

INVEST IN CÓRDOBA

**SUMMARY OF FINANCES
AND INVESTMENT**
SECOND QUARTER 2018



Ministerio de
FINANZAS



GOBIERNO DE
CÓRDOBA

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PUBLIC FINANCE

POSITION

BUDGET EXECUTION

The budget execution during 2018's first semester reflects a year-to-year increase in real revenue. This good performance is a consequence of the improvements in the provincial tax administration implemented within the framework of the Tax Equity Program (PEI), which among other things allowed to maintain the level of collection of taxes of provincial origin and to comply with the agreement of reducing taxes established by the Fiscal Consensus¹.

The most relevant indicator to monitor the state of provincial public finances is the "net current result". This variable represents the difference between net resources - of those that are automatically distributed to the municipal states- and current expenses. In other words, it quantifies the surplus generated in the period used to sustain the Province's invest-

ment plan. In the first semester of the year, the available current saving was \$17,761 million (US \$ 823 million), which represents 25.4% of net income. If compared with the same period of the previous year, when savings represented 22.6% of net income, there is an increase in the surplus available for capital expenditures. This level of current available saving is the highest in the last 8 years and presents an increase over the same period of the previous year of 2.8 percentage points.

The increase in current available saving is the result of a prudent and humble administration of the province's finances, reflected by – once discounted the transfers to municipal states- Córdoba's net income growing at a higher rate (35% year-on-year variation, equivalent to 8% in real values²) than net cu-

than net current expenses (30% nominal, which is equivalent to a 4% increase in real terms).

The resources that integrate the province's savings leads the path to the sustainability of an ambitious plan of productive and social infrastructure, like those works for improving the ring road, the highway Costa Azul, the construction of a provincial route N°34 and the extension of pipelines and sewage throughout the province.

The execution of the works plan determined that the expenses in Capital accumulated during the first semester of the year reached \$15,793 million³, almost 80% more than if compared with the same period of the previous year and the level of execution more elevated in the last 8 years.

1 The Fiscal Consensus is a federal agreement between the Nation, the Provinces and the Autonomous City of Buenos Aires signed in November 2017 in which the parties undertake to carry out a series of actions aimed at the regulation of the public sector, including a reduction of the tax pressure and a rationalization of the tax system.

2 To calculate the variations in real terms, the average inflation of the first semester of 2018 is used based on the Consumer Price Index calculated by the Statistics and Census Bureau of the Province of Córdoba.

3 Executed by both the Central Administration and the Cordoba Agency for Investment and Financing (ACIF).

Cordoba's Central Administration Income and Expense Summary 2017-2018

(Millions of AR\$ and US\$)

CONCEPT	2017		BUDGET 2018		ACCUMULATED VALUE 1° SEMESTER 2018	
	\$	US\$	\$	US\$	\$	US\$
Total Income (1)	128.667	7.771	150.042	7.774	80.987	3.751
Automatically Distributed Resources to Municipalities and Communes(2)	17.357	1.048	20.369	1.055	11.115	515
Net Income (3)	111.311	6.723	129.673	6.719	69.872	3.236
Net Current Expenditure (4)	90.532	5.468	109.610	5.679	52.111	2.414
Net Current Result	20.779	1.077	20.063	1.040	17.761	823

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

(1) Automatic revenues of national origin (National Co-participation regime, especial laws and Federal Solidarity Fund), Provincial tax resources, Non-tax income, goods and services sold and current transfers.

(2) Includes currents transfers (Provincial Co-participation 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 Co-participation concept (Provincial Co-participation Regime – Law N° 8,663).

(5) The exchange rate used are the following: for the values of 2017, to the average exchange rate for 2018, for the 2018 Budget (16,6\$), the exchange rate of the Marco Macro Fiscal is used (19,3\$), and for 2018's accumulated values for the first semester, an average exchange rate from the Central Bank is used (21,6\$)

PUBLIC INCOME

During this first semester, the Province's total revenues –minus the recovery of loans and other capital transfers- reached \$80,987 million (US\$3,751 million), which represents an increase of \$21.143 million compared with the same period last year. This growth represents a year-on-year increase in real terms of 6.8%, while in nominal terms this increase was of 35% (Graph 1).

