FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms City of Buenos Aires at 'B-'; Outlook Stable

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Fitch Ratings - Monterrey - 12 Sep 2024: Fitch Ratings has affirmed the city of Buenos Aires' (CBA) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'B-' with a Stable Rating Outlook. Fitch has also affirmed the Short-Term IDRs at 'B'. Fitch has affirmed the city's euro medium-term note program (EMTN) and series 12 7.50% senior unsecured notes at 'B-'. CBA's Standalone Credit Profile (SCP) remains at 'b+'. The IDR is capped by Argentina's 'B-' Country Ceiling.

CBA continues to meet Fitch's criteria requirements to be rated at 'B-', above Argentina's sovereign rating by maintaining a strong budget, no need to undertake external refinancing of debt, and have sufficient liquidity available.

KEY RATING DRIVERS

Risk Profile: Vulnerable

The 'Vulnerable' assessment, for all Argentine local and regional governments (LRGs), weighs the sovereign IDR below B category rather than Argentina's implied operating environment of 'bb'; thus, the risk profile reflects Fitch's view of a very high risk of the issuer's ability to cover debt service with the operating balance weakening unexpectedly over the scenario horizon due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt-service requirements.

Revenue Robustness: 'Midrange'

This key risk factor is 'Midrange' due to the resiliency of CBA's revenue structure and high fiscal autonomy in the context of volatile national economic performance and its service sector in its economic structure, and therefore a low reliance on federal transfers.

The share of federal revenues that stem from a 'CC' sovereign counterparty decreased from 24.3% in 2020 to 11.8% in 2023 derived from Federal Law no. 27606 that returned CBA's federal co-participation coefficient share to 1.4%. The measure affects federal revenue predictability and risk. The lack of compliance with the Supreme Court's ruling on re-composition of daily and automatic co-participation transfers to the city sets a negative precedent in the tax distribution framework between the nation and provinces, as jurisdictions are exposed to increasingly uncertain and discretionary decisions at the executive level.

During 2023 the city has not received budgetary current transfers derived from Law no. 27606. From August 1, the National Government is sending discretionary transfers equivalent to 1.55% of the revenue-sharing resources on a weekly basis. Fitch will monitor the compliance with the Supreme Court's ruling over time. However, overall CBA maintains a high level of local revenues reflecting its resilient revenue structure and expenditure flexibility.

Revenue Adjustability: 'Weaker'

Fitch considers, for Argentine LRGs, that local revenue adjustability is low, and, challenged by the country's large and distortive tax burden and the weak macroeconomy, that impacts affordability. National GDP recovered 10.4% in real terms during 2021 and in 2022 a further 5.2%; but fell 1.6% in 2023 despite being an election year. Although GDP fell in 2023, local tax collection grew by 13.5% due to an increase in tax pressure, and benefited from the application of gross income revenue to the remunerated liabilities of the BCRA (starting in July 2024, income from this tax will be null).

The economic importance of the CBA led to a high ratio of own tax revenues/total revenues of 78.9% at the end of fiscal year 2023, compared to 64.5% in 2019. Due to changes in the revenue-sharing coefficient (currently implemented through discretionary transfers) starting in August 2024, the elimination of gross income revenue from BCRA remunerated liabilities from July 2024, and the restitution of income tax from August 2024, Fitch expects this indicator to decrease in 2024 and

Argentine LRGs have high expenditure responsibilities, in a context of structurally high inflation. The country's fiscal regime is structurally imbalanced regarding revenue-expenditure decentralization.

Local economic strength, revenue growth above inflation, and expenditure dynamics supported the budgetary performance of the CBA from 2021 to 2023. Although in 2023, the city's operating balance was 19.9%, compared to 24.4% in 2022, it remained at elevated levels. While operating revenues grew in real terms by 6.1% in 2023, operating expenses grew by 12.3%, in the context of an election year and a real re-composition of the staff cost of 13.1% in real terms.

The CBA has managed to contain the growth of operating expenses relative to inflationary pressures from 2020 to 2022, which allowed for a very strong strengthening of the operating margin, so although in 2023 this containment was slightly relaxed, the operating margin remains at still elevated levels. Fitch estimates that in the period from 2024 to 2026, the average operating margin would be 17.6%, compared to an average of 20.3% in the last three years.

Expenditure Adjustability: 'Weaker'

For Argentine subnationals, infrastructure needs and expenditure responsibilities are deemed high, while leeway to cut expenses is viewed as low. CBA's capital expenditure averaged 15.1% of total expenditure in 2019-2023. Capital expenditure recovered to 17.4% of total expenditure in 2023, compared with 15.1% in 2022 or 12.7% in 2021, within the context of a national and local election year in the city. In 2023, operating expenditure represented 79.4% of total expenditure, and staff expenses remained controlled at 43.6%, close to the historical average of 43.5% for 2019-2023.

Liabilities and Liquidity Robustness: 'Weaker'

Unhedged foreign currency debt exposure is an important weakness considered, along with the weak national framework for debt and liquidity and underdeveloped local market. The assessment also considers a 'CC' sovereign that restructured its debt during 2020, thus curtailing external market access to LRGs. CBA did not engage in any debt restructuring processes like other argentine LRGs did in 2020- 2021.

