

# INVEST IN CÓRDOBA

## SUMMARY OF FINANCES & INVESTMENT

FOURTH QUARTER 2019  
& UPDATE 2020

Ministerio de  
**FINANZAS**



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# INTRODUCTION

This report on Finance and Investment in the Province of Córdoba is issued in a unique context in the life of the dwellers of the Province of Córdoba, of this country and of the world. The outbreak of the COVID-19 virus, acknowledged as a pandemic by the World Health Organization, has given way to a change in the sanitary, social, fiscal and economic situation of the planet as a whole.

Due to this reason, this report is presented in two main sections: the former showing the financial statements (Cuenta de Inversión) of the Province of Córdoba as of 12/31/2019, after their submission to the Provincial Legislature; the latter presenting the COVID-19 implications and perspectives in the operation of the Province of Córdoba.

The aforementioned layout aims to duly comply with the Province's duty to inform its creditors about the submission of the Investment Account (to the Legislature pursuant to the provincial legal provisions), as well as to provide an update of the economic and financial variables in the context of the COVID-19 pandemic, reporting events subsequent to the closing of the fiscal year.

The current situation is of an extreme complexity for the planning and the mapping of future scenarios, due to the vertiginous unleashing of events, which bring along material changes in the plans and strategies that the Province had designed for 2020 and oncoming years.

# SITUATION OF THE PUBLIC FINANCES

## AS OF 12/31/2019

### BUDGETARY IMPLEMENTATION 2019

During the year 2019, the domestic economy struggled through the deep macroeconomic crisis, prevailing since April 2018. The monetary policy<sup>1</sup> rate averaged an annual 65.24%, reaching peaks of up to 86%, while the year-on-year inflation kept an average of 52.1%<sup>2</sup> throughout the twelve months of 2019. These two variables are enough evidence of the recessive behaviour of the economic activity, as a result of the plummeting purchasing power of salaries and of the financing cost, both for businesses and for individuals. Due to the high pro-cyclicality in the fiscal collection of the Province, the closing of 2019 evidences 17 successive months of actual downfall in the revenue.

In 2019, the Non-financial Public Administration (APNF in Spanish) accrued a total of \$267,902 million (net amount from municipal coparticipation), showing an increase of 41% compared to the same period in 2018, but in fact, resulting in a negative variation and falling 7.4%. The provincial revenues show a similar but more severe behaviour, evidencing a 12% fall in the revenue generated by the province itself in the 2019 accrual, compared to the previous year. In real terms, this loss is equivalent to over one month of the total own revenues, considering the magnitude of the impact on the provincial coffers.

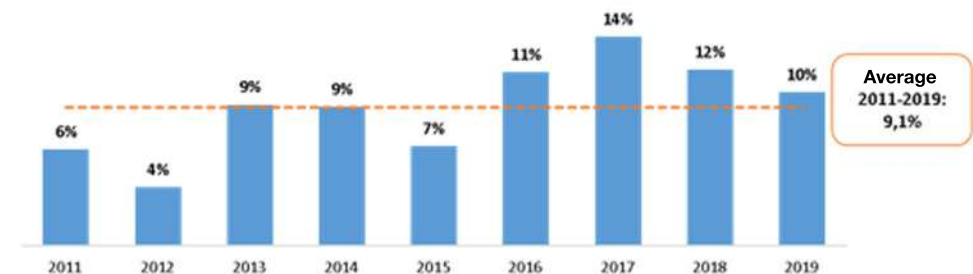
The real provincial revenues<sup>3</sup> reached \$300,090 million in 2019 ((\$86,105 more than in 2018 and a -7.8% in real terms) from which \$32,188 million were automatically affected to municipalities and communes (some \$8,365 more than in 2018). The operating expenses<sup>4</sup> amounted to \$240,948 (43% more than in 2018 and dropping 5.9% in real terms), which represented a provincial surplus, considering the revenue available<sup>5</sup> of around \$267,900 million, as above mentioned. Thus, the current savings available ac-

crued in 2019 was \$26,953 million (Graph 1), \$5,060 million more than in 2018 (yet dropping 19.1% in real terms).

The current savings available ratio calculated over the available revenue experienced a decline in 2019, thus showing the effect of the domestic crisis on the provincial finances. At the closing of the year 2019, this ratio was positioned at 10%, lower than the 12% of the previous year but yet higher than the historical average of 9.1% (during the 2011-2019 period), (Graph 1).

**Graph No. 1. Available current savings of the Non-financial Public Administration**

(annual average - in % of the net current revenue)



Source: Own figures based on the implementation between 2011 and 2019. Ministry of Finance

<sup>1</sup> Interest rate of reference for interbank transactions.