In the case of income received by the province from the central level, they increased by 41% in nominal terms (representing an increase of 11% in real terms) due mainly to the good performance of the two main national taxes (VAT and Income Tax).

In relation to the income from provincial sources, this increased by 32% in nominal terms (representing an increase of 4.2% in real terms). This result is mainly explained by the good result of the tax administration reforms

carried out in the framework of the Tax Equity Program (PEI). The PEI has been useful in balancing the province's tax sacrifice to lower the tax burden and comply with the commitments of the Fiscal Consensus. Focusing on the correct valuation of property taxes (automotive and real estate), improving taxpayers' attention, made faster the administrative and judicial debt management, and increasing controls to detect evaders niches, Cordoba has managed to make tax administration transformations that have shown concrete and positive results in collection.

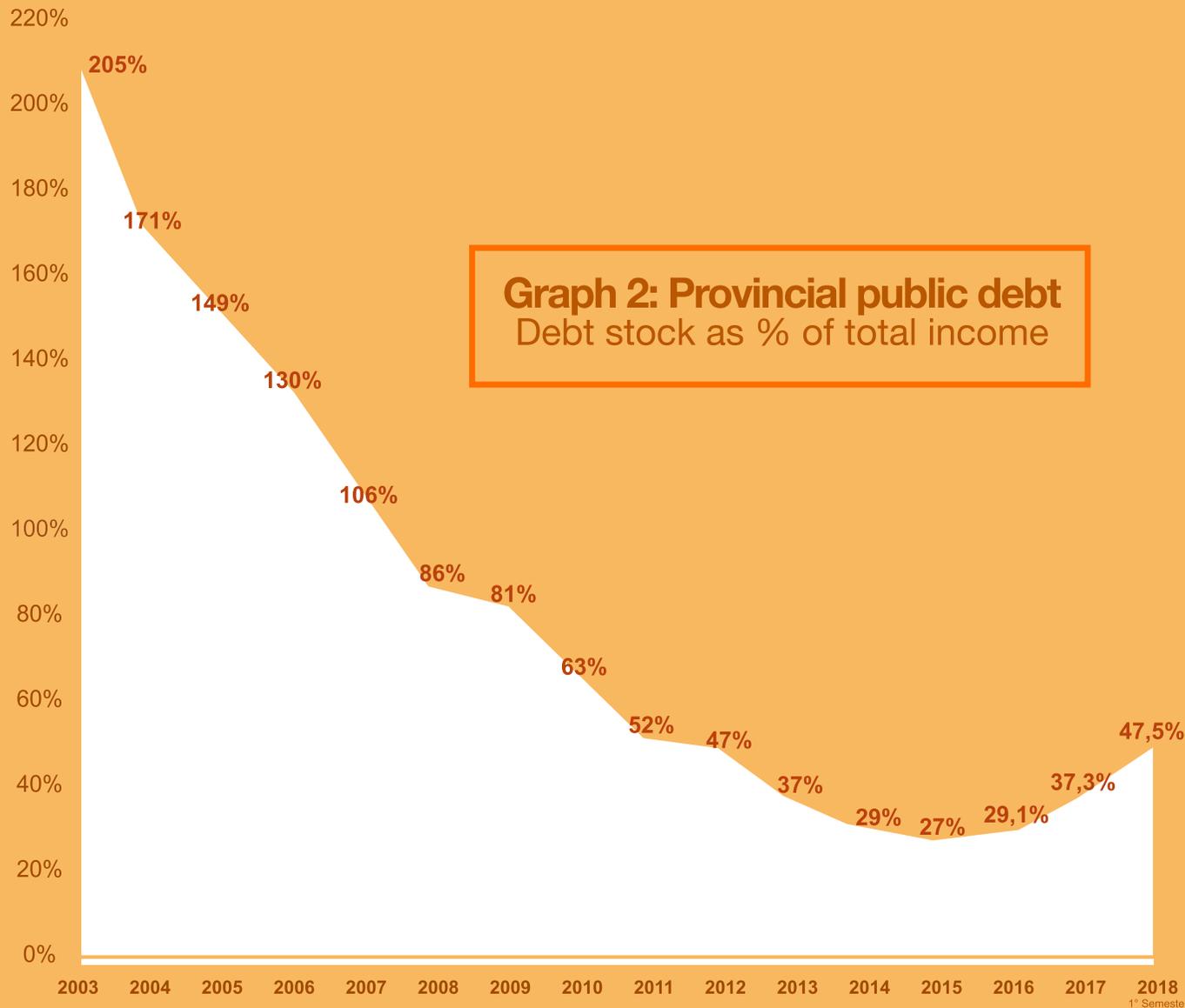
In the case of the principal source of the province's own revenue, the Sales Tax, has had a year-to-year rise of 2.1%, discounting inflation of the period. It is a good result considering that, as a consequence of a gradual reduction of the aliquot applied to different economic sectors, there is a resignation of at least 5.2% of revenue of this tax.

