



CN FINANZAS

Sub-Sovereign Report

Province of Santa Fe

Province of Santa Fe

Summary



Province of Santa Fe

- **Revenue:** Automatic tax transfers (Federal Tax Coparticipation) contributed with 55% of the province's revenue, having grown 1.5% YoY in real terms during 2018, mainly due to the performance of the national tax collection during the first semester. Local tax collection remained stable in real terms due to some increases in the rates of the Turnover tax.
- **Expenditure:** Wages, which represent 47% of the total provincial budget (lower than the national average), were reduced in real terms due to the fact that they were determined by the inflation rate, but the inflation clause delays the adjustment. Capital expenditure remained stable in relation to the total budget, but altogether suffered from a real term loss.
- **Fiscal Result:** Nominal increases due to high inflation normally occur first in collection and revenue and affect expenditure later. This improved Santa Fe's financial result and allowed to cover all its needs and leave some surplus.
- **Indebtedness:** The high level of foreign currency debt (97% of the total), and the local currency depreciation, rose the debt interest payments. However, the stronger financial position reduced the financing gap in the short term and gave place to a decrease in the total debt services payments. The province is authorized to contract more debt (up to USD180 mn..) with International Organisms.
- **Final Remark:** Santa Fe improved its financial position due to solid revenue, a relatively flexible expenditure structure, all of which is lightened by the decrease in the debt's burden.
- Area: 133,007km²
- Population: 3,509,113 (26.4 hab/km²)
- GDP Participation: 9.8%
- Unemployment: 7.7%
- Poverty: 26.4%
- Informal Employment: 33%
- Exports: \$ 13.5 bn
- Governor: Miguel Lifschitz (PS-FPCyS)
- Economy Minister: Gonzalo Saglione
- Upcoming Governor Election: 2019
- Total Expenditure: ARS 169.8 bn (2018)
- Financial Result: +ARS 2.02 bn. (2018)
- Public Companies: SAPEM, RyT Santafesina, Laboratorio Industrial Farmacéutico, Empresa Provincial de Energía, Aguas Santafesinas S.A.

Political and Economic profile

Economy

Santa Fe is Argentina's third largest province, economically speaking, participating nearly in 10% of the national GDP.). Its primary sector drives the province's economic sphere. Even though it only contributes with 9% of the Gross Regional Product (GRP) it gives life to its industrial and commercial activities as a part of the value chain.

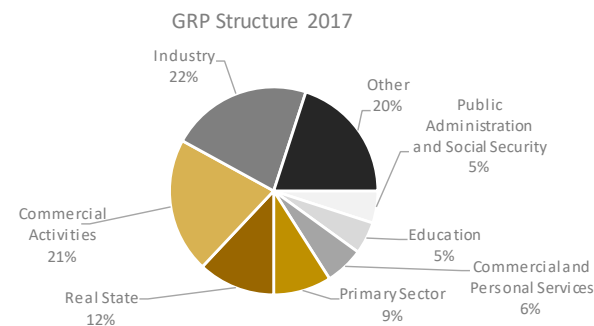
Specifically, the province's industrial sphere's composition is mainly: 46% of "Food and Beverages", 10% of "Equipment and Machinery", 9% of "Metal made products" and 9% of "Chemical substances and products"

Politics

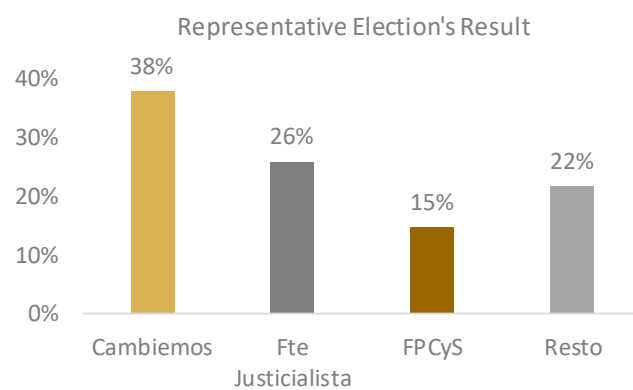
Santa Fe's governor is Eng. Miguel Lifschitz who belongs to the Partido Socialista and was elected under the "Frente Progresista Cívico y Social" (FPCyS)

In the 2017 elections the FPCyS occupied the third place in the representative's chamber elections, obtaining 14,6% of the votes, "Cambiemos" (President Macri's party) got 37,8% and the "Frente Justicialista" got 25,9%.

