Fitch confirms City of Buenos Aires's ratings

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Fitch Ratings has today affirmed City of Buenos Aires's long-term foreign and local currency Issuer Default Ratings (IDR) at 'B'. Likewise, the 'B' rating on Buenos Aires's euro medium-term note (EMTN) program is affirmed. The Rating Outlooks remains Stable. The ratings are supported by strengths in the city of Buenos Aires' credit profile, including its large and diversified economy, an adequate liquidity position and the city's sustainable debt levels and manageable debt-service repayment schedule. The city's creditworthiness is also supported by financial flexibility, due to the fact that a majority portion of the city's total expenditure is financed with local sources (87%), the remainder coming from federal transfers. The City has met its debt obligations in a timely fashion. As of may 2008 the Series II and III were totally cancelled, after the total redemption of series V in July 2007, and currently Series I and IV remain outstanding under the EMTN Program. This rating is in line with Argentina's rating and also includes the possibility of new debt issuance of ARP 1.6 billion (USD 500 million). The general terms and conditions of the new financing were defined through the 2789 Law last July 2008. In this law the EMTN program was increased up to USD1,1 Billion, and estipulate that the debt can be denominated in local or foreign currency. The City is handling a issuance of around USD 250 MM with a 10 years tenor. The City's finances deteriorated in recent years due to current expense growth (personnel and services) that exceeded the rate of revenue growth. The challenge for the new administration that took office in December 2007 will be to manage its finances in the context of a higher level of indebtedness in the coming years. Fitch Ratings will monitor debt dynamics, revenue performance, and expense control, as well as evaluate the specific terms and conditions of the new issuance once announced. As of December 2007 the City maintains an operative balance level of ARP1.129 millions, that represents an improvement compared with the previous year. Notwithstanding it presents a financial deficit of ARP 336 millions, with a cash position of ARP 326 millions at the same data. The challenge for the City's administration will be to manage its finances in the context of a higher level of indebtedness in the coming years. During the first quarter (march 2008) the City shows a financial surplus of ARP 905 millions, representing 30% of total revenues, showing an important recovery compared with the same period of the previous year (+35%). Operative expenses are in line with the budget. 2008 Budget reflect the new administration's policy with some adjustments in revenues level and control and with reduced expenses. It presents an operative balance of ARP 1.466 millions, with a negative primary result (total revenues less primary expenses), of around ARP 1.184 millions. The financial result is projected to be negative around ARP $1.314 millions (11,1 % on Total revenues). This deficit responds mainly to higher capital expenses – to be financed through the new debt- and can be managed by the administration, for example sub executing the works. Total debt as of December 2007 is around ARP 1804 millions. The Total debt /total revenues ratio has been improving in the last years, with 32,7% in 2005, a 25,9% in 2006 and 19% in 2007. This is a favorable ratio compared with the average of the provinces. Considering a new issue of USD 500 millions, Fitch anticipates that this ratio could reach a level of 28%, which is an adequate ratio. In December 2007 the 2570 Law was promulgated, which created the "Infrastructure Social Fund" to finance specific public works (for housing, schools, and hospitals). The law allows the City to borrow up to ARP 1.6 billion to finance the Infrastructure Fund. Eduardo D'Orazio - Cintia Defranceschi: Buenos Aires - +(0054) 11 5235-8100. Alfredo Gomez Garza: México - +(0052) 81 8335-7179. Media Relations: Tyrene Frederick-Mack - New York - +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.