CBA's debt is mostly composed of issuances and multilateral loans in USD (95% of total

USD350 million in that year. Currently, the city has laws that would allow borrowing up to USD1.185 billion, which could be used for liability management operations if market windows arise. Fitch will monitor all debt operations carried out by the city.

As of March 2024, the city has a strong liquidity position, coupled with positive operating balance generation and financial equilibrium, which clears up uncertainty regarding the entity's payment capacity over the next 24 months.

Liabilities and Liquidity Flexibility: 'Weaker'

Argentine LRGs rely mainly on their own unrestricted cash for liquidity. CBA's unrestricted cash totaled around ARS932.95billion at YE 2023 (equivalent to USD1.13 billon dollar at the official exchange rate of ARS828.25). CBA's liquidity coverage ratio averaged 2.8x during 2019-2023, and Fitch projects it to remain at adequate levels (average of 5.2x for 2024-2026).

Part of this liquidity (USD350 million) is allocated in a countercyclical fund with utilization rules that are already being met, so it could be used for the payment of debt services in 2024.

Financial Profile: 'aa' category

The score reflects a 'aaa' primary payback ratio of 0.9x for 2024 under Fitch's rating case. Also, financial profile factors in an override from the 'aa' actual debt service coverage ratio (ADSCR) of 2.8x in 2024. In 2025, the city will have external debt capital payments from its Series 12 bond.

The Financial Profile and the city's operating balance capture the city's local economic strengths, budgetary balance and smoother debt maturity profile, which presents no external refinancing risks until 2025. The projected ADSCR remains aligned with the city's 2019-2023 average of 2.2x.

DERIVATION SUMMARY

CBA's 'b+' SCP is derived from a 'Vulnerable' risk profile and 'aa' financial profile score. The SCP notch specific derivation also considers comparison with international peers, including Argentine and Nigerian peers. Fitch does not apply any asymmetric risk or

KEY ASSUMPTIONS

Qualitative assumptions:

Risk Profile: 'Vulnerable'

Revenue Robustness: 'Midrange'

Revenue Adjustability: 'Weaker'

Expenditure Sustainability: 'Weaker'

Expenditure Adjustability: 'Weaker'

Liabilities and Liquidity Robustness: 'Weaker'

Liabilities and Liquidity Flexibility: 'Weaker'

Financial Profile: 'aa'

Support (Budget Loans): 'N/A'

Support (Ad Hoc): 'N/A'

Asymmetric Risk: 'N/A'

Sovereign Cap: 'B-' (Country Ceiling)

Sovereign Floor: 'N/A'

Quantitative assumptions - Issuer Specific:

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2019-2023 figures and 2024-2026 projected ratios. The key assumptions for the scenario include the following:

--Operating revenue average growth of 126.2% for 2023-2025; assuming growth below average inflation towards the medium term to stress operating margins;

--Average capital expenditure/ total expenditure levels of around 15.4%; similar to the 2019-2023 historical average of 15.1%;

--Cost of debt considers non-cash debt movements due to currency depreciation with an average exchange rate of ARS1,005.4 per U.S. dollar for 2024 (YE 1,400), ARS1,873.1 for 2025 (YE 2,213.5), and ARS2,674.7 for 2026 (YE 2,932.6);

--Consumer price inflation (annual average % change) of 256.4% for 2024, 117.3% for 2025, 49.8% for 2026.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--An upgrade on Argentina's Country Ceiling above 'B-' could positively benefit CBA's ratings provided that their payback ratio remains below 5x.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of Argentina's Country Ceiling would negatively affect CBA's ratings as well as any introduction of regulatory impediments for the Argentine provinces to access foreign exchange. The IDR could be downgraded if the ADSCR drops below 1.0x in tandem with a liquidity coverage ratio below 1.0x underpinned by lower operating margins and unrestricted cash; regardless of whether the payback ratio remains below 5x. Thus, CBA will not meet all the conditions to be rated above the sovereign.

ISSUER PROFILE

CBA is Argentina's federal capital and the country's most important social and economic center. The city represents approximately 20.6% of the country's GDP, and the surrounding province generates an additional 31.7% of the national GDP.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Buenos Aires, City of	LT IDR	B- Rating Outlook Stable	Affirmed	B- Rating Outlook Stable
	ST IDR	B	Affirmed	B
	LC LT IDR	B- Rating Outlook Stable	Affirmed	B- Rating Outlook Stable
	LC ST IDR	B	Affirmed	B
senior unsecured	LT	B-	Affirmed	B-

Diego Estrada
Associate Director
Primary Rating Analyst
+52 81 4161 7079
diego.estrada@fitchratings.com
Fitch Mexico S.A. de C.V.
Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial, Monterrey 64920

Tito Baeza
Director
Secondary Rating Analyst
+52 55 5955 1606
tito.baeza@fitchratings.com

Gerardo Enrique Carrillo Aguado
Senior Director
Committee Chairperson
+52 55 5955 1610
gerardo.carrillo@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Buenos Aires, City of	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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