Representatives and senators are elected for a 4 year period, along with the governor, there are no mid term elections. The "Partido Justicialista" dominates the senator's chamber while the FPCyS does the same in the Representative's chamber.

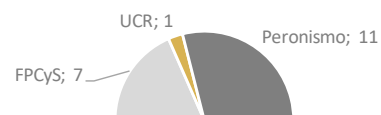


Source: CN based on Instituto Provincial de Estadísticas y Censos

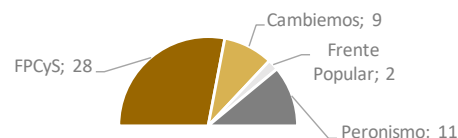


Source: CN based on Cámara Nacional Electoral

Senator's Chamber Composition



Representative's Chamber Composition



Source: CN based on Senator's and Representative's Chambers

Fiscal Analysis

Revenue

Santa Fe, as most of Argentina's provinces, has its local tax structure based on the turnover tax, representing 73% of its local collection.

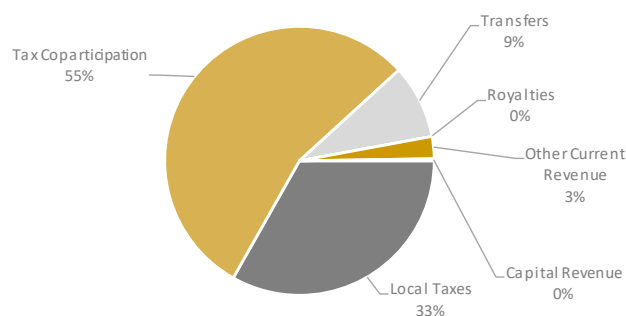
Moreover, as a consequence of the "Pacto Fiscal" and the fact that some of Santa Fe's turnover tax' rates were lower than the law-established maximum, the province has increased some of them, especially in industrial, commercial and public sector's areas. This allowed the province to keep turnover tax' revenue stable in real terms during 2018, having made up for the negative effect of the fall in economic activity.

More changes are to come in the turnover tax's rates during 2019. Santa Fe will have to lower them in 7 activities, but on the other hand, will have the possibility to increase them in some others.

The Stamp tax undoubtedly suffered from the fall in economic activity during 2018, having reduced its revenue in 7,3% in real terms. The Property tax experienced a small increase in real terms, some changes were applied in the taxation law at the end of 2017 that gave place to that growth. Finally, the Vehicles tax suffered a 6,5% real terms fall.

Automatic transfers (Federal Tax Coparticipation) from the national government are free of the withholdings from the ANSES (Social Security's National Administration). All Argentinean provinces receive the automatic transfers from the national government with a 6% "cut", except Santa Fe, San Luis and Córdoba.

Provincial Revenue



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Activity	Rate Change
Agriculture, Hunting, Forestry and Fishing,	↓
Mining and Quarrying	↓
Industry	↑
Electricity, gas and water.	↑
Construction	↓
Commerce	↑
Hotels and Restaurants	↑
Transport	↓
Communication	↓
Financial Intermediation	↓
Business and Social Services	↑

Source: CN based on Congreso de la Nación

Tax (Ars mn.)	YoY %	Real YoY %	%/Total
Turnover Tax	35,3%	▲ 0,7%	72,9%
Property Tax	37,0%	▲ 2,0%	8,7%
Stamp Tax	24,5%	▼ -7,3%	10,4%
Vehicle Tax	25,6%	▼ -6,5%	7,8%
Other Taxes	-4,1%	▼ -28,6%	0,2%

Source: CN based on Ministerio de Economía de Santa Fe

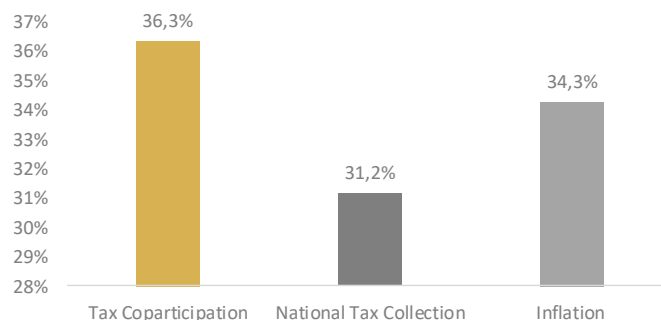
As a result, Eng. Lifschitz's administration got a 1,5% YoY increase in real terms on these funds, specially due to the growth in the collection of the VAT and income taxes, mainly during the first two quarters.

