

Fitch Affirms Argentina's IDRs at 'B'; Outlook Stable

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Fitch Ratings-New York-08 May 2012: Fitch Ratings has affirmed the Issuer Default Ratings (IDRs) and Country Ceiling for Argentina as follows: --Foreign currency IDR at 'B'; --Local currency IDR at 'B'; --Foreign currency short-term IDR at 'B'; --Country ceiling at 'B'. The Rating Outlook remains Stable. Argentina's 'B' ratings are supported by the country's strong structural factors, reflected in its high per capita income and social indicators. Balanced external current account and adequate international reserves position help the ratings as well. Argentina's ratings are constrained to the 'B' category, due to the sovereign's weak repayment record, limited financing flexibility and an inconsistent macroeconomic policy mix that has increased the country's inflation rate and macroeconomic volatility. Fitch notes that Argentina data transparency is relatively weak and has continued to deteriorate. The incumbent's landslide victory in October 2011 presidential elections intensified the concentration of power in the office of the president, a risk for further unpredictable economic policies. 'Policy uncertainty in Argentina remains high as shown by the recent measures to tighten capital controls and nationalize YPF,' said Lucila Broide, Director at Fitch Ratings' Sovereign group. There are some mitigating rating factors that are likely to continue to support Argentina's 'B' ratings. For example, the near 50% of government debt that is held by intra-public sector institutions reduces rollover risk. Also, debt dynamics have benefited from primary surpluses and a strategy to repay external debt and increase holdings of local currency denominated obligations at negative real rates. According to Fitch, growth is expected to slow to 4% on average over the next two years from 8.9% 2011(as reported by INDEC). An expansionary fiscal and monetary stance and high soy prices will uphold the economy as consumption loses dynamism and the economy struggles with tighter capital controls. Fitch expects the inflation rate to remain high without tighter macroeconomic policies. While the recent modification to the central bank charter has temporarily relaxed the financing constraints of the sovereign, it increases the likelihood of protracted high inflation going forward. Argentina's external accounts remain vulnerable to terms of trade and confidence shocks. However, 'Fitch believes that authorities have the capacity to manage currency pressures as long as soy prices remain supportive and capital and import controls are effective in stabilizing international reserves,' added Broide. A significant erosion of international reserves, sustained loss of growth momentum and a more challenging fiscal and financing outlook would increase downward pressures on the rating. Conversely, Fitch will positively view improvements in the overall policy stance that leads to sustainable growth and greater financing flexibility. Transparency of official data and normalization of relations with creditors and multilaterals would also buttress confidence. Contact: Primary Analyst Lucila Broide Director +1-212-908-0898 Fitch, Inc. One State Street Plaza New York, NY 10004 Secondary Analyst Santiago Mosquera Director +1-212-908-0271 Committee Chairperson Richard Fox Senior Director +44 (0) 20 3530 1444