Graph 1: Tax revenues and inflation
Nominal year-on-year change in %
First semester 2018



Source: Ministry of Finance of Cordoba Province and National Administration of Federal Income.
See <http://www.cba.gov.ar/ejecuciones>

PUBLIC DEBT



Graph 2: Provincial public debt
Debt stock as % of total income

Source: Ministry of Finance of Cordoba Province.
See www.cba.gov.ar/ejecuciones

In the first semester of 2018 the debt stock amounts to \$73,255 million (US\$2,539 million). This amount is equal to 47.5% of the total revenue budgeted for the year (Graph 2). Despite the increase in this ratio, the level of indebtedness of the Province of Córdoba - measured as a percentage of its total revenues - has shown significant improvements in recent years (5 years ago the debt represented more than double of the total income of the province).

During the first semester there were no new debt issues and the Province still has resources from the debt operations carried out during fiscal year 2017. On the other hand, amortization payments have been made on time and form for a total of US\$ 24 million.

OTHER NEWS

SUB-SOVEREIGN BONDS

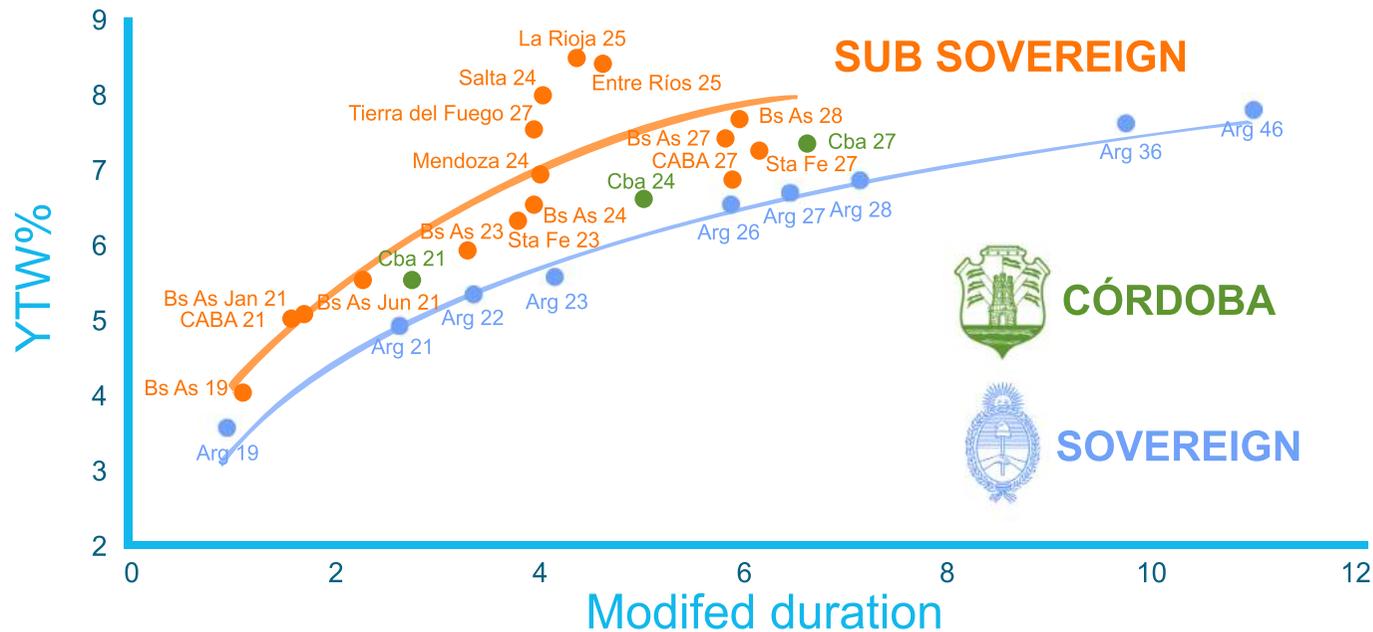
Fitch Ratings lowered the Argentine debt outlook to stable, from positive, but maintained the rating of B. The situation "reflects high inflation and economic volatility, a weak but improved external liquidity position and large fiscal and current account deficits that they imply a strong level of external indebtedness (but from a favorable starting

