

RATING ACTION COMMENTARY

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

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Fitch Ratings - Monterrey - 14 Sep 2022: 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 and Short-Term IDRs at 'B'. Fitch also affirmed the city's euro medium-term note program (EMTN) and series 12 7.50% senior unsecured notes at 'B-'. CBA's stand-alone 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 the 'CCC'/Under Criteria Observation (UCO) sovereign rating; 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 Rating Factor (KRF) 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 (USD32,094) in the national (USD10,771) 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 'CCC' sovereign counterparty decreased from 23.8% in 2020 to 17.3% in 2021 due to Federal Law no. 27606 that returned CBA's federal co-participation coefficient share to 1.4%. The measure affects federal revenue predictability and risk, but overall CBA's recovery of local revenues in 2021 and 2022 reflect its strong revenue structure.

Revenue Adjustability: 'Weaker'

For Argentine LRGs, Fitch considers 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 10.3% in real terms during 2021. In 2022, economic inertia from recovery is still benefiting local tax collection. During 2021, the city's local taxes increased 14.3% in real terms and in June 2022 they continued increasing around 11.8%. CBA's economic importance translated into a high tax revenue/total revenue ratio of 78% in YE 2021.

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. The city's operating balance improved to 16.5% of operating revenues (2020: 9.3%). Due to economic inertia and the

city's prudent budgetary control and planning, June 2022 data shows a continued improvement in operating margins to around 31.4% (compared with 24.1% in June 2021).

CBA has managed to contain opex growth relative to inflationary pressures. Fitch assumes that due to historically high inflation in 2022, re-composition of expenditures to a level closer to inflation will occur towards the medium term. CBA's operating balance is estimated to average around 8.9% in 2022-2024.

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 19.6% during 2017-2019 and decreased to 11.5% in 2020 due to the pandemic. Capex levels recovered to 12.7% in 2021 and continue reflecting CBA's capacity for some budgetary adjustments. In 2021, opex represented 80% of total expenditure and staff expenses remained controlled at 43.4%, close to the historical average of 44.2% for 2017-2020.

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 'CCC' 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 2021, direct debt totaled ARS271.7 billion, with an increase of around 7.6% relative to 2020 due to currency depreciation. During 2021 CBA timely amortized its Feb. 19, 2021 capital maturity of USD170 million from its series 11 bond that matured on that date.

CBA's above average local market access and medium-term debt planning allowed the city's percentage of unhedged foreign currency debt to decrease from 95% in 2014 toward 60% at YE 2021. 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 2021, CBA's unrestricted cash totaled around ARS42.3 billion (2020: ARS29.4 billion), and at June 2022 around ARS63.2 billion. CBA's liquidity coverage ratio averaged 1.6x during 2017-2021 and Fitch projects it to remain mainly unchanged for 2022-2024.

Debt sustainability: 'aa' category

The score considers a 'aaa' primary payback ratio of 3.6x for 2024 under Fitch's rating case. Also, the 'aaa' fiscal debt burden of 18.2% and an override from the 'aa' actual debt service coverage ratio (ADSCR) of 1.3x also towards 2024, considering the city's local economic recovery, budgetary balance, and smoother debt maturity profile, which presents no external refinancing risks until 2025. The projected ADSCR remains aligned with the city's 2017-2021 average of 1.4x.

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, Ukraine 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 'CCC'/UCO rating, the Long-Term Foreign Currency IDR is 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 scenario is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on the 2017-2021 figures and 2022-2024 projected ratios. The key assumptions for Fitch's rating case scenario include:

--Operating revenue average growth of 59.5% for 2022-2024;

--Operating expenditure average growth of 66.5% for 2022-2024;

--Average net capital balance of around minus ARS119.173 billion during 2022-2024;

--Cost of debt considers non-cash debt movements due to currency depreciation with an average exchange rate of ARS135.4 per U.S. dollar for 2022, ARS222.6 for 2023 and ARS346.5 for 2024;

--Consumer price inflation (annual average % change) of 68.3% for 2022, 66.3% for 2023, 54.5% for 2024.

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 FX 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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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](#)

FITCH RATINGS ANALYSTS

Natalia Etienne Lambreton

Director

Primary Rating Analyst

+52 81 4161 7082

natalia.etienne@fitchratings.com

Fitch Mexico S.A. de C.V.

Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial, Monterrey 64920

Diego Estrada

Associate Director

Secondary Rating Analyst

+52 81 4161 7079

diego.estrada@fitchratings.com

Guilhem Costes

Senior Director

Committee Chairperson

+34 91 076 1986

guilhem.costes@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

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

ADDITIONAL DISCLOSURES

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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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|--|--------------|------------------|-------------|
| 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- | XS1422866456 | Long Term Rating | Unsolicited |

| Jun-2027 ENTITY/SECURITY | ISIN/CUSIP | RATING TYPE | SOLICITATION STATUS |
|--|--------------|---|---------------------|
| Buenos Aires, City of | - | Long Term Issuer Default Rating | Unsolicited |
| Buenos Aires, City of USD 890 mln 7.5% notes 01-Jun-2027 | US11942GAD43 | Long Term Rating | Unsolicited |
| Buenos Aires, City of | - | Stand-Alone Credit Profile | Unsolicited |
| Buenos Aires, City of | - | Local Currency Short Term Issuer Default Rating | Unsolicited |
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