The budget transfers received by the provinces from the National Government were strongly affected by the IMF Agreement and the elimination of the "Fondo Federal Solidario" (transfers given to provinces obtained from the taxation on soy exports). In particular, the province of Santa Fe received ARS933 mn. in current transfers from the government (+15,4% YoY in nominal terms) and ARS3,9 bn capital transfers (+30,7% YoY in nominal terms).

Finally, the remaining provincial revenue, that contribute with 3% of Santa Fe's income, showed and important growth, mainly explained by Santa Fe's financial assets returns that were boosted by higher interest rates.

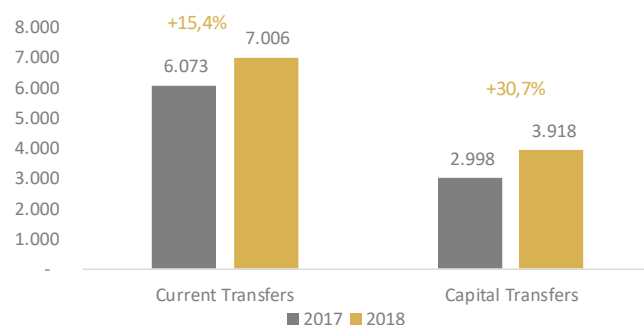
Gathering all of Santa Fe's income sources, revenue increased in 36,7% YoY in nominal terms.

Tax Coparticipation Change in 2018



Source: CN based on Min. Hacienda, AFIP e INDEC.

National Budget Transfers



Source: CN based on Min. Hacienda

Provincial Administration -ex SSI- (ARS mn.)	2017	2018	2018/2017
Current Revenue	122.376	167.464	36,8%
Local Taxes	42.760	57.003	33,3%
Tax Coparticipation	69.335	94.530	36,3%
Royalties	-	-	n.a.
Current Transfers	7.301	11.364	55,7%
Other Current Revenue	2.980	4.567	53,2%
Capital Revenue	3.282	4.345	32,4%
Capital Transfers	3.011	3.918	30,1%
Local Capital Revenue	271	427	57,7%
Total Revenue	125.657	171.809	36,7%

Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Expenditure

Santa Fe's expenditure structure did not experience huge changes in 2018.

It is important to mention that the province's public employee union was one of the few that managed to agree to an inflation-adjusted increase clause during 2018 in addition to the original fixed increases. The original agreement included two 9% phases of wage increase plus the automatic inflation clause, which will also affect salaries during the 1Q of 2019.

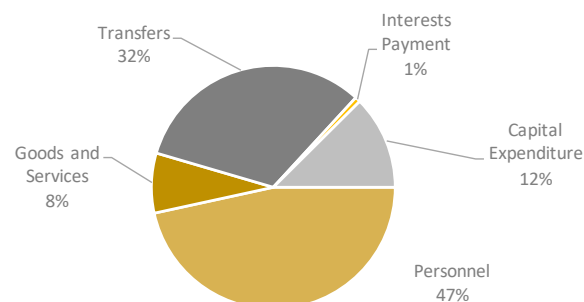
Since part of the impact of the inflation clause will continue to be seen during 2019, 2018 was a year in which Santa Fe managed to reduce, in real terms, the salaries expenditure.

Another aspect in which the province was able to achieve an spending cut was in **consumption goods and services**, increasing only at a rate of 24,1% YoY compared to an average inflation rate of 34,3% during 2018.

Current transfers made by Santa Fe did not show an even behavior during 2018. Taking all of them into account they grew at 37,7% YoY, but namely, they were boosted by the expenses directed for financing the Social Security Institute's deficit, which were almost doubled compared to 2017.

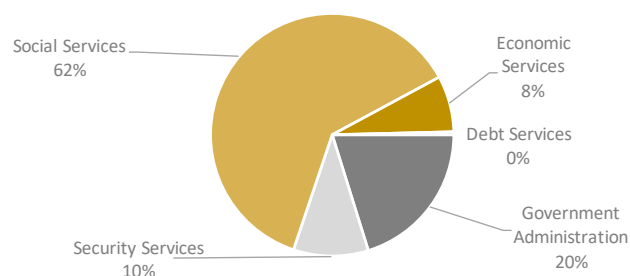
Automatic transfers to the province's municipalities were reduced in real terms mainly due to the low collection of the vehicle tax (90% of it is distributed among the province local municipalities). Private sector transfers also slowed its pace at the last part of the year.

