Fitch Affirms Argentina's Local IDR at 'B'; Foreign IDR Remains at 'RD'

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New York: Fitch Ratings today affirmed Argentina's sovereign ratings as follows: --Long-term local currency IDR at 'B'; --Country ceiling at 'B+'; --Performing bonds in foreign and local currency governed by Argentine law at 'B/RR4'; --Performing bonds in foreign currency governed by foreign law at 'B-/RR4' --Short-term foreign IDR at 'B'; --Long-term foreign currency IDR remains at 'RD'. The Rating Outlook on the local currency IDR is Stable. Fitch also affirms bonds currently in default that were not tendered in the 2005 distressed debt exchange at 'CC/RR4' for senior unsecured notes and 'CCC-RR3' for collateralized Brady bonds. Argentina's ratings reflect the country's twin surpluses, as well as its manageable financing requirements for the forecast period through a combination of intra-public sector financing, private placements and local issuances. However, with limited access to international capital markets, Argentina could encounter refinancing difficulties if market conditions deteriorate sharply. In an environment of increasing risk aversion, the lack of credibility of official inflation data and concerns about the sustainability of the current policy framework could limit access to local bond markets as well, given the importance of non-resident investors. "A less favorable external environment combined with the structural limitations of the domestic economy is likely to weigh on growth prospects and erode the country's twin surpluses in the forecast period," said Erich Arispe, Associate Director in Fitch's Latin America Sovereign Group. "As a result, the incoming administration has the important task of adjusting the current economic model through the rationalization of fiscal expenditure, policies to address both inflationary pressures and transparency issues regarding official data, and the normalization of relations with external creditors to increase the availability of financing sources," added Arispe. Perceptions of higher than officially reported inflation could endanger future inflation dynamics, negatively affect investment and savings decisions, and make the rationalization of fiscal expenditure more difficult. The greater weight of salaries, pensions and transfers to the private sector (including subsidies) have increased the inflexibility of government expenditure, while revenues remain highly pro-cyclical and include distortionary taxes. Furthermore, even after the 2005 debt restructuring, and four years of fiscal surpluses and record high economic growth, public and external debt ratios are among the highest across rated sovereigns. Argentina's public debt, at 70% of GDP in 2007, doubles Fitch's 'B' median. The country's net external debt relative to current external receipts (CXR) is the highest of all speculative grade sovereigns at 233%. External liquidity is improving as international reserves grow, but it is still worse than most 'B' rated sovereigns. Improvement in the policy framework could buttress the country's creditworthiness. Reduced interference with price mechanisms as well as an improved climate for investment in productive sectors, through enhanced perceptions about rule of law and contract enforcement, would help sustain high rates of growth over the medium-term. This, in turn, would accelerate the convergence of key government and external debt ratios toward peer medians. Finally, a tightening in monetary policy, rather than heterodox responses to inflation and a reduced reliance on distortionary export and financial transaction taxes, would also support investor confidence. Fitch maintains its view that a normalization of relations with creditors is a factor for removing the long-term foreign currency IDR out of Restrictive Default. Fitch would remove the 'RD' if Argentina were to open a new exchange offer for holdouts that was broadly accepted or if it could resume regular bond issues in international capital markets, without incurring the risk that proceeds or debt service that would be attached by foreign courts. Continued access to financing in local markets from non-resident investors would also be viewed favorably. Contact: Erich Arispe +1-212-908-9165, or Theresa Paiz-Fredel +1-212-908-0534, New York Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. 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.