point in terms of leverage)", but "these weaknesses are balanced with structural strengths that include high per capita income, a large and diversified economy and better governance scores".

Despite the direct impact in the same direction on sub sovereign bonds, not all provinces have been

affected equally. Córdoba, together with the City of Buenos Aires, is the province with the best track record in the market and therefore has not been severely affected. This is due to the fact that Córdoba has a low level of indebtedness, a high operating surplus and flexibility to reduce spending.

Graph 3: Yield curve of sovereign and sub-sovereign international bond



Source: Bloomberg/Reuters date 07/08/2018

CÓRDOBA LAUNCHES NEW AIRLINE ROUTES⁵

The National Ministry of Transport authorized, through the Resolution 597/2018, a new route that connects the cities of Córdoba and Rosario, after an assessment through the National Administration of Civil Aviation (ANAC) that agrees the air demand is not covered at the moment.

This new route, part of the federal net of national and international connections, without going to Buenos Aires, was accepted in the framework of the “Revolution of Planes” boosted by the National Government.

The Córdoba-Rosario connection was solicited by the company Avianca in the public audience in 2017, company that already has permission to operate this route after demonstrating the technical and eco-

economic capacity asked by the Aeronautical Code.

This route adds to the new 11 local connections that did not exist in the last 3 years in the city of Córdoba. Moreover, in the international airport “Ing. Ambrosio Taravella” there were added, in the same period, 7 new international connections. The number of passengers grew 77% between the first semester of 2018 and the same period in 2015, going from 900,000 to 1.6 million⁶.

In addition, in June, an agreement was signed between the Province of Córdoba and the Norwegian Air Argentina to promote Córdoba’s airline hub. The company plans to invest US \$ 200 million, progressively between 2018 and 2020, and plans to create more than 100 new jobs. As

part of the agreement, the Province will grant tax and labor benefits.

The tax benefit includes an exemption to the Real Estate Tax for a period of five years and there will be granted a total exemption for the Stamp Tax as well for a period of two years from the beginning of the investment plan. Including the same benefits granted to other airlines that make Córdoba its hub, Norwegian will be granted a Sales Tax exemption of 50% during for the first three years and 25% for the next two years.

The benefits for workers employed in the company include subsidies for a period of two years for the 100 permanent jobs that the company agreed to create, which will receive a non-refundable contribution for trai-

ning courses, for people living in the province of Córdoba. The agreement also establishes that Norwegian should prioritize working with local suppliers, and will offer them adequate technical assistance so that they can comply with the delivery and quality programs of the company.