<sup>2</sup> IPC Córdoba

<sup>3</sup> APNF current income including transfers from the Fondo Federal Solidario, terminated in August 2018 and compensated in January 2019.

<sup>4</sup> Net current expenses for current coparticipation to municipalities and communes.

<sup>5</sup> Net real income from automatic distribution to municipalities and communes.

## INVESTMENTS

The consolidated information shows that capital expenditures by the Non-financial Public Administration (Central Administration and Bureaus, mostly ACIF) reached \$33,387 million in 2019. This represents a reduction of the nominal 27% compared to the year 2018.

This nominal reduction springs from the fact that in the year 2019 the Province concluded its Plan of Infrastructure Works, of paramount importance in its history, starting in December 2015 and ending in 2019, according to the following distribution:

| Type of works                       | Figures in USD millions |
|-------------------------------------|-------------------------|
| Road works                          | 2,568                   |
| Pipelines and network connectivity  | 890                     |
| Aqueducts and drinking water supply | 287                     |
| Electricity infrastructure          | 353                     |
| Sanitation and draining facilities  | 654                     |
| Public premises                     | 986                     |
| <b>Total</b>                        | <b>5,738</b>            |

The Total Investment (Actual Direct Investment by the APNF for 2019 plus the capital transfers to other public entities in the construction sector)

amounted to \$29,293 million. As shown in Graph 2, the Total Investment in 2019 also surpassed the average of the last 10 years (\$27,985 million).

6 Comprised of public works items, capital assets and pre-existing assets (\$23,799 million).

7 Considering transfers from ACIF to Casisa, mainly for the execution of road works, totalling \$5.494 million.

In 2019, 88% of the capital expenditure was mainly devoted to the mentioned Infrastructure Plan, including the Actual Direct Investment<sup>6</sup> plus the capital transfers to other public entities in the construction sector<sup>7</sup>. The remaining 12% is largely comprised of capital transfers to municipalities and communes.

From the total of the capital expenditure, the 82% was funded with current saving and the 8% with capital inflows (the final 10% came entirely from indebtedness and remaining amounts from previous years). The difference explains the negative Financial Result of around \$3,258 million.

**Graph No. 2. Total Investment of the Non-financial Public Administration**

Million of constant pesos in the year 2019\*



Note: \*Calculated by deflating the expenditure of nominal capital by an annual average price index (spliced series of 9 prov.) (2010), Congress (2011- Jun. 2013), IPC Córdoba (Jun. 2013- Dec. 2019).

Source: Ministry of Finance of Córdoba.

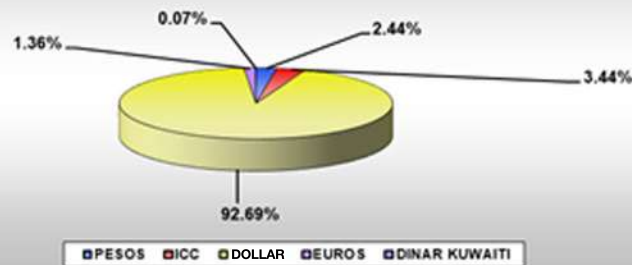
# PROVINCIAL PUBLIC DEBT

The provincial debt stock to December 31st of the ongoing year amounts to \$161,953,135,437,

as reported in the Public Debt section on the Ministry of Finance website<sup>8</sup>.

| CURRENCY                      | AMOUNT                 | PERCENTAGE  |
|-------------------------------|------------------------|-------------|
| PESO                          | 3,956,337,801          | 2.44%       |
| ICC (Construction Cost Index) | 5,564,748,554          | 3.44%       |
| DOLLAR                        | 150,110,195,983        | 92.69%      |
| EURO                          | 2,205,978,280          | 1.36%       |
| KUWAITI DINAR                 | 115,874,819            | 0.07%       |
| <b>TOTAL</b>                  | <b>161,953,135,437</b> | <b>100%</b> |

**Composition of the Provincial Financial Debt General Administration and ACIF to 12/31/2019**



At the year closing, the debt stock had a maturity profile which was manageable and sustainable for the Province since it represented less than 8% of the Provincial Geogra-

phic Product and less than 60% of the annual revenue.

During 2020, the Province had no significant maturities of principal

but had to cover the interest servicing from international bonds and the debt servicing (principal plus interest) from amortizing loans and bonds.

detailed below, showing a net revenue of over \$365,000 million pesos and current savings of 7.5% of the net revenue, which is consistent with the current savings average, mentioned in the previous section.

