Argentina

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	RD
Short-Term IDR	RD

Local Currency

Long-Term IDR	B

Outlook

Local-Currency Long-Term IDR	Stable

Financial Data

Argentina

(USDbn)	2015
GDP	607.5
GDP per head (USD 000)	14.4
Population (m)	42.2
International reserves	25.8
Net external debt (% GDP)	-10.5
Central government total debt (% GDP)	54.2
CG foreign-currency debt	173.4
CG domestically issued debt (LCUbn)	1,780.8

Related Research

Global Economic Outlook (March 2016)
Argentina: Ready to Leave the Default Era? (December 2015)
Argentina (September2015)

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Key Rating Drivers

Local-Currency Upgrade: Fitch Ratings' upgraded Argentina's Long-Term Local-Currency IDR (Issuer Default Rating) to 'B' with a Stable Outlook in March 2016, reflecting the improved consistency and sustainability of Argentina's policy framework, its reduced external vulnerability, and the expectation that fiscal financing constraints will be eased. These improvements balance risks related to relatively weak external liquidity, continued macroeconomic underperformance, and weaker public finances.

Improved Policy Mix: The Mauricio Macri government removed FX controls and increased the flexibility of the Argentine peso. The central bank has tightened monetary policy. Fitch expects better coordination with fiscal policy and access to fresh sources of financing to allow the authorities to phase out central bank financing, a key source of inflationary pressure.

Recovery in International Reserves: International reserves have increased since the end of 2015 to USD29bn, driven by the liquidation of agricultural export proceeds, reduced pressure to intervene in the FX market, and external borrowing by the central bank. Moreover, the immediate liquidity of international reserves has improved through the USD5bn loan from foreign banks and the monetisation of a portion of the swap line with China.

High Inflation, Growth Recovery: Inflation has grown to above 30% according to private and local government estimates, reflecting the weaker exchange rate and the removal of electricity subsidies. Growth could recover through the easing of macroeconomic distortions, reduced government intervention, and greater access to external sources of financing.

Gradual Fiscal Consolidation: Fitch expects that a gradual fiscal consolidation involving the phasing-out of monetary financing by the central bank will reduce the general government deficit to 4.2% of GDP in 2016 and 3.4% in 2019. Fitch estimates gross government debt rose to 59% of GDP in 2015 driven by the wider fiscal deficit and the fall in the peso. Public-sector entities (central bank and social security agency ANSES) hold approximately 62% of the government's debt stock.

Leaving Default: The government has reached an agreement with the majority of holdout creditors, thus making progress towards removing the injunction which constrains Argentina from servicing its restructured debt. Legislation is currently moving through the Argentine congress to approve the agreement and to authorise external debt issuance to pay for the settlement – both preconditions to lift the injunction.

Rating Sensitivities

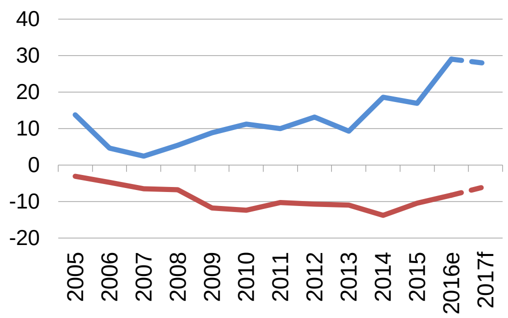
Fiscal, External, Macro Improvement: Faster-than-anticipated fiscal consolidation, deepening of non-public-sector funding sources, strengthening of external buffers, and consolidation of policy framework leading to improvement in macroeconomic performance in relation to peers would be positive for Argentina's ratings.

Financing Pressures, Reserves Decline: Re-emergence of financing pressures due to failure to consolidate fiscal accounts or to improve funding sources, and erosion of international reserves would be negative for creditworthiness.

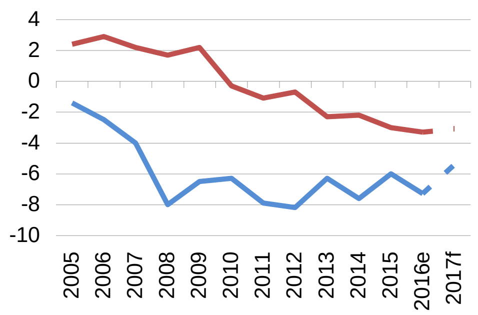
Foreign-Currency IDR Upgrade: The resumption of timely debt service on defaulted bonds would lead to the upgrade of the Foreign-Currency IDR.