Provincial Expenditure 2018



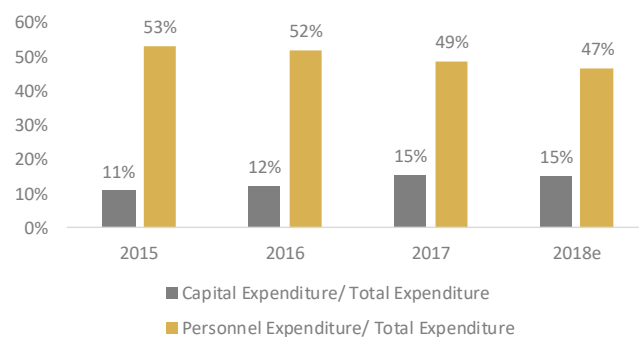
Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Expenditure by Function 2017



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Expenditure Quality



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Capital expenditure has slowed down in real terms, reporting a 26.3% YoY increase. Explanations can be found in the fact that the government transfers, both automatic (Fondo Federal Solidario) and budget-based ones have been significantly reduced. Real direct investment has shown a better performance than transfers to provincial public sector entities for the funding of public works, that remained almost stable in real terms, resulting in a more centralized public works administration.

The high levels of foreign currency debt had consequences in the financial result of the province. The interest payments increased considerably (116% YoY) due to the devaluation of the ARS. However, this only represented an extra ARS651 mn. due to the low indebtedness levels and the low interest rates at which debt was contracted, even below today's sovereign rates

The increase in the interest payments was more than compensated by the decrease in the principal amortizations, explained by the changes in the debt's maturity for longer term bonds.

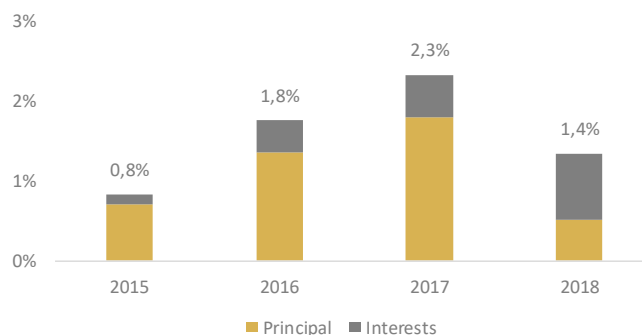
Fiscal Result

Santa Fe achieved primary surplus during 2018, allowing the province to more than cover all its financial needs. This result lies in the expansion of automatic resources in combination with a momentaneous lag in salaries adjustment.

Central Admin. -ex SSI- (ARSmn.)	2017	2018	2018/2017
Current Expenditure	111.803	144.234	29,0%
Personnel	64.153	79.093	23,3%
Good and Services	10.471	13.502	28,9%
Interests	561	1.212	116,0%
Current Transfers	36.618	50.427	37,7%
Capital Expenditure	20.230	25.553	26,3%
Real Direct Investment	14.892	20.248	36,0%
Capital Transfers	4.441	4.397	-1,0%
Financial Investments	897	907	1,2%
Total Expenditure	132.033	169.787	28,6%
Primary Expenditure	131.472	168.575	28,2%

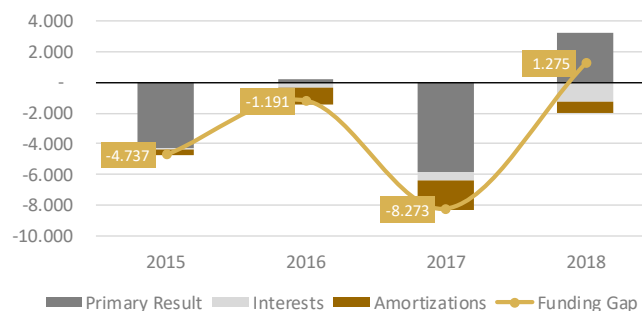
Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Debt Services Payment/ Net Current Revenue



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Fiscal Result (\$m)



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Revenue Sources and Expenditures

