



Tagging Info

## Fitch Assigns Initial 'BBB-' Rating to Peru's Metropolitan Municipality of Lima; Outlook Stable

Ratings

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Fitch Ratings-Monterrey-21 September 2011: Fitch Ratings has assigned the following initial ratings for the Metropolitan Municipality of Lima (Lima):

--Foreign Currency Long-term at 'BBB-';  
--Local Currency Long-term at 'BBB-'.

The Rating Outlook is Stable.

The ratings of Lima reflects the city's dynamic economy (being the economic and political capital of Peru), the municipality's good fiscal potential, and the good oversight by the national government which sets limits on borrowing levels and debt servicing. Nevertheless, the rating also reflects the limited fiscal flexibility of the municipality and evolving institutional relationship.

Despite a significant projected increase in debt to help finance capital projects, the Stable Outlook factors in an expected increase in tax revenues which ensures that the debt metrics and debt burden remain manageable and within the present rating category.

Lima accounts for around 47% of Peru's GDP and for 30% of its population. As such is the most important subnational administration in Peru. The metropolitan municipality has a special status within the administrative system in the country.

Metropolitan Lima's population has increased substantially over the years to over 8.2 million in 2010 from 6.4 million in 1993, principally due to the economic attractions of the city. This has allowed for a significant increase in the tax base and fiscal revenues have risen by more than 380% in the past five years. Taxes, of which the most important is the property transfer tax, now represent close to 44% of operating revenues (2006: 19%) and this proportion is expected to remain unchanged in the near future. Nevertheless, the rates of the main taxes are established by the national government and the municipality therefore does not have any fiscal flexibility in this area.

Budgetary performance has been sound with significant reserves being built which has helped to finance the deficits reported in the last two years on a budgetary basis; recourse to debt has therefore been limited. Operating margins of around 38% are strong and Fitch expects that margins will remain around this level in the next three years.

The growth in population has also led to significant traffic congestion in the city and the local administration has placed considerable focus in improving mobility within the metropolitan area. Lima's responsibilities are largely in the area of public transportation and local infrastructure and therefore they are very focused on investments. This is also reflected in the structure of expenditure for the city, with around 45% of the total expenditure being investment related. A number of infrastructure projects are planned with a total investment of around PEN 2 billion in the 2011 - 14 period, of which around 43% is expected to be debt funded. This will mean that debt as a proportion of current revenue is estimated to increase from the present 45% to around 55% by the end of 2013. This level of debt burden is manageable particularly considering the expected growth in Lima's tax base. Presently all debt servicing has priority payment through formal and administrative trust deeds, which is a positive rating factor. Nevertheless, Fitch would expect that any unsecured bond issuance to also have the benefit of a trust to ensure that all financial obligations rank pari passu; if this is not the case, the bond issue may have a lower rating than the issuer.

Although Lima owns a number of municipal companies and entities, these do not pose a contingent liability for administration at the moment as their level of debt is low.

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Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'

**Applicable Criteria and Related Research:**

--'Tax-Supported Rating Criteria' (Aug. 15, 2011);

--'International Local and Regional Governments Rating Criteria outside United States' (April 19, 2011).

**Applicable Criteria and Related Research:**

Tax-Supported Rating Criteria

International Local and Regional Governments Rating Criteria - Outside the United States

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