Peer Comparison

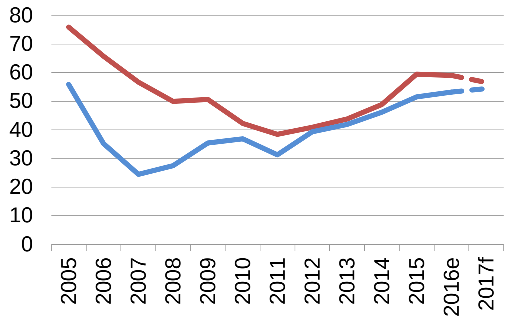
Net External Debt
% of GDP



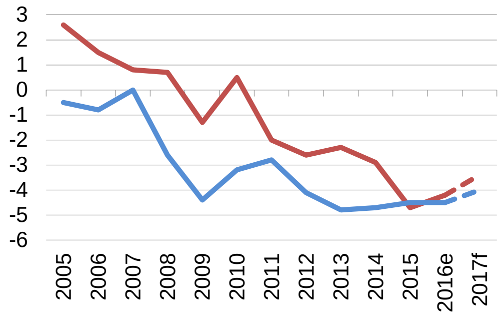
Current Account Balance
% of GDP



General Government Debt
% of GDP

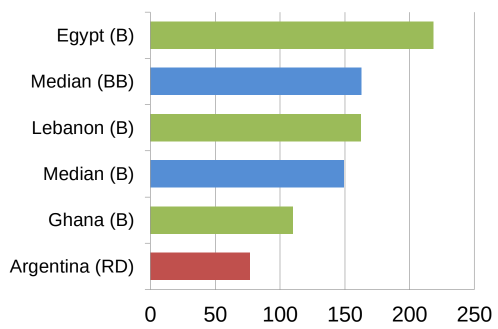


General Government Balance
% of GDP

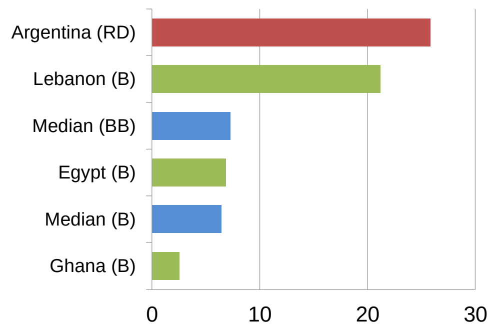


Argentina   Medians

International Liquidity Ratio, 2016
%



GDP per capita Income, 2015e
At market exchange rates, USA=100



Related Criteria

Sovereign Rating Criteria (August 2014)
Country Ceilings (August 2015)

Rating Factors

Peer Group

Rating	Country
B	Cabo Verde
	Cameroon
	Congo, Republic of
	Ecuador
	Egypt
	Ethiopia
	Ghana
	Jamaica
	Lebanon
	Mongolia
	Mozambique
	Pakistan
	Zambia
B-	Belarus
	Iraq
CCC	Greece (Hellenic Republic)
	Ukraine
	Venezuela
RD	**Argentina**

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
22 Mar 16	RD	B
31 Jul 14	RD	CCC
27 Nov 12	CC	B−
12 Jul 10	B	B
18 Dec 08		B−
01 Aug 06		B
14 Dec 05	RD	
03 Jun 05	DDD	B−
26 Apr 04		B−
24 Jan 03		CC
04 Jan 02		C
03 Dec 01	DDD	DDD
06 Nov 01	C	C
02 Nov 01	CC	CC
12 Oct 01	CCC−	CCC−
11 Jul 01	B−	B−
28 Mar 01	B+	B+
20 Mar 01	BB−	BB
21 Sep 00	BB	BB+
03 Dec 97	BB	BB+
28 May 97	BB	

Summary: Strengths and Weaknesses

Rating Factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Weakness	Neutral	Neutral	Neutral
Trend	Stable	Stable	Stable	Stable

Note: Relative to 'B' category
Source: Fitch

Strengths

Argentina's per capita income levels and Human Development indicators are significantly above those of 'B' and 'BB' rated peers.