Provincial Administration -ex SSI- (ARS mn.)	2017	2018	2019P	2018/2017	2019/2018
Current Revenue	122.376	167.464	225.447	36,8%	34,6%
Local Taxes	42.760	57.003	78.403	33,3%	37,5%
Tax Coparticipation	69.335	94.530	130.317	36,3%	37,9%
Royalties	-	-	-	n.a.	n.a.
Current Transfers	7.301	11.364	9.373	55,7%	-17,5%
Other Current Revenue	2.980	4.567	7.354	53,2%	61,0%
Current Expenditure	111.803	144.234	197.314	29,0%	36,8%
Personnel	64.153	79.093	107.148	23,3%	35,5%
Good and Services	10.471	13.502	20.081	28,9%	48,7%
Interests	561	1.212	1.980	116,0%	63,4%
Current Transfers	36.618	50.427	68.104	37,7%	35,1%
Current Savings	10.572	23.230	28.133	119,7%	21,1%
Capital Revenue	3.282	4.345	3.066	32,4%	-29,5%
Capital Transfers	3.011	3.918	2.424	30,1%	-38,1%
Local Capital Revenue	271	427	641	57,7%	50,0%
Capital Expenditure	20.230	25.553	30.735	26,3%	20,3%
Real Direct Investment	14.892	20.248	25.671	36,0%	26,8%
Capital Transfers	4.441	4.397	3.892	-1,0%	-11,5%
Financial Investments	897	907	1.171	1,2%	29,1%
Total Revenue	125.657	171.809	228.513	36,7%	33,0%
Total Expenditure	132.033	169.787	228.049	28,6%	34,3%
Primary Expenditure	131.472	168.575	226.069	28,2%	34,1%
Financial Result	-	6.376	2.022	464	
Primary Result	-	5.815	3.234	2.444	
Principal Payments	1.897	747	1.001	-60,6%	34,1%
Financing Gap	-	8.273	1.275	-	538

Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Ratios

Ratios Provinciales	2015	2016	2017	2018	2019p
Local Taxes / Total Revenue	34,3%	33,9%	34,0%	33,2%	34,3%
Tax Coparticipation / Total Revenue	56,5%	55,4%	55,2%	55,0%	57,0%
National Transfers / Total Revenue	6,0%	7,5%	7,2%	6,4%	2,6%
Personnel Expenditure / Total Expenditure	53,2%	51,9%	48,6%	46,6%	47,0%
Capital Expenditure / Total Expenditure	10,8%	12,0%	15,3%	15,1%	13,5%
Current Savings / Current Revenue	1,9%	9,5%	8,6%	13,9%	12,5%
Primary Result / Total Revenue	-6,5%	0,3%	-4,6%	1,9%	1,1%
Financial Result / Total Revenue	-6,6%	-0,1%	-5,1%	1,2%	0,2%
Debt Stock / Current Revenue	3,3%	7,6%	10,2%	14,9%	13,5%
Debt services / Net Current Revenue	0,8%	1,8%	2,3%	1,4%	1,5%
Current Savings / Capital Expenditure	15,8%	76,3%	52,3%	90,9%	91,5%
Capital Revenue / Capital Expenditure	26,5%	22,9%	16,2%	17,0%	10,0%

Social Security Institute

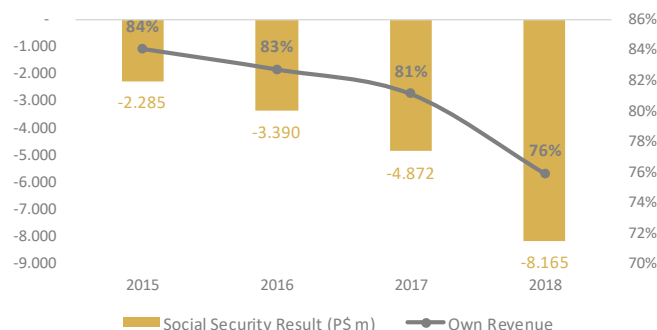
SSI (Ars mn.)	2017	2018	2019P	2018/2017	2019/2018
Current Revenue	25.964	34.315	52.358	32,2%	52,6%
Tax Coparticipation	802	1.020	1.168	27,3%	14,4%
Social Security Contributions	20.922	25.723	41.503	22,9%	61,3%
Current Transfers	4.231	7.558	9.669	78,6%	27,9%
Other Current Expenditure	8	14	18	66,2%	30,0%
Current Expenditure	25.963	34.092	52.581	31,3%	54,2%
Personnel	137	165	222	20,7%	34,7%
Goods and Services	31	37	55	20,6%	45,7%
Interests	-	-	-	n.a.	n.a.
Social Security Expenditure	25.795	33.889	52.303	31,4%	54,3%
Current Transfers	0	1	1	47,2%	35,0%
Current Saving	1	224	- 223		
Capital Revenue	-	-	-	n.a.	n.a.
Capital Expenditure	1	1	1	-1,1%	35,0%
Total Revenue	25.964	34.315	52.358	32,2%	52,6%
Total Expenditure	25.964	34.092	52.582	31,3%	54,2%
Social Security Result	- 4.872	- 8.165	- 10.800		
Financial Result	- 0	223	- 224		