The Province submitted the annual budget for 2020 as de-

## 2020 BUDGET

|  |                    |
|--|--------------------|
| <b>Total Revenue</b>   | <b>413,760,411</b> |
| Automatic distribution of resources to Municipalities and Communes (2) | 48,392,700         |
| <b>Net Revenue</b>   | <b>365,367,711</b> |
| <b>Net current expenses</b>  | <b>337,978,932</b> |
| <b>Available current savings</b>                                       | <b>27,388,779</b>  |
| <b>Available current savings / Net Revenue (in%)</b>                   | <b>7.50%</b>       |

According to the plan in force until December 31st 2019 and prior to the COVID-19 fiscal shock, the Province intended to deal with the total of the amortizing debt in 2020 and spare some time to generate savings and design a re-financing strategy for payments during 2021. Such plan was in progress because the Province was carrying out three actions:

- Purchase of foreign currency.
- PDCAR 2021 repurchase.
- Assessment of market opportunities with bookrunners.

After December 31st 2019 and prior to the onset of the economic effect of the pandemic, the Province was able to repay in due time and proper form the PDCAR 2024, PDCAR 2027 interest servicing, 100% of the outstanding debt of the 2020 bond from its subsidiary com-

<sup>8</sup> <https://finanzas.cba.gov.ar/deuda-publica/>

pany EPEC and the debt servicing of the EPEC 2022 bond, totaling over USD50 million within January and February 2020. It is worth mentioning that, since 2015, the Province has repaid to its creditors over USD 2,200 million in terms of financial debt, in due time and

and proper form and evidencing the Province's goodwill and commitment to its creditors.

Yet, as posed hereafter in this document, the Province's plan for indebtedness management and debt servicing repayment in short and in

long terms is currently undergoing a careful assessment, due to the COVID-19 impact.

Moreover, it is important to highlight that the provincial indebtedness is largely dollar-based. Despite the fact that since the COVID-19

outbreak, the Argentine Peso devaluation has been limited and milder than the rest of the Latin American currencies, this does not exclude a potential scenario of further devaluation, impacting on our liquidity management throughout the year 2020.

## SITUATION OF **PUBLIC FINANCES** IN THE CONTEXT OF THE COVID-19 EMERGENCY

### IMPACT ON REVENUE EVOLUTION

In tandem with the spread of the COVID-19 pandemic, a dramatic change of scenario has taken place since March 20th of the ongoing year. The magnitude of this new panorama is such, that the provincial revenue figures are experiencing steeper falls than those during the 2008/2009 international financial crisis or during the 2001 crisis in Argentina.

March 2020 total revenue was \$20,122 million, evidence of a nominal growth of 27% compared to the same month in 2019. Deducting inflation, the revenue experienced a year-on-year drop of around 14% in real terms compared to 2019 and of 26% compared to 2018; being the latter more representative since it is

the last reference prior to the crisis (Graph 3).

This involution is connected to the persistence and the deepening of the national crisis that started by mid-2018 and to the first blows resulting from the mandatory lockdown all over the country as from March 19th. The effect of this last

factor on March is partial, not only because it was ordered by the end of the month but also due to the scheduling and payment of principal taxation; a halt in productivity does have a temporary lagging impact on revenue. Therefore, only in April will the lockdown effects on provincial revenue become more evident.

### Graph N° 3. March total revenue

In million pesos in March 2020



Note: \*Based on IPC Córdoba up to Feb. 2020 and own estimation for March 2020.  
Source: Ministry of Finance

Regarding own resources, the Gross Income Tax shows a real drop of 6% whereas the Stamp Tax shows a milder one of minus 2%. Using the year 2018 as reference, the Gross Income Tax drops 24% in real terms and the Stamp Tax 26% and this is because these two taxes are closely connected to the economic activity. In terms of Property Taxes, the Real State Tax had a nominal drop of 16% (a real - 43%), whereas the Vehicle's Tax increased steadily at a nominal

53% and at a real 4%.

National resources in March experienced a loss of 13% in real terms compared to the year 2019 and of 26% if compared to the year 2018. This negative result is basically promoted by the 13% drop of the VAT and the 14% drop of the Income Tax during March.

At the time of this writing, the estimated fall in the provincial revenue (both

provincial taxation and coparticipation) for April is positioned between 45% and 55% in nominal terms, which goes to show the magnitude of the crisis affecting Córdoba, Argentina and the world as a whole. This means that the projection for April, May, June and July allows

to foresee the worst four-month period in the recent history of the Province.