An improved policy mix characterised by increased exchange-rate flexibility, an anti-inflationary monetary policy and a gradual fiscal consolidation strategy reduces near-term balance-of-payments risks, improves the economy's capacity to manage FX pressures and reduces near-term financing risks.

Even after the removal of FX controls on imports and dividends, current-account deficits are likely to remain lower than peers', thereby containing external financing needs.

Argentina is a net external creditor due to the strong external asset position of the non-financial private sector, and the sovereign's net external asset position is in line with peers.

Weaknesses

The sovereign has a weak debt repayment record, as it has entered default twice since 2001.

Argentina's external liquidity is low in the context of relatively high commodity export dependence and recent episodes of balance-of-payment pressures. Recovery in reserves levels and increased exchange-rate flexibility reduces near-term balance-of-payment pressures.

Widening deficits have led to increased reliance on intra-public-sector financing with material costs for external liquidity and macroeconomic performance due to limited domestic and external sources of financing. Resolution of the legal battle with "holdout" creditors is likely to facilitate access to increased sources of external financing.

General government debt is higher than peers', at close to 60% of GDP. Nevertheless, 62% of total debt is held by public-sector institutions (BCRA and the social-security agency), thus reducing near-term refinancing risks.

Growth and inflation have markedly deteriorated in relation to peers due to a less favourable external environment and inconsistent policy mix. Macroeconomic instability, as indicated by the high volatility of GDP, CPI and real effective exchange rate (REER), is a key credit weakness.

Opacity of official data, particularly regarding inflation, has detracted from policy credibility. The incoming government is in the process of revamping the statistics agency.

Local Currency Rating

Argentina's Long-Term Local-Currency IDR of 'B' reflects improvements in the consistency and credibility of the policy framework and an easing of financing pressures.

Country Ceiling

The Country Ceiling is in line with the Local-Currency IDR. The new administration has abandoned FX controls introduced at the end of 2011.