The province's retirement and pension fund almost doubled its deficit during 2018, reaching ARS8,165 bn. This resulted in a bigger need for assistance from Santa Fe's Central administration, having been required to transfer the fund around ARS5,1 bn. during that year.

The National government also contributed to ease the deficit, it transferred ARS128mn. per month even though the assistance agreement was not reached until September 2018. It was then when ANSES recognized the fund's 2017 deficit, of around ARS4,6bn. Deducting the amount transferred during that year, it resulted in a surplus of ARS3,6bn. in favor of Santa Fe that will determine the transfers that will occur during 2019.

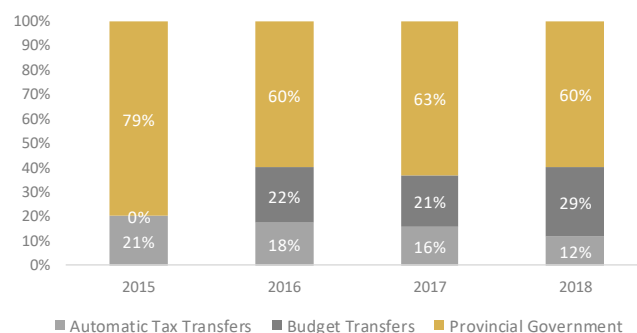
Specifically, in January, the National Government transferred to Santa Fe ARS 387mn. for this purpose.

Social Security Result



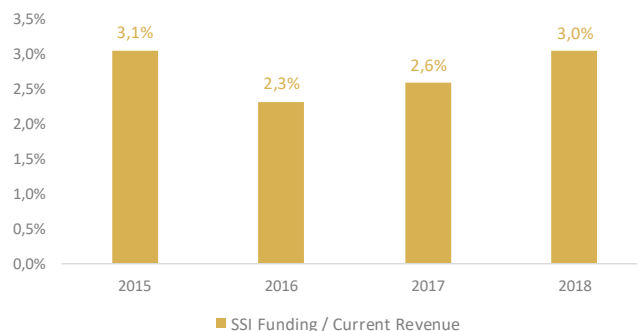
Source: CN based on Ministerio de Economía de Santa Fe

Social Security Funding



Source: CN based on Ministerio de Economía de Santa Fe y Ministerio de Hacienda

Provincial Revenue involved in Social Security



Source: CN based on Ministerio de Economía de Santa Fe

Indebtedness

The improvement in the financial situation allowed the province to cancel most of its consolidated debt without having to resort to treasury bills for liquidity.

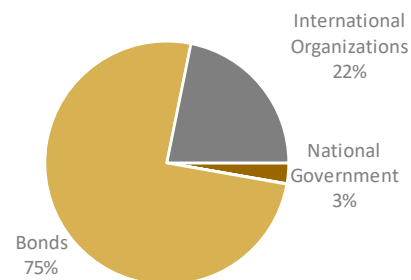
When it comes down to floating debt, we can also mention that during 2017, the total amount dragged by the province represented 33 days of primary expenditure and it went down to 31 days in 2018.

Even though Santa Fe would very likely face its financial needs in 2019 with its current income source, the administration has obtained authorization to contract debt for capital and public work expenditure.

The 2019 budget authorizes Santa Fe to borrow up to €100 m from the French Development Agency (AFD), with an amortization schedule of at least 10 years and interest rates below market. The document also allowed the province to contract subsidiary loans through the National Government with International Organisms for \$70 m, with a minimum repayment term of 8 years and same interest rates conditions. Both loans would represent 25% of the actual provincial stock of debt.

