Fitch Affirms Argentina at 'B'; Outlook Stable

13 de octubre de 2016

Fitch Ratings-New York-13 October 2016: Fitch Ratings has affirmed Argentina's sovereign ratings as follows: --Long-term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'B', Outlook Stable; --Senior unsecured Foreign Currency bonds at 'B'; --Country Ceiling at 'B'; --Short-Term Foreign and Local Currency IDRs at 'B'. KEY RATING DRIVERS Argentina's ratings balance the improved consistency and sustainability of its policy framework, reduced external vulnerability, and the easing of external and fiscal financing constraints against relatively weak external liquidity, continued macroeconomic underperformance compared with peers, and deterioration of public finances. Argentina's ratings also balance structural strengths such as GDP per capita and social indicators against a weak debt repayment record. The central bank has focused its policy actions on addressing rising inflation in the first half of 2016 and containing inflation expectations. It has also announced moves toward an inflation targeting framework. Moreover, the introduction of a budget with realistic guidelines could improve the predictability of fiscal policy. Finally, the government is making progress in rebuilding the credibility and reliability of official statistics. The resumption of the IMF Article IV reviews supports greater transparency. International reserves have increased to USD32.5 billion in early October, up 30% from end-2015 levels. The increased flexibility of the Argentine peso should contribute towards improving the capacity of the economy to absorb external shocks and relieve pressure on international reserves. In addition, balance of payments pressures are likely to remain in check due to moderate current account deficits, access to external financing, and the discontinuation of using reserves for sovereign debt payments. Nevertheless, Argentina's external liquidity ratio, forecast by Fitch at 54% in 2017, remains low in relation to 'B' rated peers, especially given the country's high commodity dependence and recent episodes of balance of payments pressures. A delayed recovery, inflation and large fiscal deficits represent key policy challenges for the Macri administration. Fitch expects the economy to contract by 1.7% in 2016 and recover to 3.2% growth in 2017 driven by the reactivation of public investment, lower inflation and a better growth outlook for Brazil. Inflation remains high (close to 40%) according to private and local government estimates but has shown month-on-month deceleration, and inflation expectations have declined significantly. In an effort to strengthen monetary policy credibility and predictability, the central bank has made official its intention to adopt an inflation targeting regime, setting an inflation band of 12-17% for 2017 and the objective of reducing inflation to 5% in 2019. Fitch believes that the disinflation process will be more moderate due to challenges such as backward-looking salary adjustments. Moreover, sustaining a large fiscal imbalance for a longer period could weigh on the build-up of monetary policy credibility despite the phasing-out of central bank financing. Fitch estimates the general government deficit could increase to 5.6% of GDP, up from 4.8% in 2015 and above the 4.1% 'B' category median reflecting tax reductions, weaker than anticipated economic performance, the payment of arrears worth 0.7% of GDP and setbacks to the subsidy reduction strategy. The government is on track to meet its 2016 federal primary deficit (excluding central bank and social security transfers) target of 4.8%, but it revised up its 2017 target to 4.2% from 3.3% of GDP. This revision reflects real spending increases due to social and pension outlays, and the reactivation of public investment. Gross general government debt (consolidating federal and provincial debt with federal debt held by the social security administration, ANSES) could remain elevated at 50.4% of GDP in 2016, slightly below the 'B' median. The government reported that only 19.4% of GDP was held by the private sector in Q116. Fitch forecast the general government deficit to equal 5.8% of GDP in 2017 and total amortizations 6.3% of GDP (1.2% of GDP expected to be rolled-over by the central bank). In contrast to the previous administration, the current authorities do not intend to tap into international reserves for debt service while at the same time reducing the participation of intra-public sector financing. Significant financing requirements, though, create vulnerability to global conditions and investor confidence In spite of having a minority position in Congress, the Macri administration has been able to muster the necessary support to approve key pieces of legislation such as the law to settle with holdout creditors and tax amnesty. Legislative elections are scheduled to take place in 2017. The Macri administration maintains strong approval ratings, but the ruling Cambiemos electoral performance will depend on the magnitude and perception of economic rebound and the progress of the opposition Peronist party reorganization. SOVEREIGN RATING MODEL (SRM) and QUALITATIVE OVERLAY (QO) Fitch's proprietary SRM assigns Argentina a score equivalent to a rating of 'B' on the Long-Term Foreign Currency IDR scale. Fitch's sovereign rating committee did not adjust the output from the SRM to arrive at the final Long-Term Foreign Currency IDR. Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three year centred averages, including one year of forecasts, to produce a score equivalent to a Long-Term Foreign Currency IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within the agency's criteria that are not fully quantifiable and/or not fully reflected in the SRM. RATING SENSITIVITIES The main risk factors that, individually or collectively, could trigger a positive rating action are: --Faster-than-anticipated fiscal consolidation and deepening of market funding sources; --Consolidation of strengthened policy framework leading to improvement in macroeconomic performance in relation to peers; --Strengthening of external buffers. The main factors that could lead to a negative rating action are: --Re-emergence of financing pressures, failure to consolidate fiscal accounts or to improve funding sources such as maintaining access to capital markets; --Erosion of international reserves. KEY ASSUMPTIONS --Fitch assumes that China will avoid a hard landing, growing by 6.5% and 6.3% in 2016 and 2017, respectively. In contrast, Fitch expects Brazil to contract by 3.3% in 2016 and grow by 1.2% in 2017. --Fitch assumes that remaining legal risks from holdout creditors will not prevent Argentina from servicing external debt or accessing external capital markets. Contact: Primary Analyst Erich Arispe Director +1-212-908-9165 Fitch Ratings, Inc. 33 Whitehall Street New York, NY 10004 Secondary Analyst Shelly Shetty Senior Director +1-212-908-0324 Committee Chairperson Charles Seville Senior Director +1-212-908-0277 Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com. Additional information is available on www.fitchratings.com Applicable Criteria Country Ceilings (pub. 16 Aug 2016) Sovereign Rating Criteria (pub. 18 Jul 2016) Additional Disclosures Dodd-Frank Rating Information Disclosure Form Solicitation Status Endorsement Policy jurisdiction. 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