

# Fitch Upgrades Ratings for City of Buenos Aires to 'B'

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18 Aug 2006 4:01 PM (EDT) Fitch Ratings-Buenos Aires-18 August 2006: Fitch Ratings has upgraded the global scale foreign and local currency unsecured debt ratings, including the euro medium-term note (EMTN) program, of the City of Buenos Aires to 'B' from 'B-'. Fitch has also upgraded the city's foreign and local currency issuer ratings from 'B-' to 'B'. The Rating Outlook is Stable. The rating action followed the upgrade of the Argentinean sovereign rating, which was limiting the credit quality of the city. As of today, the city continues strengthening its credit profile, through the achievement of an adequate internal saving level, despite the expected increase in current and capital expenditures and the increase of debt service payments due to the initiation of amortization on Eurobonds series II and III. The city continues showing a strong financial situation due to its high liquidity position, sustainable debt levels and as well manageable debt repayment schedule. The main concerns regarding the City of Buenos Aires's credit profile are mainly risks associated with the federal government's economic policies - particularly exchange rate levels and capital controls. As of June 2006, the results indicate that budgetary surplus (after capital expenditures and debt services) reached the equivalent of US\$60 million (5% of total revenues). After two years of tight expenditure control and recovering revenues, which allowed the city to achieve a strong financial position, expenditures have increased mainly through salary increases and higher capital investment. Even so, the city has maintained fiscal stability and expects to end 2006 with a cash balance of approximately US\$360 million. According to conservative projections of the City, the fiscal situation reached as of June 2006 would be reverted at the end of the year when the total impact of the increase on salaries and the total expansion on capital expenditures were accounted (the city projects a raise of 41.7% in personnel expenditures and of 16.5% in capital expenditures). Consequently, the city estimates to reach a deficit before amortization payments of US\$50 million in 2006, which added to the amortization payments planned for the year, would imply a budgetary deficit of US\$180 million in 2006, to be funded with the current cash balance. Notwithstanding this situation, the city's cash balance position will allow it to meet 2007 debt services of approximately US\$157 million (US\$32 million in interests and US\$125 million of principal), representing 8.2% of 2005 current revenues, and to finance an expected budgetary deficit on that year. Total debt of US\$623.6 million as of June 2006 is comprised mostly by the EMTN program series 1 to 5 (US\$471 million) and debt with multi- and bilateral agencies (US\$111.7 million). Debt represents 24% of expected current revenues for 2006 and continues the trend of net debt reduction observed since 2003. As 82% of debt is denominated in foreign currency, exchange volatility remains the city's main risk in terms of financial performance. An update on the city's credit profile will be available shortly on the Fitch Ratings web site at '[www.fitchratings.com](http://www.fitchratings.com)'. Contact: Sofia Migueliz +(0054) 11 5235-8100, Argentina; or Alfredo Gomez Garza +(0052) 81 8335-7179, Mexico. Media Relations: Christopher Kimble, New York, Tel: +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](http://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.