Norwegian plans to start operations at the end of the year with an initial fleet of 6 aircrafts. The Ministry of Transport granted the authorization to operate 15 routes that have connection with Córdoba. The domestic routes are Jujuy, Posadas, Resistencia, Santa Fe, San Juan, San Luis, Tucuman and Ushuaia, while international routes will be to Barcelona and several beach destinations: Cancun, Fort de France, Havana, Pointe a Pitre, Punta Cana and Salvador de Bahía.

5 www.anac.gov.ar/anac/web/index.php/1/1817/noticias-y-novedades/nueva-ruta-crdoba-rosario

6 www.eana.com.ar/sites/default/files/2018-08/Informe_Mensual_201807_Online.01.pdf



CÓRDOBA IS THE FIRST PROVINCE TO ISSUE TAXES DIGITALLY

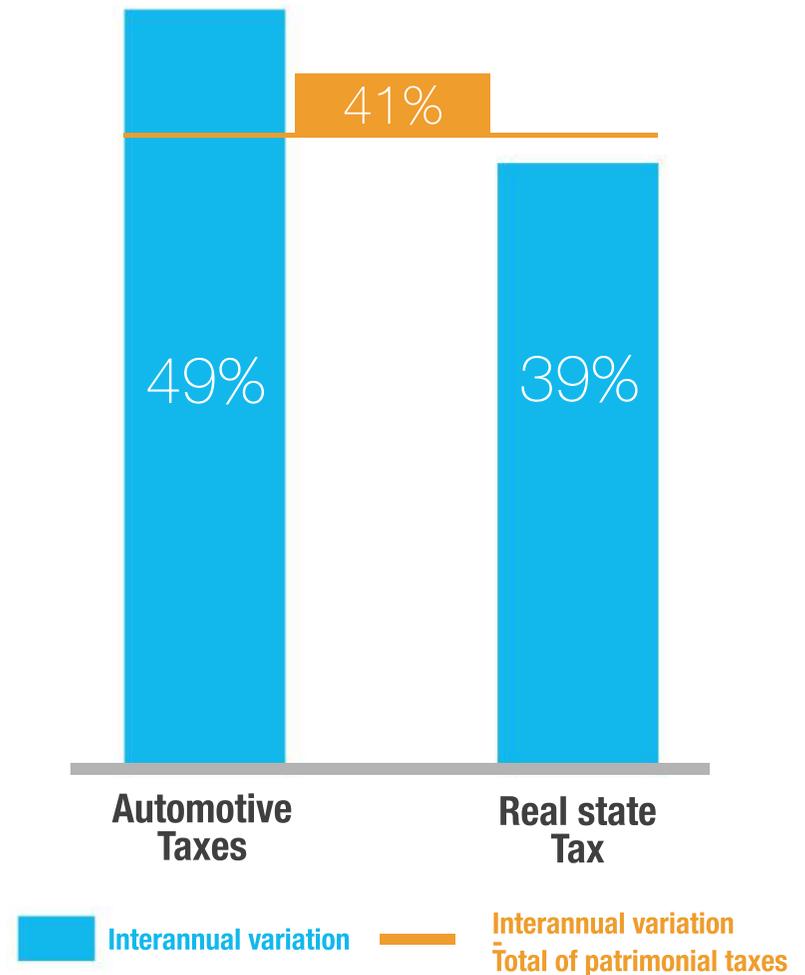
One of the goals of Córdoba's Government is to promote and implement policies aimed at improving the quality of the services that the Public Administration provides to its citizens. One of the most innovative changes applied was launching the digital payment of taxes, or *Cedulón Digital*. The policy consisted of ceasing to issue the paper certificate for the payment of property taxes (real estate and automobile) and replacing it with a 100% digital settlement and payment scheme for obligations. Thus, Córdoba became the first province in the country to apply this transformation at the tax level, a measure that currently seeks to be replicated not only by other tax entities but also by service companies (electricity, gas, telephone, water, cell phones) that periodically administer massive settlements among their customers.