The following graphs 4 and 5 are two actual indicators of the slowdown, showing the dispatch of concrete and the consumption of electric power:

### Graph N° 4. Monthly dispatch of concrete

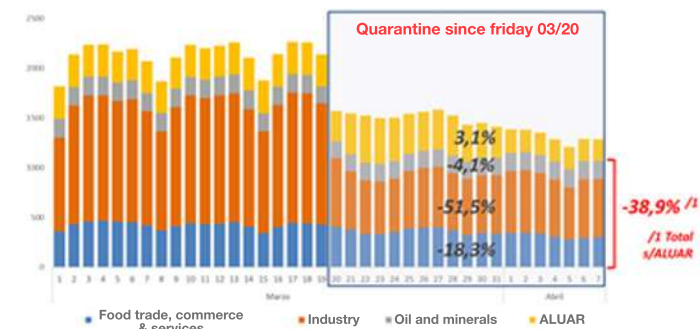
In thousand of tons



Note: /1 Year-over-year variation of the accrued to the first quarter of 2020 (March figure is provisional)  
Source: Ministry of Finance basing on the Association of Portland Concrete Manufacturers

### Graph N° 5. Daily demand of electric power from Large Wholesale Users

In MW



Source: Ministry of Finance basing on CAMMESA



In such context, the Government of the Province has taken concrete emergency measures encompassing all areas under its control, like public health, social containment and the preservation of the production value chain. These are emergency measures of an exceptional and conjunctural nature, to tackle an unprecedented crisis.

Following are the detailed measures decided upon, for the readers to acknowledge the actions by the Government of the Province within this crisis, which has led to the announcement that salaries and retirement benefits will be paid

## HEALTH MEASURES WITHIN THE PANDEMIC

The Provincial Government has raised, through the Law No.10690, a Fund for Assistance in State of Alert, Prevention and Sanitary Action in Epidemic Diseases, with one thousand and two hundred million pesos (\$1,200,000,000) to afford new equipment, supplies

according to revenue collection, starting with pay cuts taken by public officials.

The pressures on the economic variables derived from COVID-19 resulted in an adjustment to the expected inflation and devaluation. Therefore, for the year 2020, the projected inflation will not go below 45% and the wholesale exchange rate announced by the Central Bank of the Argentine Republic (BCRA) to April 8th 2020 is 65.1595 pesos per dollar, whereas the MEP dollar - for security titles - fluctuates around 92 pesos per dollar.

and the hiring of additional medical staff to wage war on this pandemic.

At the same time, the Province has created the Emergency Operation Centre (COE in Spanish), to keep specialized track of the sanitary crisis produced by COVID-19.

## MEASURES FOR SMALL AND MID-SIZED BUSINESSES

Through the Bank of the Province of Córdoba, the Provincial Government has designed a set of financial instruments to support small and mid-sized businesses during the ongoing economic and financial crisis. Also, and thanks to the flexibility in the BCRA regulations, the Bank of the Province of Córdoba has provided support to all sectors of economy, specially to businesses in the sector of health, logistics and the food industry, in order to help the economic system endure this pandemic.

This way and operating on remote, the contingency teams of the Provincial Bank have continued assessing companies and disbursing loans for over \$1,000 million,

which enabled 14,000 employees to get their paycheck only 10 days after the implementation of this measure.

As a complement to this, the Provincial Government is offering a bank guarantee to those small businesses which do not qualify for loans in the financial system and that, through this provincial guarantee, can access to the necessary financing for their working capital.

All the aforementioned is the evidence of the Provincial Government's concern in supporting the production apparatus of the Province, promoting financial assistance to those companies which fail to keep up with the business in the context of this pandemic.

## DEBT SECURITY TO STREAMLINE THE PAYMENT CHAIN

Amid the material collapse of revenue that the Province is experiencing and in order to streamline the economic activity and the chain of payments, the Province has ordered the creation of a Debt Security for Debt Repayment to State's Contractors and Suppliers.

Through this instrument of the capital market, the Provincial Government will pay off \$9 billion on debts with suppliers and contractors and will offer them an instrument to obtain financing within the financial and the capital markets.

This security has a distincti-

ve element that shall allow the payment of claims that contributors owe the Government from overdue taxes to February 29th 2020. The claims that the Province is owed by contributors amount to over \$30 billion and this instrument will promote a secondary market that will streamline the payment

chain to suppliers, sub-suppliers and the entire value chain.

This security shall be payable in 36 months, with an 18-month grace period for the capital amortization. It shall bear a BADLAR interest rate and its interest service shall be paid quarterly.

## MEASURES TO CUT PUBLIC EXPENDITURE

In order to stabilize the Province operation within the context of this crisis, the Government has cancelled the execution of all public works entailing expenditure from the provincial treasury, as

well as the job-related social programmes like Programa Primer Paso (First Step Programme), Programas de Becas Académicas (Academic Scholarship Programmes) and Programas de In-

serción Profesional (Professional Integration Programmes). In spite of being longstanding programmes in the history of Córdoba, their cancellation has been decided upon savings on

operations while the crisis persists, which clearly shows the commitment of the State Government with the efficiency and sustainability of the State operations.