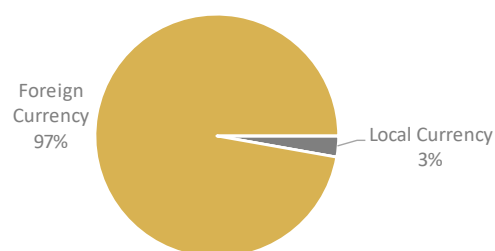
Even though it can be claimed that the current amount of debt has increased considerably during 2018 (+101%), the level is still low and maturities are well distributed in the long term. Given the high foreign currency indebtedness ratio (97%), an appreciation of the "peso" would reduce the total weight

Debt by Creditor 2018



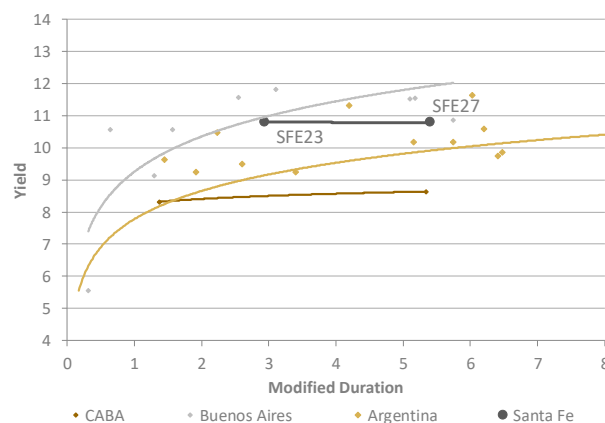
Source: CN based on Ministerio de Economía de Santa Fe

Debt by Currency 2018



Source: CN based on Ministerio de Economía de Santa Fe

Yield Curve



Source: CN based on Bloomberg. 15/02/19

2019 Prospects

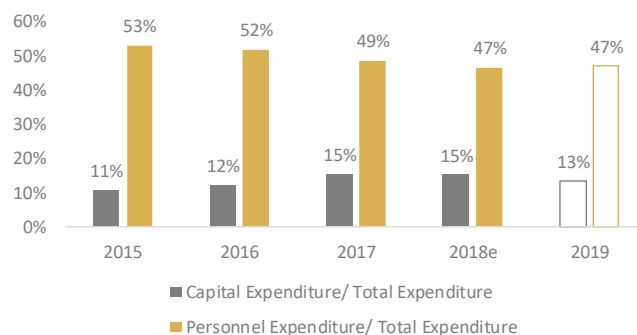
The inflation pace during 2018 had a positive impact on the provincial financial situation given that nominal acceleration reacts faster in tax collection and automatic government transfers than in wages; the latter react with a lag and suffer from real loss. It is possible that during 2019 this situation will turn, with salaries catching up and inflation decreasing.

Regarding revenue, we expect a slowing down of the Turnover tax collection, due to reductions on the primary activity's rates (1% to 0.75%), and in some manufactures with agricultural origin's (2% to 1.5%) and because of the floods in the northern region of the province during the first part of the year. This effect could be compensated by an increase of up to 40% of the Property Tax, that was not limited by the Fiscal Pact.

Automatic government transfers will grow at a slower pace than national tax collection, the new export taxes are not included in the coparticipation law. Budget transfers will be reduced, including transport subsidies (delivered by SISTAU). The province will have to compensate that funding with its own resources. There will be no "cut", however, in national transfers destined to provincial social security,

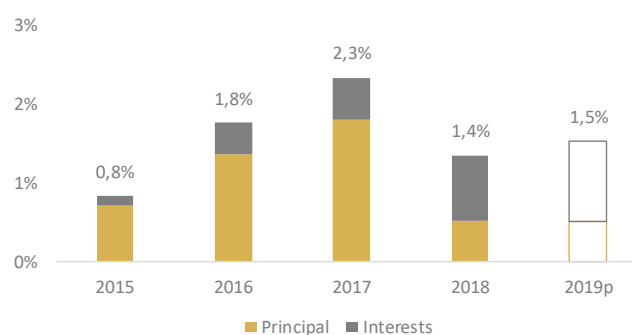
Regarding expenditure, the provincial labor negotiations signed during 2018 dragged an increase in wages for the 1Q of 2019, according to the automatic inflation adjusting clause. The union expects to arrive to a similar agreement for this year, a fixed amount increase plus the adjustment clause.

