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City of Buenos Aires' New Senior Unsecured Notes For Up To \$890 Million Rated 'B-'

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[View Analyst Contact Information](#)

BUENOS AIRES (S&P Global) May 19, 2016 - S&P Global Ratings today assigned its 'B-' issue-level rating on the City of Buenos Aires' (CABA: B-/Stable/--) senior unsecured notes for up to \$890 million. The amortizing notes will be denominated in dollars, and the city will use the proceeds for its ambitious infrastructure plans and for the refinancing of its debt, including the offer to purchase up to \$390 million of the outstanding 9.95% notes due 2017 (Bono Tango Series 10). We expect that CABA will pay any remaining outstanding Series 10 notes in accordance to their original terms and conditions.

We don't view this new debt as harmful to the city's financial profile. We expect that CABA's low debt, despite significant exposure to the exchange rate risk, will continue to support the city's credit profile. Including the \$890 million issuance, we expect CABA's debt to reach ARP44.5 billion by the end of 2016, or nearly 34% of its operating revenues. Although the city's debt will increase in nominal terms from ARP31.4 billion as of the end of 2015, debt--relative to operating revenues--will fall from 39%. This stems from our expectations that higher inflation will compensate for the impact of new net borrowings and currency depreciation, which we expect to be less than in 2015, on CABA's operating revenues.

Additionally, as per our criteria "[Rating Implications of Exchange Offers and Similar Restructurings, Update](#)," published May 12, 2009, we don't consider the offer to purchase the Series 10 notes as tantamount to default because we believe it doesn't meet the conditions to be considered as such. Given that the city is offering a cash premium of \$1,055 for every \$1,000 to purchase the notes, plus accrued and unpaid interest, the offer introduces an incentive to compensate investors for their loss of future cash flows.

The 'B-' foreign currency rating on CABA is one notch below its 'b' stand-alone credit profile (SACP). The SACP isn't a rating but a means of assessing the intrinsic creditworthiness of a local and regional government (LRG) under the assumption that there is no sovereign rating cap. The SACP reflects the combination of our assessment of an LRG's individual credit profile and the institutional framework in which it operates. All Argentinean LRGs operate under the institutional framework that we view as very volatile and unbalanced. However, we consider that the city's credit profile is stronger than those of its domestic peers. According to the latest data, CABA's GDP per capita is 3.2x greater than that of Argentina. In addition, the

city has consistently posted operating surpluses above 8% of operating revenues, which it's likely to do so again in 2016. Such high operating surpluses have allowed CABA to maintain higher capital expenditures (capex) than those of its domestic peers. High capex, budgetary flexibility thanks to own-source revenues that will likely account for more than 75% of total revenues in 2016, and a strong credit culture support the city's creditworthiness. In addition, the strong political ties between the city government under mayor Horacio Larreta, and the national government led by a former mayor of Buenos Aires, Mauricio Macri, bolster CABA's credit quality, in our opinion.

The stable outlook on the city mirrors the stable outlook on the sovereign's local currency rating. The outlook reflects renewed dialogue between the city--as well as other Argentinean LRGs--and the federal government about tackling fiscal and economic challenges in the short to medium term. If we were to raise transfer and convertibility (T&C) assessment and local currency rating on the sovereign, an upgrade of the city is possible within the next 12 months. On the other hand, we could downgrade CABA if the T&C assessment deteriorates or if we were to lower the sovereign local currency rating. However, according to our base-case for 2016, such a scenario is unlikely.

RELATED CRITERIA AND RESEARCH

[Methodology: Rating Non-U.S. Local and Regional Governments Higher Than The Sovereign](#), Dec. 15, 2014

[Methodology For Rating Non-U.S. Local And Regional Governments](#), June 30, 2014

[Methodology And Assumptions: Ratings Above The Sovereign--Corporate and Government Ratings](#), Nov. 19, 2013

[Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs](#), Oct. 15, 2009

[Use of CreditWatch and Outlooks](#), Sept. 14, 2009

[Methodology: Criteria for Determining Transfer And Convertibility Assessments](#), May 18, 2009

[Rating Implications of Exchange Offers and Similar Restructurings](#), May 12, 2009

RATINGS LIST

City of Buenos Aires

Issuer credit rating B-/Stable/--

Rating Assigned

City of Buenos Aires

Sr. unsec. notes B-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located

in the left column.

Primary Credit Analyst: Julia L Smith, Buenos Aires (54) 114-891- 2186;
julia.smith@spglobal.com
Secondary Contact: Delfina Cavanagh, Buenos Aires (54) 114-891-2153;
delfina.cavanagh@spglobal.com

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