Considering citizen perception,

taxpayers showed their positive assessment about the change implemented: online tax payments went from 13% in 2016 to 40% in 2017. Preliminary results for 2018 (January-august), show that 52% of citizens paid their taxes online. Citizens highlighted - in survey carried out - that they decided to pay taxes online because of the comfort and security that the online payment of taxes offered them.

Considering tax collection, the results also exceeded expectations. In the first year, there was a year-on-year increase of 41% in nominal terms and 12.3% in real terms in the collection of property taxes (Graph 5). Although digitization does not exclusively explain the improvement in collection, the digital mechanism, already established and accepted, allows for future consolidation of these results.

**Graph 5:
Tax Collection Growth by Tax
(2016-2017)**



Source: Ministry of Finance of Córdoba Province

CÓRDOBA CONTINUES TO POSITION ITSELF AS A NATIONAL AUTOMOTIVE HUB

The Japanese company Nissan presented the first truck produced in Argentina, a project for which the company made an investment of \$700 million dollars that were allocated to the construction of a special area within the premises of the Renault plant located in Santa Isabel. This was the largest investment announced in the automotive industry at the national level, according to a report by the National Ministry of Finance⁷. The company's goal is to manufacture 70,000 NP300 Frontier units per year, half of which are destined for the external market. In addition, this investment offers the possibility of generating 3,000 jobs when the factory reach the top of its production capacity. Of this jobs, 1,000 are direct (750 of these have already been incorporated into the factory) and 2,000 indirect.

The company will also manufacture two more versions of pick-ups: Renault Alaskan and then the Mercedes-Benz X-Class, which is

expected to be launched in early 2019. In the division of labour, Nissan will provide the global platform for the three models, which will then be differentiated according to the brand.

With this joint project, Argentina is expected to become the largest pick-up manufacturer in Latin America, with an expected annual volume of 400,000 units. This competitive potential of the country is given by the production capacity that promises this and future investments in the production of pick-ups, taking advantage of tariff agreements with countries such as Brazil and Colombia for export.

Also, Volkswagen Argentina completed the investment, which was announced months ago, for an amount of US\$ 150 million. The company will produce some 270,000 annual units of a new model of gearboxes. The boxes have a six-speed manual transmission and mainly equip the fo-

llowing car models: Polo, T-Roc, Golf, Ibiza, Ateca, León and Skoda Octavia, which are produced around the world. The gearboxes will be exported to countries such as Germany, Spain, Czech Republic and Portugal. The beginning of the production process is scheduled for next year.

This investment is in addition to the US\$ 650 million announced last year by the company to produce a new model -known as the Tarek project- in Argentina. Volkswagen has been in Argentina for 38 years and accumulates investments of US \$ 800 million.



⁷ www.economia.gob.ar/peconomica/docs/2018/SSPMicro_Cadenas_de_valor_Automotriz.pdf

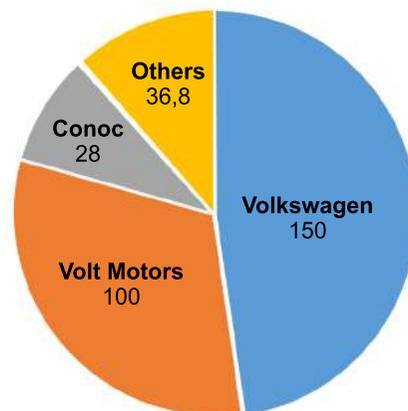
IN THE FIRST SEMESTER CORDOBA ACCUMULATES INVESTMENT ANNOUNCEMENTS FOR US\$ 315 MILLION

According to data from the Argentine Investment and International Trade Agency, between January and June 2018, 11 new investment projects were announced, compared to 26 projects during the same period of 2017. However, this year's announcements were for 315 million dollars (Graph 4), which implies a 25% growth.

