



REPORT ON DEBT AND PUBLIC FINANCE OF THE PROVINCE OF CHACO

MINISTRY OF ECONOMY AND PUBLIC FINANCE

SEPTEMBER 2017

Fiscal Situation in 2016 and Budget for 2017

The fiscal year 2016 for the Province of Chaco was not different from the performance of the Argentine Economy. According to Indec, the economic activity fell by 2.3% and the CPI from the City of Buenos Aires showed a 41% increase y-o-y due to, a large extent, the inflation levels during the first three months of the year, following the Exchange rate adjustment carried out by the new federal government. This combination of inflation and economic contraction had a significant impact on the Province's expenditures and tax collection reflected in the result of the fiscal result of the year.

Therefore, in 2016 the primary deficit of the Province reached ARS 4,912 million, whereas if interest is included, the total financial deficit totaled ARS 5,301 million excluding unaccrued expenses associated with the use of proceeds pursuant to Law No. 7782 that established the international issuance in the capital markets. In order to allocate the funds and provide transparency and preserve their funds' value in an inflationary context, they were placed in specific public trust funds to be used as established by Law 7782 (see below).

	2016 (1)	Six-month period		%
		Budget 2017	ended June 30, 2017	
<i>Current Revenues</i>	34.255,77	44.884,12	21.586,66	48%
<i>Current Expenditures</i>	36.261,10	42.951,89	20.013,98	47%
<i>Economic Result (Operating)</i>	-2.005,34	-1.951,22	1.572,68	-81%
<i>Capital Revenues</i>	2.572,09	6.067,66	1.342,75	22%
<i>Capital Expenditures</i>	5.868,28	11.458,66	3.881,58	34%
<i>Total Revenues</i>	36.827,85	50.951,78	22.929,42	45%
<i>Total Expenditures</i>	42.129,38	54.410,54	23.895,56	44%
<i>Financial Result</i>	-5.301,53	-3.458,76	-966,15	28%
<i>Primary Result</i>	-4.912,87	-2.200,16	-504,56	23%

Source: General Accounting Office of the Province.

(1) Exclude ARS 3,51 million of unaccrued expenses associated with the use of proceeds pursuant to Law No. 7782

The absolute value of the financial deficit for 2016 largely depends on y the execution of capital expenditures, which accounted for ARS 5,868 million, among which were: road works, housing and, to a lesser extent, investment in energy and health and education infrastructure. The Province, therefore, decided to maintain the economic activity within the province and increase the infrastructure level to improve the productivity of the different branches of activity in Chaco

In 2017, the Province aims to gradually converge its accounts towards fiscal balance as we expect increased revenues as provided by the national macroeconomic framework, a 15% progressive return of the federal funds pursuant to the federal Law 27,260 which approves the agreement between the federal government and the provinces, and the expenditure containment that allows to gradually return to a balanced economy. By 2017, we expect a primary deficit of ARS 2,200 and ARS 3,459 million including debt interest, whereas, at the same time, we project an infrastructure plan that will raise capital expenditure to ARS 11,458 million.

The budget execution for the first half of 2017 posts an operating surplus of ARS 1,572 million, a primary deficit of ARS 504 million and ARS 966 million including debt interest. The values executed during the first half of the year show that the targets contemplated by the budget law were met, with only 28% of the estimated annual deficit being met.

On the other hand, Chaco has signed an agreement with the federal government, which proposes a plan to converge towards fiscal balance at the end of 2018, with intermediate targets and monitoring by the latter, within the framework of the initiative of the federal government to balance the provincial public accounts in 2018. As with the budget, the budgetary execution in 2017 is within the parameters of these targets.

Use of proceeds from the issuance in the international capital markets

Law 7782, which approved the bond issuance in the international capital market, expressly stated its use of proceeds, basically under two concepts: on the one hand, to investment the funds in infrastructure projects and, on the other, to cancel the debts arising from a long-standing claims with the Judicial Power.

Infrastructure projects: as of this date, several loans have been made to the municipalities for infrastructure projects, also significant works are being developed in road, sanitation, hydraulic infrastructure and other sectors. The agreement signed with the federal government to finish the second aqueduct of the interior should be noted. This project is already under execution and is expected to be financed it with federal funds in terms for its core aspects and with funds from the international markets to finance its home networks. **This infrastructure project is the most important in the history of the Province and will supply potable water to 26 towns in the interior of the Province; it will be 512 km long and benefit 34.6% of the population of Chaco.**

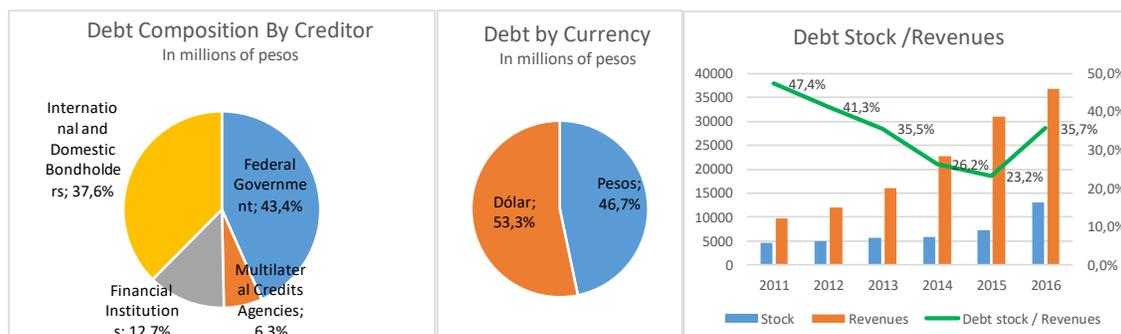
Debt cancellation: A portion of the funds were approved to cancel long-standing claims that generated a debt of approximately ARS 2,150 million. After tapping international markets, the Province made a cash payment offer with a 50% haircut and intermediate options for up to 100% in 10 years. Towards the end of 2016, the first claimants began to accept the offers and, as of this date, approximately 80% of the creditors have accepted the offer and the remaining arte about to accept. It is estimated that by the third quarter of 2017 all of the operations will be completed with all the claimants and the debts with the credits will be totally repaid.

Public Debt

The estimated public debt stock as of December 31, 2016 accounts for ARS 13,147 million, 46.7% of which is denominated in pesos and the remaining 53.3% in dollars. The main creditor is the federal government holding 43,4 % of total debt.

The total debt stock of the Province approximately accounts for 35.7% of total revenues in 2016, with a significant decrease in recent years.

Composition and evolution of provincial debt



Source: Provincial Ministry of Finance. In million of pesos as of December 31, 2016

Credit rating

In March, the rating agency Moody's revised the credit ratings of the federal government and the Argentine provinces. Under this review, Moody's upgraded Chaco from Caa1 to B3 as the Province reaches the level of the federal government and provinces such as Buenos Aires, Córdoba, Mendoza, Santa Fe and the City of Buenos Aires for issuances in foreign currency

Moody's fundamentals for improving Chaco's rating are based on the strong macroeconomic relationship with the federal government and its low indebtedness level.

Moody's, together with the Fix rating agency Fix, which in August of 2016 had upgrade Chaco's credit rating as it had improved its information transparency and the ordering of tis administrative processes, following the debt issuance in the international market.