

Little upside on BUEAIR 27 from Supreme Court ruling

- **The Supreme Court granted an injunction raising BA City's share in the federal tax pool**
- **However, the increase in revenues could be compensated by a decrease in local taxes**
- **We expect the news to have a modest impact on the price of BUEAIR 27s**

The Supreme Court granted an injunction to raise the Buenos Aires City's share in the federal tax pool to 2.95% from an estimated 1.8% in 2022. Back in 2020, President Alberto Fernández had axed BA City's participation in the tax-sharing scheme, from the 3.5% agreed in the 2017 Fiscal Pact to 1.4% plus a lump sum accounting for the transfer of the local police to the city's budget. This lump sum is updated on a quarterly basis based on a coefficient that has a 20% weight on past inflation and 80% on wage increases awarded to police forces. In 2022, we estimate that the lump sum amounted to 0.4% of the national tax pool.

The Supreme Court's decision would lead to a 1.15ppts increase in BA City's effective share of federal taxes (from 1.8% to 2.95%), implying a c9% boost to the city's revenues. However, the fallout on revenues could be neutralised if Mayor Horacio Rodríguez Larreta lowers taxes, as he had pledged to do in 2020 if the Supreme Court reinstated the previous tax-sharing coefficient. To compensate for the foregone revenues, in 2020 the city's authorities had raised taxes under the premise of reducing them if the Supreme Court ruled against the measure enacted by the national government.

In our view, it is likely that Mayor Larreta could cut taxes as this would be supportive of his presidential ambitions. Larreta is currently one of the favourites to win the November 2023 presidential election, inasmuch as he earns the presidential nomination of Juntos por el Cambio in the August primaries. Thus, in light of an expected modest fiscal impact, we do not see the news having much upside on the price of the 27s.

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