The most important plan for the first

half of the year was announced by Volkswagen Argentina, which will allocate US\$ 150 million to produce gearboxes. The second most important investment project belongs to Volt Motors, which announced the development of a fully electric vehicle. Third, Conoc Habitar will develop the country Estancia Santa Lucía on the route to Alta Gracia and will invest US\$ 28 million.

Graph 4: Investment projects announced between January and June 2018



Source: Argentine Agency for Investment and International Financing.

CÓRDOBA EXPORTED US\$ 2,704 MILLION IN THE FIRST QUARTER

According to data of the Agency for Promotion of Exports of the Province of Córdoba (ProCórdoba), the exports of the province reached a value of US\$ 2,704 million in the first quarter of the year, which represented 13.8% of the total exports of the country.

This value implies a growth of 5% in relation to exports in the same period of the previous year, promoted mainly by a higher value of shipping to the principal commercial destinations of the provincial which are Brazil, Vietnam and Argentina, representing 36% of the province's exports.

Analyzing by categories, it was observed that Manufactures of Agricultural Origin (MOA) shows 47.8% of exports, Pri-

Primary Products (PP) 31.3% and Manufactures of Industrial Origin (MOI) 28.8%.

Moreover, in April it was registered the first export of pomegranate fruit as fresh fruit to Brazil in the history of Argentina. This initiative had its origin in Estancia La Paz S.A, an estate established in Cruz del Eje, Province of Córdoba, where it functions the biggest establishment producer of the country since it concentrates 80% of the productions. Over the 2 million of kilograms of pomegranate, 1,8 million will be for external market, where the company already sells to USA, Europe and Singapore, among other destinations. Brazil is also a market destination being the first export of this fruit to the neighbor country.

CÓRDOBA PROPOSES TO MUNICIPAL STATES AN AGREEMENT TO GUARANTEE PUBLIC WORK AND ESSENTIAL SERVICES

The Government of the Province of Córdoba proposed an arrangement to municipal states to give this year \$1,816 million that include resources that, by law the province is not forced to co-participate, in exchange for their desisting and refraining from initiating new administrative or judicial disputes regarding the municipal co-participation regime and the administration of specific funds, among other commitments.

This pact has the aim to strengthen the financial sustainability of local governments, contributing to guarantee the lending of public essen-

tial services and the continuity of works for urban and infrastructure development being carried on in our cities.

This "Federal Province-Municipalities of Dialogue and Social Coexistence Agreement" establishes that, once signed, 100% of the resources of the Urban Development Fund (FDU), destined to the financing of local public works (paving, gutter, drinking water network, natural gas, sewers and drains) will be not refundable.

Besides, the province compromises to give continuity to the Provincial

Program for the Improvement of Street Lightning (Plan Córdoba Ilumina) for a total of 60 million for this year, as well as compromising to continue distributing 20% of the resources which by law it's not forced to co-participate, like Personal Assets, *Monotributo* and the compensation established in the point II.A of Fiscal Consensus Nation-Province. This represents for 2018 almost \$340 million. Moreover, Córdoba will distribute 20% of the amounts perceived since September 2018 in concept of amortization and interest generated by the "Bonus of the Argentine Nation for the Fiscal Consensus" according to the

provincial co-participation indexes. This amounts to about \$ 23 million per month, which total \$ 116 million for the remainder of 2018.

Additionally, the Provincial Government promoted the creation of a "Provincial Fund of Financial Assistance for Municipalities and Communes" for \$500 million annually destined to provide credits to those municipalities and communes that accredit situations of financial difficulty. The measure already has the subscription of about 380 municipalities and communes and was approved by the Unicameral Legislature of the Province.



CONTACT

Ramiro Sosa Navarro (Director)

Ana Balestre (Chief Advisor)

Justo Erede (CFO)

inversores@bancor.com.ar