the other jurisdictions for server reasons: its productive matrix is highly diversified and there is transparency and fiscal prudence in the province's management.** Therefore, they decide to maintain the debt rating, B3, and highlights that Córdoba's case is encouraging since there is no diversion of funds towards the financing of current expenditure: debt's only used to finance public works.

## STANDARD & POOR'S UPGRADES CORDOBA'S CREDIT RATING

On October 30th, 2017, S&P (Standard & Poor's) Global Rating raised the credit ratings in foreign and local currency from 'B' to 'B +' for Córdoba Province, the city of Buenos Aires, Buenos Aires Province, Mendoza and La Rioja. The rise in the ratings of the provinces is in line with S&P's view on the sovereign, which is expected to have the political ability to continue with its economic agenda. Also, S&P highlights that a there is more institutionalized, transparent and formal manner of solving problems between the federal government and the provinces.

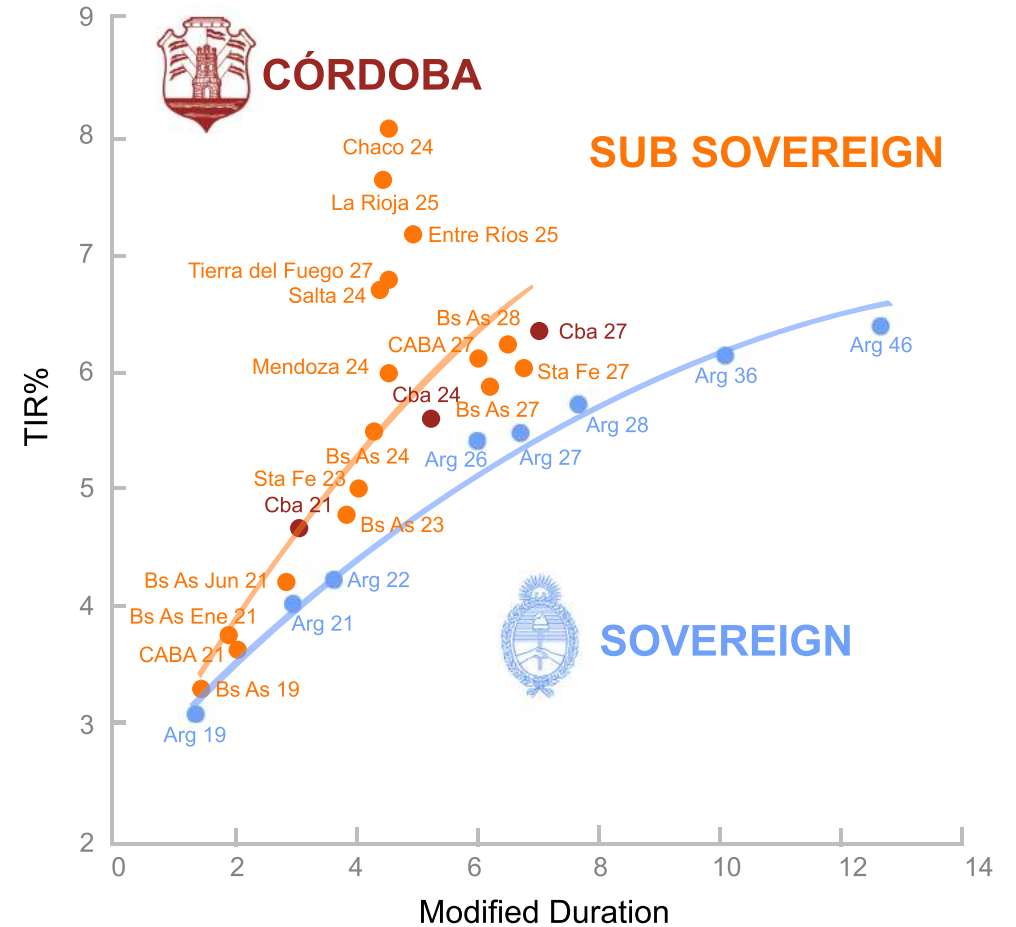
The improvement in the provinces' ratings reflect the constant medium and long term effort to improve fiscal sustainability, even though the challenge of financing budget gaps still exists. In the particular case of Córdoba Province, the decision to increase the rating is because the province **"has consistently maintained operative surpluses in the last five years, and is likely to continue operating surpluses that exceed 10% of its annual income"**. Given the prudent administration of provincial public finances it is expected, despite increases in capital spending in 2017, that debt will remain levels below 25% of annual operating revenues.

