

Fitch Revises Argentina to 'D' from 'DD'; New Bonds to Have Nondefault Rating

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Fitch Ratings-New York-January 13, 2005: Fitch Ratings, the international rating agency, today revised Argentina's rating on foreign currency bonds eligible for the debt exchange announced yesterday to 'D' from 'DD' because the terms of the exchange imply a recovery of well below 50% of outstanding principal and accrued interest. Fitch also said that the new bonds resulting from the debt exchange, expected to commence Jan. 14 and close Feb. 25, 2005, covering about US\$102 billion in defaulted bonds (including past-due interest), would be assigned a nondefault rating, likely in the 'CCC' category. The level of participation of bondholders, both international and Argentine, in the exchange will be key to determining the ratings on the new bonds. According to Fitch's ratings definitions, 'DDD' obligations have the highest potential for recovery (in the default category), around 90%-100% of outstanding amounts and accrued interest. 'DD' indicates potential recoveries in the range of 50%-90% and 'D' the lowest recovery potential, i.e. below 50%. Macroeconomic performance has improved in Argentina, though still remains fragile; moreover, Argentina's debt restructuring could imply significant savings in debt service. Consequently, the level of bondholder participation in the debt exchange will determine the ratings of the new bonds. Given that past sovereign restructurings that have ultimately led to a normalization of creditor relations have had only a small percentage of 'holdouts,' and given that market sources suggest that participation levels in the Argentine exchange of around 70% might be achieved, it appears likely, based on currently available information, that Fitch will assign a rating to the new foreign currency-denominated securities in the 'CCC' category. A level of participation broad enough to lead to a near-term normalization of Argentina's relations with its private creditors could warrant a higher rating. Whether the Argentine issuer rating and the ratings on the securities eligible for the exchange but not tendered are raised out of default will also depend on the degree of participation, as well as the government's willingness to service this debt. Based on public comments by the government, which are included in the prospectus for the new securities, it has no intention of servicing debt not tendered in the exchange, indicating that the rating on these bonds is likely to remain in default indefinitely. If amounts of this defaulted debt remain sizable, then the issuer rating is also likely to remain in default. The long-term local currency rating was lifted out of default to 'C' in January 2002 given the government's willingness to service the subsequently pesofied guaranteed loans and new local currency debt issuance since the default event occurred. As the sovereign's financial profile improved and debt service on local currency instruments was maintained, Fitch upgraded the long-term local currency rating to 'CC' in January 2003 and 'B-' in April 2004. In line with our current local currency rating, Fitch expects to rate the new peso-denominated securities issued as a result of the debt exchange at 'B-', as well. Macroeconomic performance has improved in Argentina, and the federal government is expected to have achieved a primary surplus of 4% of GDP in 2004, exceeding the target it agreed upon with the IMF. However, thus far, progress on the structural reform front has been limited. The key aspects of the government's program include fiscal reform, reforms to facilitate the restructuring of the corporate and financial sectors, and institutional reforms, including but not limited to increasing the independence of the central bank and providing a more predictable legal framework. Successful implementation of these reforms, combined with a sufficient decline in public debt following the restructuring and a normalization of relations with private creditors, would put public finances on a sustainable path and pave the way to support economic recovery, as well as future improvements in sovereign creditworthiness. Contact: Theresa Paiz Fredel +1-212-908-0534, Morgan C. Harting +1-212-908-0820, or Roger M. Scher +1-212-908-0240, New York; or David Riley +44-207-417-6338, London. Media Relations: Kenneth Reed +1-212-908-0540, New York