Expenditure Quality



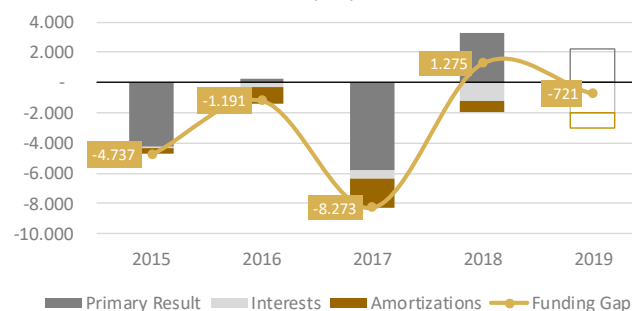
Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Debt Services Payment/ Net Current Revenue



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Fiscal Result (\$ m)



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe



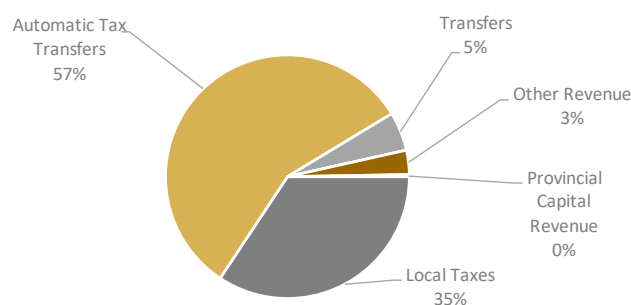
Interest payments will continue to grow at a faster rate than total expenditure due to the increase on the foreign currency exchange rate, again, with no evident risk to the province's financial status.

Provincial transfers will also be reduced as a consequence of the drop in national government's ones, specially those with specific destinations, such as transport subsidies. Transfers allocated to public institutions, will however continue to grow as the Pension and Retirement fund's deficit increases.

Public works are expected to experience a real terms decrease. It is even likely that a reduction in the capital expenditure/total expenditure ratio will appear. The reduction in national transfers and the lesser current savings (in real terms) expected for this year will not allow for a rise in capital expenditure to occur without compromising the fiscal result.

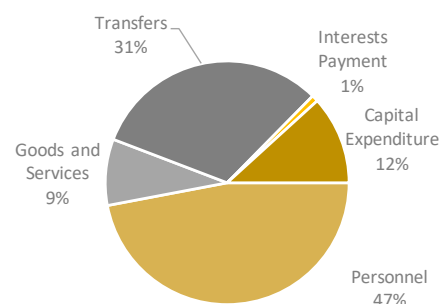
Finally, a financial surplus capable of managing all the province's expenditure needs is expected. Nonetheless, this surplus might be smaller (in real terms) than that observed during 2018, and it implies a decrease in public works expenditure. However, if the authorized loans are taken the capital expenditure contraction might not be seen and fiscal deficit might go up.

Provincial Revenue 2019



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Provincial Expenditure 2019



Source: CN based on Min. Hacienda, MIOPyV y Ministerio de Economía de Santa Fe

Relevant Facts

Santa Fe, Córdoba and San Luis provinces have been benefited by the Supreme Court of Justice's ruling on December 2015. The decision stopped the National Government from withholding 15% of the automatic tax coparticipation to fund the ANSES. Although this ruling was complied with, the court's decision also permitted the provinces to demand for the funds withheld between 2006 and 2015.

After many negotiations, a clause was included in November 2017's "Pacto Fiscal" that forced parts to come to an agreement before March 31th 2018. The term was not met, and there is still no specific agreement with the National Government on how to cancel the close to ARS50 bn. debt that the Nation holds with Santa Fe (nearly 30% of the province's 2018 total expenditure)

On February 19th 2019, the Supreme Court of Justice ruled in favor of San Luis on this same claim, forcing an agreement with the National Government. This ruling raised expectations on a similar decision taken on Santa Fe's case. As no exact dates for the solving of the conflict exist, the Nation's debt is not included in our views for the Province's situation in 2019. Santa Fe has, however, offered a proposal to the National Government to receive 30% of the debt in cash and 70% in sovereign debt titles.

Final remarks

The province has strengthened its financial status throughout the last years and has managed to keep its local tax revenue almost untouched even during a harsh climatic year that hit the local economy hard. This shows a pretty solid income structure.

When it comes down to total expenditure, the personnel ratio is considerably low when compared to the Argentinean provincial average. Capital expenditure, particularly public works, represent an important share of Santa Fe's budget. This situation allows for an easier disbursement adjustment if needed. The principal and interest payments are low in terms of Santa Fe's revenue structure.

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