## CÓRDOBA LEADS SOLVENCY RANKING

After solve the dispute between the National Government and sovereign bond holders in March 2016, the provinces issued almost US\$ 12,000 million in the international financial market, and US\$ 4,500 this year only. However, there are big differences in the province's bonds when considering risk. This is why Allaria Ledesma, a prestigious Buenos Aires based stock exchange company, developed a fiscal solvency ranking after realizing that even though the provincial bonds issued in dollars have a higher yield than the Sovereign bonds, there is no information available to compare solvency among them. The ranking takes into account several variables, including primary result and income of federal origin, both divided by total income.

All the provinces had a negative primary result, except for Córdoba, which has a ratio of 4%, Mendoza 1% and Santa Fe 0%. While the dependence relationship to the national government is 47% in the case of Córdoba, 50% in the case of Mendoza and 45% for Santa Fe. **The ranking positions Córdoba first, followed by Santa Fe and Mendoza, which have about 100 basis points above the sovereigns.**

Compared to other issued public bonds, looking at data from Bloomberg, Córdoba province bonds show similar performances to Santa Fe, Buenos Aires Province and the Autonomous City of Buenos Aires. All these districts are below the rest of the Argentine provinces and have a decreasing gap respect to the bonds issued by the national state.



Source : Bank of Córdoba based on Bloomberg/Reuters



## WORLD BANK GRANTS US\$ 300 MILLION LOAN FOR PUBLIC WORKS

Last July, Governor Juan Schiaretti agreed with the International Finance Corporation (IFC), member of the World Bank Group, credits for **US\$ 300 million** for various public work projects that include closing Circunvalación – Córdoba City's ring road-, building an access to the Bus Terminal from Circunvalación and the Alpa Corral-Río de los Sauces road, among other.

It is the first time that the IFC grants a loan to a province, in the past it has only financed private sector projects. The loan was granted at a 5.8 percent interest rate, with an eight-year term. Banco Santander contributes with 50 million dollars.

## CÓRDOBA PROVINCE CANCELS US\$ 396 MILLION IN DEBT

Córdoba Province canceled all Boncor 2017 Series II and III titles for **US\$ 396 million**. After the maturity payments for Boncor, public debt returns to approximately **US\$ 2 billion**. Following this operation, the Province announced the withdrawal from the capital market for the rest of the year since the funds needed to finance the trunk gas pipelines were fully secured.

Córdoba's debt issuance occurs in the context of the most ambitious infrastructure investment plan carried out in the Province's history. Financing comes from Córdoba's own resources, together with funds provided by the National Government. The main investment works include **trunk pipelines** for **US\$ 898 million**, **road works** for **US\$ 2,568 million**, **US\$ 353** invested by the Provincial Energy Company of Córdoba (EPEC) and **US\$ 287 million** for **aqueducts and drinking water**.





## ARGENTINA'S FIRST LOW COST STARTS OPERATIONS IN CORDOBA

Flybondi, the first Argentine low cost founded by Julian Cook, one of the creators of Flybabo, Swiss low-cost airline, installs its hub in Cordoba. The company will have its first Boeing 737-800 available in November and **will start flying in December from Córdoba to Mendoza, Bariloche and Iguazú**. With the arrival of a second Boeing airplane, the company will begin its operations from Buenos Aires once the airport of El Palomar is readapted. The total investment in the country until 2018 will be US\$ 75 million and generate around 1,500 new direct jobs and 20,000 indirect jobs.

Flybondi is joined by Alas Mediterraneas Company, the first low cost from Córdoba that will begin flying in 2018. Alas plans to present its business plan in December, after passing the first two rounds of public hearings. They currently have 3 Saab 340 aircrafts and recently added a Boeing 737 to its fleet. They plan to have its operating base in Cordoba and to fly to Buenos Aires, Rio Cuarto, Rosario, Catamarca, San Luis and Santiago del Estero, among others.



