# Fitch Rates New Argentine Government Bonds; Upgrades Country Ceiling

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Fitch Ratings, the international ratings agency, has assigned the following ratings to the US$35 billion in bonds Argentina issued as part of its debt exchange: --Par bonds in foreign currency issued under foreign law 'CCC+'; --Par bonds in foreign currency issued under Argentine law 'B-'; --Par bonds in local currency issued under Argentine law 'B-'; --Discount bonds in foreign currency issued under foreign law 'CCC+'; --Discount bonds in foreign currency issued under Argentine law 'B-'; --Discount bonds in local currency issued under Argentine law 'B-'; --Quasi par bonds in local currency issued under Argentine law 'B-'. At the same time, Fitch has upgraded the following ratings: --Country ceiling to 'B' from 'B-'; --Short-term foreign currency to 'B' from 'C'. Fitch also affirmed the following ratings: --Bodens in local currency 'B-'; --Local and foreign currency bonds eligible but not tendered in the debt exchange 'D'; --Long-term foreign currency issuer default rating 'DDD'. Additionally, Fitch assigned 'B-' ratings to Bodens in foreign currency. The Rating Outlook on the non-default ratings is Stable. 'The ratings on the new bonds reflect Fitch's expectation that Argentina should be able to meet debt service obligations over the next 18-24 months assuming an adequate fiscal stance is maintained, that it can fully refinance debt coming due in the local market, and that some new disbursements are made by multilateral lenders. The margin of maneuver in public finances will remain tight for the foreseeable future, however, leaving them vulnerable to confidence shocks,' said Morgan C. Harting, Fitch sovereign analyst for Argentina. Fitch believes that until relations with holdouts are normalized, prospects for multilateral financing will be constrained. Furthermore, potential claims by holdouts against the government will pose an ongoing risk that payments on new bonds could be exposed to attachment by foreign courts. Assuming near-term financing needs are covered, government debt could continue on a declining path over the near term as a result of economic growth, real exchange rate appreciation and a primary budget surplus. Fitch expects growth to exceed 6% this year and that the general government primary balance will equal about 3.7% of GDP. The peso is expected to appreciate in real terms mostly due to rising inflation, which Fitch believes could reach 10% by year-end. Above-average growth will become more difficult to sustain relatively soon because of supply bottlenecks, particularly in the energy and gas sectors. Concerns in the private sector about regulatory certainty and macroeconomic stability are also limiting long-term investment, further dampening economic growth potential. As activity slows, the fiscal position will become more difficult to sustain, particularly if the government significantly loosens expenditures in response to demands for higher wages and pensions. Adjustment away from distortionary taxes on exports and financial transactions that were imposed during the crisis will also need to be phased out over time, requiring new revenues or expenditure cuts elsewhere. Some relief will be afforded by the low interest expense profile over the next several years resulting from the debt exchange and the cessation of payments on non-tendered bonds. Rapid growth in imports reduced the current account balance to 2% of GDP in 2004 from 5.7% in 2003, and import growth is expected to outpace export growth again in 2005, although the current account should remain in surplus at a level similar to last year. Marginal net capital outflows are expected, though the overall balance of payment should be positive, allowing international reserves to rise by about US$3.2 billion, ending the year at US$22.1 billion. This would exceed 2006 government debt service of about US$16.6 billion, but Fitch does not expect international reserves to be fully and freely available to the government because of legal restrictions on central bank financing of the government and also because doing so could give rise to trade interruptions. The foreign currency issuer default rating is 'DDD' because the government has ceased payment on bonds not tendered in the debt exchange with face value of approximately US$18.9 billion, or 24% of eligible

securities. The issuer default rating and the ratings on these securities will remain in default until relations with these creditors are normalized. Contact: Morgan C. Harting, CFA +1-212-908-0820 or Theresa Paiz Fredel +1-212-908-0534, New York. Media Relations: Kenneth Reed +1-212-908-0540, New York