Fitch Upgrades Argentina Sovereign Bonds - Teleconference Wed, 08-02

1 de agosto de 2006

01 Aug 2006 2:51 PM (EDT) Fitch Ratings-New York-01 August 2006: Fitch Ratings has upgraded the following sovereign ratings for Argentina: --Performing bonds in foreign and local currency governed by Argentine law to 'B' from 'B-'; --Performing bonds in foreign currency governed by foreign law to 'B-' from 'CCC+'; --Long-term Local Currency Issuer Default Rating (LTLC IDR) to 'B' from 'B-'; --Country Ceiling to 'B+' from 'B'. The Rating Outlook on the LTLC IDR is Stable. The ratings on bonds currently in default that were not tendered in last year's distressed debt exchange are unchanged at 'CC/Recovery Rating (RR) 4' for senior unsecured notes and 'CCC-/RR3' for collateralized Brady bonds. The Long-term Foreign Currency Issuer Default Rating (LTFC IDR) remains at Restrictive Default (RD). The rating actions reflect reductions in government financing requirements and favorable near-term economic prospects. Debt amortization requirements through end-2007 are modest compared with those of other speculative grade sovereigns, and refinancing them with new local market issues and proceeds from an expected budget surplus appears feasible. Small as its near-term requirements are, though, Argentina could still encounter refinancing difficulties if international market conditions deteriorate sharply because most demand for local issues has come from non-residents. 'Our confidence in Argentina's creditworthiness over the next 18 months has increased, though uncertainty about how the credit will evolve in 2008 and beyond constrains the rating from moving higher at this time,' said Morgan C. Harting, Fitch Senior Director and lead sovereign analyst for Argentina. General government debt is forecast to decline from 80% of GDP at end-2006 to about 75% by end-2007 because of continued economic growth and fiscal balance. But economic growth is expected to slow to about 3% in 2008 as the effects of heterodox economic policies become more evident on the supply side. 'As economic growth slows, the government balance is likely to shift from a surplus into deficit, and the trend improvement we've seen in debt dynamics may stall unless there is a more appropriate policy response.' Argentina's public and external debt ratios are among the highest across rated sovereigns, even after the large haircut obtained from bondholders in last year's debt exchange. Within the 'B' range, only Lebanon (LTFC IDR 'B-') and Cape Verde (LTFC IDR 'B+') are expected to have higher end-2006 ratios of general government debt-to-GDP. Argentina's net external debt relative to broad exports is higher than for all other speculative grade sovereigns save Malawi (LTFC IDR 'CCC'). External liquidity is improving as international reserves grow, but it is still worse than for most 'B' sovereigns. 'Future changes in the ratings are likely to be driven by changes in economic policies,' said Harting. 'If authorities move to allow prices and resource allocation to be determined more by market forces, and if they improve perceptions about the stability of contracts and the rule of law, economic prospects could improve markedly.' Price controls and export restrictions have been imposed to contain inflation pressures, though these have had a deleterious effect on investment in the industrial sector and inflation has nonetheless reached one of the highest rates of all rated sovereigns. Ongoing legal disputes have also inhibited investment, particularly in utilities and by foreign investors. Undoing these unorthodox microeconomic policies would underpin more effective monetary policy management and also support the credit. Longer term fiscal sustainability would also be supported by reducing the Treasury's reliance on distortionary export and financial transactions taxes. Argentina must normalize its relations with creditors in order to bring its LTFC 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 would be attached by foreign courts. 'Having regular access to the international markets again would broaden the government's potential sources of financing and be an important support for our assessment of fiscal sustainability.' To participate in the teleconference, U.S. and Canadian participants should call

+1-877-241-2557; Latin American and other international participants should dial +1-706-643-7396 five minutes prior to the 10:00 a.m. EDT start time and give the title of the call 'Argentina Sovereign Upgrade,' or the call leader name, 'Morgan Harting.' To ensure that sufficient telephone lines are available for all companies, use internal conferencing capabilities if available. Interested parties who are not available for the teleconference will be able to hear a replay of the call starting Wednesday, August 02, at 1:00 p.m. EDT until August 09 at 11:59 p.m. EDT. U.S. and Canadian listeners should dial +1-800-642-1687; Latin American and other international listeners should dial +1-706-645-9291. For the replay, you must use the Reference Number '3948846'. Contact: Morgan C. Harting, CFA +1-212-908-0820 or Shelly Shetty +1-212-908-0324, 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.