FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Monterrey - 13 Sep 2023: 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 having a strong budget, no need to undertake external refinancing of debt, and sufficient liquidity.

KEY RATING DRIVERS

Risk Profile: Vulnerable

The 'Vulnerable' assessment, for all Argentine local and regional governments (LRGs), 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 also due to its strong estimated GDP per capita (2022: USD42,065) in the national (USD13,725) and international context. Even within a national complex and imbalanced fiscal framework for LRGs, compared with argentine LRGs and similar to other international peers (like Lagos

State, Nigeria), CBA has a high revenue autonomy due to its local economy based in the services sector, and therefore a low reliance on federal transfers.

The share of federal revenues that stem from a 'CC' sovereign counterparty decreased from 23.8% in 2020 to 16.1% in 2022 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; however, overall CBA maintains a high level of local revenues reflecting its resilient revenue structure and has expenditure flexibility for adjustments.

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 impact affordability. National GDP recovered 10.4% in real terms during 2021 and in 2022 a further 5.2%; economic inertia from recovery continued benefiting local tax collection. During 2022, the city's local taxes increased 11% in real terms (2021: 14.3%) and in June 2023 they continued increasing around 13.1%. CBA's economic importance translates into a high tax revenue/total revenue ratio of 76.9% in YE 2022.

Expenditure Sustainability: 'Weaker'

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 strengths and revenue growth above inflation and expenditure dynamics benefited CBA's budgetary performance during 2021 and 2022. In YE 2022 the city's operating balance was of 24.4% of operating revenues (2021: 16.5%) due to economic inertia and the city's prudent budgetary control and planning. June 2023 data shows a similar performance of around 29.5% compared with June 2022 (31.4%).

CBA has managed to contain opex growth relative to inflationary pressures. Fitch assumes that due to historically high inflation in 2023, re-composition of expenditures to a level closer to and above inflation will occur towards the medium term. CBA's operating balance is estimated to average around 16.9% in 2023-2026.

Expenditure Adjustability: 'Weaker'

For Argentine subnationals, infrastructure needs and expenditure responsibilities are deemed as high, with leeway to cut expenses viewed as low. CBA's capex/total expenditure averaged 15.5% during 2018-2022. Capex levels recovered to 15.1% in 2022 (2021: 12.7%) and continue reflecting CBA's capacity for some budgetary adjustments. In 2022, opex represented 80.2% of total expenditure and staff expenses remained controlled at 43.6%, close to the historical average of 43.7% for 2018-2022.

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. At YE 2022, direct debt totaled ARS363.8 billion, with an increase of around 33.9% relative to 2021 and further increased towards ARS489.3 billion in June 2023 due to currency depreciation. CBA has no significant U.S. dollar capital maturities until June 1, 2025 for USD296.6 million and other USD debt payments that together amount to around USD350 million in that year.

Liabilities and Liquidity Flexibility: 'Weaker'

For liquidity, Argentine LRGs rely mainly on their own unrestricted cash. In YE 2022, CBA's unrestricted cash totaled around ARS135.9 billion, and at July 2023 around ARS416.7 billion. CBA's liquidity coverage ratio averaged 2.0x during 2018-2022 and Fitch projects it to remain at adequate levels for 2023-2025.

Debt sustainability: 'aa' category

The city of Buenos Aires' operating balance has maintained a favorable performance, as inertia of operating revenues has been above operating expenditure due to high inflation and expenditure control, in YE 2022 the city's operating margin was of 24.4% of operating revenues. The score considers a 'aaa' primary payback ratio of 0.7x for 2025 under Fitch's rating case. Also, debt sustainability considers an override from the 'aa' actual debt service coverage ratio (ADSCR) of 2.7x in 2025, as in that year the city will have external debt capital payments from its Series 12 bond.

Debt sustainability 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 2018-2022 average of 1.7x.

DERIVATION SUMMARY

CBA's 'b+' SCP is derived from a 'Vulnerable' risk profile and 'aa' debt sustainability score. The SCP notch specific derivation also considers comparison with international peers, including Argentine, Turkish and Nigerian peers. Fitch does not apply any asymmetric risk or extraordinary support from upper-tier government. CBA meets Fitch's criteria requirements to be rated at 'B- ', which is above the current sovereign 'CC' foreign-currency rating. CBA's ratings are capped by Argentina's 'B-' Country Ceiling, which results in an IDR of 'B-'. The short-term rating of 'B' is derived from CBA's Long-Term IDR.

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'

Debt sustainability: '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 2018-2022 figures and 2023-2025 projected ratios. The key assumptions for the scenario include the following:

--Operating revenue average growth of 126% for 2023-2025; assuming growth below average inflation towards the medium term to stress operating margins;

--Operating expenditure average growth of 135.4% for 2023-2025; assuming growth above average inflation towards the medium term to assume real term expenditure re-composition;

--Average capital expenditure/ total expenditure levels of around 15.4%; similar to the 2018-2022 historical average of 15.5%;

--Cost of debt considers non-cash debt movements due to currency depreciation with an average exchange rate of ARS301.1 per U.S. dollar for 2023, ARS775.8 for 2024 and ARS1,746.1 for 2025;

--Consumer price inflation (annual average % change) of 124.1% for 2023, 142% for 2024, 122% for 2025.

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 regulatory restrictions to access foreign exchange by LRGs. The SCP could be lowered in the 'b' category if CBA's operating balance and liquidity deteriorate triggering a sustained actual debt service coverage level below 1.0x and if the payback ratio exceeds 9.0x resulting in a debt sustainability score lower than 'a' in Fitch's rating case.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

CBA's ratings are capped by Argentina's Country Ceiling.

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 https://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-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

International Local and Regional Governments Rating Criteria (pub. 03 Sep 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Buenos Aires, City of	EU Endorsed, UK Endorsed

UNSOLICITED ISSUERS

Buenos Aires, City of (Unsolicited)

With Rated Entity or Related Third Party Participation	Yes
With Access to Internal Documents	Yes
With Access to Management	Yes

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UNSOLICITED ISSUERS

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Buenos Aires, City of	-	Short Term Issuer Default Rating	Unsolicited
Buenos Aires, City of USD 2.29 bln euro medium-term note programme	-	Long Term Rating	Unsolicited
Buenos Aires, City of USD 890 mln 7.5% Series 12 notes 01-Jun-2027	XS1422866456	Long Term Rating	Unsolicited
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