

# Fitch Affirms Ratings for City of Buenos Aires

January 4, 2005

Fitch Ratings-Buenos Aires-January 4, 2005: Fitch Ratings has affirmed the 'B-' global scale foreign and local currency unsecured debt ratings, including the euro medium-term-note (EMTN) program, of the City of Buenos Aires. Fitch has also affirmed the 'B-' city's foreign and local currency issuer rating. The Rating Outlook is Stable. The ratings recognize strengths in the city's credit profile, including its continuing improvement in fiscal performance since 2003 after a four-year nationwide recession; its strong financial situation due to its high liquidity; its sustainable debt levels and well manageable debt service repayment schedule after the successful conclusion of the restructuring of the EMTN program in late February 2003; and favorable growth prospects supported by a large and diversified economy. City of Buenos Aires's ratings remain under pressure by risks that are more associated with the federal government's management of the national economy and public finances (e.g. exchange and transferring controls and currency devaluation) than with the city's specific risks. Finally, the ratings consider the city's ownership of the Bank of the City of Buenos Aires, one of the largest banking institutions in Argentina. After the negative impact of the nationwide economic crisis on city's fiscal and financial performance during the period 2000-2002, which stressed its cash flow liquidity especially in 2001, revenues and tax collections demonstrated a huge nominal growth during 2003 and 2004 under a context of stabilized inflation (rise of expected consumer prices for 2004 of only 6%, similar level than 2003), resulted in fiscal surplus in 2003 and 2004 (as of September). Furthermore, preliminary results indicate that budgetary surplus for 2004 (after capital expenditures and debt interest and principal payments) should reach the equivalent of US\$237 million (14.7% of total revenues), 54% higher than 2003's surplus result and similar in relative terms to pre-crisis's fiscal levels. Recovery in domestic demand and consumer confidence is evidenced by an estimated revenue growth of 23% for 2004 (in constant Argentine peso terms). By the other side, projected expenditure growth of 15.8% in constant peso terms for 2004, well below revenue growth, demonstrates a continuation of adherence to fiscal stability and is reflected on a higher internal saving (estimated on 29.5% of current revenues for 2004) and in a strong cash position. The city expects to finish year 2004 with a cash balance of approximately US\$315 million. Approved 2005 budget estimates a nominal revenues increase of 4% (expected GDP growth) and a raise of 17% in total expenditures, mainly in infrastructure spending where the city estimates to invest US\$267 million using its fiscal results and the funds maintained in an Specific Fund ('Fondo Anticiclico') fed by current cash balance. Based on above mentioned revenues and expenditures assumptions, along with a CPI of 7% and FX of 3.3 ARS/US\$, the city expects to reach a budgetary surplus of US\$35 million in 2005 (2.1% of estimated current revenues). City's fiscal prudence is the key issue given Buenos Aires's rigid budgetary structure, where revenues derived from economically-sensitive tax sources contribute 86% to the budget, and operating expenditures account for 55.3% of current revenues as of September 2004. Following the restructuring of the EMTNs, City of Buenos Aires's debt burden became manageable once again. Direct debt (excluding its subsidiary guaranty on the deposits of the Bank of the City of Buenos Aires) totaled US\$716.8 million as of September 2004, and comprised mostly the EMTN program series 1 to 5 (US\$541.1 million) and multi- and bi-lateral institution debt (US\$105.2 million). Debt is sustainable, with debt service claiming only 4.4% of current revenues, low payout for the next three years (9.4%) and total debt constituting 41.5% of expected current revenues for 2004, showing a positive trend comparing with indebtedness as of December 2003 and 2002 (56,1% and 81% respectively of current revenues). In 2005, it is due the first installment of principal associated with the EMTN program, increasing debt service to 7.3% of expected current revenues for this year, maintaining a comfortable level. For 2005, debt profile is expected to remain sustainable, representing approximately 35% of estimated current revenues for the year. As 83% of indebtedness is in foreign currency, exchange volatility constitutes the

main risk for city's fiscal and financial performance. An update on the city's credit and financial conditions is summarized in a new Fitch Subnational report: 'City of Buenos Aires' that will be available on the Fitch Ratings web site at '[www.fitchratings.com](http://www.fitchratings.com)'. Contact: Sofia Migueliz, +(0054) 11 4327-2444, Argentina; or Alfredo Gomez Garza +(0052) 81 8335-7179, Mexico. Media Relations: Kenneth Reed +1-212-908-0540, New York