Fitch Upgrades City of Buenos Aires, Argentina to 'B-'

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Fitch Upgrades City of Buenos Aires, Argentina to 'B-' 17 Dec 2003 9:33 AM (EST) Fitch Ratings-New York-December 17, 2003: 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 'CCC'. Fitch has also upgraded the city's foreign and local currency issuer rating to 'B-' from 'CCC'. The Rating Outlook is Stable for all ratings. The upgrade recognizes the city's resilience and improvements in fiscal performance following a four-year nation-wide recession, its manageable debt levels and sustainable debt service repayment schedule after the successful completion of the restructuring of the EMTN program in late February 2003, and favorable growth prospects supported by a large and diversified regional economy and autonomous status as the federal capital of the Republic of Argentina. Buenos Aires's ratings remain under pressure by its limited budget flexibility and risks that are more directly associated with the federal government's management of the national economy and public finances than with the city. 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. Reversing a two-year trend of budgetary deficits, preliminary results indicate that budgetary surplus for 2003 (after capital expenditures and debt interest and principal payments) should reach the equivalent of US$103.8 million (7.6% of total revenues). Recovery in domestic demand and consumer confidence is evidenced by strong revenue growth of 37% (in current Argentine peso terms). Notably, inflationary pressures continue to stabilize, with consumer prices rising only 1.9% during the first ten months of 2003, down from 36.8% for the same period of 2002. Projected expenditure growth of 12.4% in current peso terms for 2003, well below revenue growth, demonstrates a continuation of adherence to fiscal stability. Incumbent mayor Anibal Ibarra was reelected for a new four-year term and has announced initiatives to increase infrastructure spending. Therefore, the city's continual resolve to fiscal prudence is all the more important given Buenos Aires's rigid budgetary structure, where revenues derived from economically-sensitive tax sources contribute fully four-fifths (82.1%) to the budget, and personnel expense claims over half (55.7%) of current expenditures. Following the restructuring of the EMTNs, 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$724.3 million as of September 2003, and comprised mostly the EMTN program series 1 through 5 (US$525.7 million) and multi- and bi-lateral institution debt (US$105.6 million). These debts are sustainable, with interest expense claiming only 4.3% of current expenditures and total debt constituting 55.7% of total revenues. As the first installment of principal associated with the EMTN program will not come due until July 2005, the debt payout for the next three years (10.4%) is manageable and a welcome relief in the current credit environment for all Argentine borrowers. Notably, the city's debt restructuring was completed without a reduction in principal, a signal that were it not for the sovereign crisis of 2001, the city's debts would have remained sustainable. To date, the City of Buenos Aires remains the first high-profile public sector entity in Argentina to complete negotiations with global creditors since the sovereign default of 2001. The city has differentiated itself by choosing not to follow the nation in the default decision and by signaling from the start of the crisis a willingness to resume payments on negotiated conditions with noteholders' consent. Contact: Gersan R. Zurita +1-212-908-0318, Ricky Wai +1-212-908-0315, New York; Lorna Martin +54-11-4327-2444, Buenos Aires. Media Relations: Matt Burkhard +1-212-908-0540, New York.