## CORDOBA TAX ADMINISTRATION OFFICE (RENTAS) MODERNIZES ITS SERVICES

The headquarters of Rentas, entity responsible for collecting taxes in Córdoba Province, presented a new modern and renovated public attention area. It has bright and friendly spaces and a large number of positions to serve the public. Rentas, apart from providing a face-to-face service, now provides answers via telephone, e-mail and social networks, and offers agents a physical space to work with these tools. Likewise, each representative that serves the public has its own NPS or Net Promoter Score, a tool used in the private sector to measure customer loyalty based on client recommendations, which allows to score the service received and the entire process of the procedure.

Behind this visible change in facilities and attention to the public, there was an important change in the way of **envisioning and managing the State**. This new way of management is being carried out since the introduction of the **Tax Equity Program (PEI)**, launched in June 2016. The Program seeks to improve revenue and equity based on a set of actions aimed at reducing debt and fighting evasion.



## CÓRDOBA IS THE FIRST PROVINCE TO REDUCE SALES TAX

In the context of a general fiscal reform to be promoted by the national government, Córdoba was the first province to announce a tax reduction. Córdoba's governor, Juan Schiaretti, ordered to eliminate from January 1, 2018 onwards sales tax for products coming from other provinces, and was included in the 2018 budget. This implies that industrial products that come from other provinces and are inputs for Córdoba's production or for re-sale by local merchants, will have the sales tax over-aliquot eliminated.

It should be mentioned that when dealing with a highly distortionary tax, which directly affects production costs and therefore discourages investment and employment, its reduction translates into positive benefits for production. The measure will involve lower costs, both for industries and businesses. The fiscal costs of this measure will be compensated by an increase in the tax on gambling and with improvements in the efficiency of the tax administration.

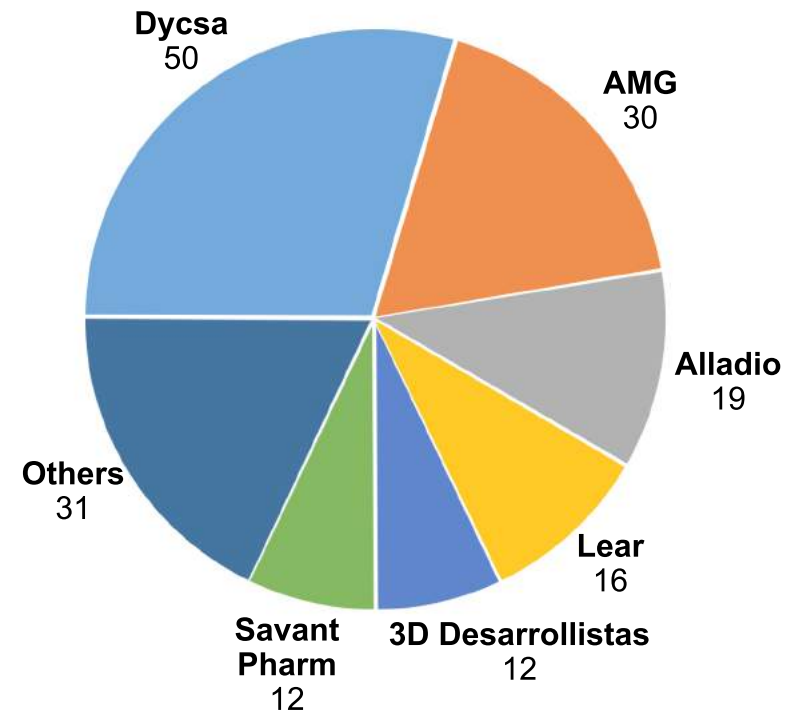
## USD 169 MILLION ANNOUNCED FOR NEW INVESTMENTS

In the July to September 2017 period, 14 new investment projects have been announced for US\$ 169 million, according to the Argentine Agency for Investment and International Financing. The most important investment project belongs to Dycsa, a real-state developer Dycsa, who announced the construction of a high-end housing complex, Casagrande Laplace. The investment is for USD 50 million and involves a development of 25 thousand square meters that will require three and a half years of work.

The second most important project belongs to AMG Obras Civiles, who announced investments for USD 30 million, among the main projects announced is the improvement of Córdoba city center.

Another investment project of great importance belongs to Alladio, for USD 18.5 million. Alladio plans to relaunch its brand of small appliances, which includes washing products, kitchen, kitchen assistant and home. Lear Corporation, meanwhile, had announced in July installed in the industrial park San Francisco to provide the electrical wiring for a new model of Fiat (X6S), with an investment of USD 16 million.

**Investment Projects Announced July - September 2017**  
(Millions of US\$)



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