Fitch Downgrades Argentina's Local Currency IDR to 'B-'

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Fitch Ratings-New York-18 December 2008: Fitch Ratings has today downgraded the Republic of Argentina's ratings as follows: --Long-term local currency Issuer Default Rating (IDR) to 'B-' from 'B'; --Country Ceiling to 'B' from 'B+'; --Performing bonds in foreign and local currency governed by Argentine law to 'B-/RR4' from 'B/RR4'; The Rating Outlook on the local currency IDR is Stable. In addition, Fitch has affirmed the following ratings: --Long-term foreign currency IDR remains in Restricted Default ('RD'); --Short-term IDR at 'B'; --Performing bonds in foreign currency governed by foreign law at 'B-/RR4'; --Defaulted senior unsecured notes at 'CC/RR4'; --Defaulted collateralized Brady bonds at 'CCC-/RR3'. The downgrades reflect Fitch's concerns about the challenges ahead with respect to meeting Argentina's fiscal and external financing requirements over Fitch's rating horizon. 'Lower economic growth, falling commodity prices and limited funding sources have increased the risk of Argentina facing difficulties in meeting significant fiscal and external financing needs over the next two years,' said Erich Arispe, Associate Director in Fitch's Latin America Sovereign Group. The government's inadequate policy response to the global financial crisis has heightened concerns about the sustainability and credibility of the current policy framework as well as reduced available sources of financing for the sovereign against a backdrop of already limited access to international capital markets and multilateral lenders. Additionally, intensifying balance of payments pressures, from both a decline in agricultural commodity prices and capital outflows have put pressure on the peso and reserves, which will result in a weaker external position. Political calculations due to the proximity legislative elections, scheduled for 2009, will likely prevail over the implementation of sustainable and credible policies to reduce the country's vulnerabilities. Economic growth is likely to decelerate sharply in 2009 to 1.6% due to declining terms of trade, external demand and the current administration's inadequate policy response which has amplified the external shock on the domestic economy through a deterioration of investor and consumer confidence and higher domestic interest rates. 'The government's attempts to continue to provide a strong fiscal stimulus will be constrained by slower revenue growth and non-negligible financing needs', said Arispe. Government debt amortizations, estimated at 6.8% and 5.4% of GDP in 2009 and 2010, respectively, are almost triple the median for sovereigns rated 'B' by Fitch. Although private pension system nationalization is expected to assist the government in meeting its financial obligations in the next 12 to 18 months, the measure will also have long-term costs for the Argentine economy and further reduces the available sources of funding for the government. The government is likely to have to rely almost completely on the maintenance of a high primary surplus and intra-public sector financing for the forecast period. Increased investor risk aversion, lower liquidity in the domestic market as a result of the pension system's nationalization and constraints for further Venezuelan financing leave little room for policy slippage. Moreover, challenges for policy makers could increase in the event of sharper than anticipated economic slowdown or capital flight. Fitch maintains its view that a normalization of relations with creditors is a factor for removing the long-term foreign currency IDR out of 'RD'. Fitch would remove the 'RD' if Argentina were to open a new exchange offer for holdouts that was broadly accepted without incurring the risk that proceeds or debt service that would be attached by foreign courts. Downward pressures on Argentina's local currency IDR could intensify if fiscal slippage is greater than anticipated. Conversely, liability management operations such as voluntary debt exchanges, Paris Club repayments or a potential reopening of the debt exchange for holdout creditors could ease Argentina's financing prospects and stabilize its ratings. Contact: Erich Arispe +1-212-908-9165 or Theresa Paiz-Fredel +1-212-908-0534, New York. Media Relations: Tyrene Frederick-Mack, New York, Tel: +1 212-908-0540, Email: tyrene.frederick-mack@fitchratings.com. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.