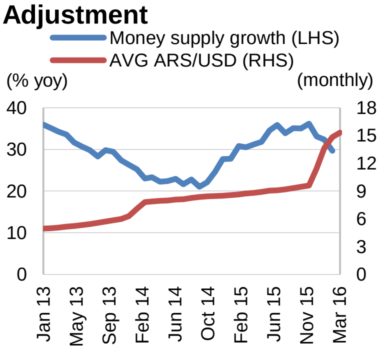
Figure 1

Strengths and Weaknesses: Comparative Analysis

2015	Argentina RD	B Median[a]	BB Median[a]	Egypt B	Ghana B	Lebanon B
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.9	4.5	3.9	2.5	7.3	2.0
Volatility of GDP (10yr rolling SD)	3.8	2.7	2.3	2.2	3.2	3.9
Consumer prices (5yr average)	14.8	4.4	4.6	9.4	12.4	3.0
Volatility of CPI (10yr rolling SD)	5.7	3.2	2.8	3.1	3.7	3.7
Unemployment rate (%)	7.5	11.8	9.3	12.7	-	-
Type of exchange rate regime	Managed float	n.a.	n.a.	Managed float	Managed float	Peg
Dollarisation ratio (% of bank deposits)	7.7	29.2	38.4	14.9	0.0	0.0
REER volatility (10yr rolling SD)	9.7	5.7	5.0	6.7	8.2	3.0
Structural features						
GDP per capita (USD, mkt. exchange rates)	14,247	3,652	4,055	3,813	1,404	11,784
GNI per capita (PPP, USD, latest)	-	7,720	10,581	11,020	3,960	17,330
GDP (USDbn)	600.8	n.a.	n.a.	323.0	37.9	53.7
Human development index (percentile, latest)	74.1	31.1	52.9	41.3	26.3	65.0
Governance indicator (percentile, latest)[b]	36.3	31.8	44.7	21.9	51.8	27.7
Broad money (% GDP)	28.9	43.7	56.6	76.7	33.3	230.5
Default record (year cured)[c]	2014	n.a.	n.a.	-	2004	-
Ease of doing business (percentile, latest)	36.2	37.3	50.6	30.9	39.9	35.2
Trade openness (avg. of CXR + CXP % GDP)	13.6	50.5	52.1	22.1	53.5	59.0
Gross domestic savings (% GDP)	18.1	12.2	17.5	6.0	25.9	1.0
Gross domestic investment (% GDP)	17.9	25.2	22.3	13.8	59.1	21.4
Private credit (% GDP)	15.6	31.9	49.3	25.9	20.2	88.8
Bank systemic risk indicators[d]	ccc/1	n.a.	n.a.	b/1	-/3	b/1
Bank system capital ratio (% assets)	13.6	16.2	13.7	0.0	0.0	0.0
Foreign bank ownership (% assets)	26.0	43.5	31.9	0.0	0.0	0.0
Public bank ownership (% assets)	43.0	22.4	24.4	0.0	0.0	0.0
External finances						
Current account balance + net FDI (% GDP)	-2.1	-3.0	0.1	-1.2	-4.6	-13.5
Current account balance (% GDP)	-2.6	-7.3	-2.2	-3.0	-12.4	-17.3
Net external debt (% GDP)	-10.5	24.0	11.9	3.5	55.6	-43.4
Gross external debt (% CXR)	221.9	132.9	115.5	87.1	154.2	192.2
Gross sovereign external debt (% GXD)	60.0	60.2	45.7	74.1	75.6	14.1
Sovereign net foreign assets (% GDP)	-12.4	-13.5	-1.9	-8.4	-40.8	68.5
Ext. interest service ratio (% CXR)	6.8	2.5	2.9	1.2	4.4	2.4
Ext. debt service ratio (% CXR)	27.2	11.4	11.4	9.3	10.2	13.9
Foreign exchange reserves (months of CXP)	3.4	3.6	4.2	2.5	2.9	14.6
Liquidity ratio (latest)[e]	76.8	173.6	157.4	218.4	110.0	162.4
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	53.3	27.6	19.1	16.7	70.4	7.3
Sovereign net foreign currency debt (% GDP)	17.4	13.5	0.8	8.4	40.8	-29.9
Public finances[f]						
Budget balance (% GDP)	-4.7	-4.4	-3.7	-11.6	-7.3	-7.0
Primary balance (% GDP)	-2.3	-2.2	-1.8	-4.0	-0.3	1.3
Gross debt (% revenue)	151.4	215.7	184.9	403.4	311.1	670.0
Gross debt (% GDP)	59.5	52.1	42.6	93.7	71.2	130.9
Net debt (% GDP)	56.3	46.7	37.0	84.1	68.1	113.8
Foreign currency debt (% total debt)	62.3	69.0	52.6	14.1	77.5	39.9
Interest payments (% revenue)	6.1	7.4	8.4	38.0	30.6	42.7
Revenues and grants (% GDP)	39.3	24.8	26.6	23.2	22.9	19.5
Volatility of revenues/GDP ratio	10.6	8.2	5.5	9.8	16.5	7.5
Central govt. debt maturities (% GDP)	10.6	5.3	4.0	30.8	19.5	18.4

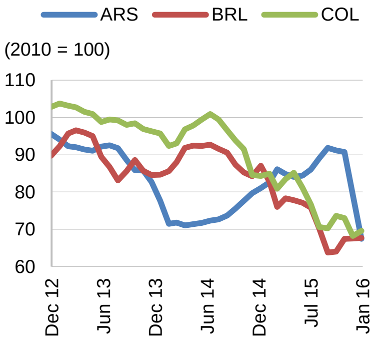
[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Modern (ie. since 1980) rescheduling history: Numerous rescheduling with official and commercial bank creditors from 1983; Brady deal with commercial banks in April 1993 inflicted significant capital losses. Default in 2001, restructuring in 2005 & 2010; missed payment in July 2014 due to judicial ruling
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium-and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer price inflation (CPI), gross domestic product (GDP), current external receipts (CXR), current external payments (CXP), gross national income (GNI), purchasing power parity (PPP), standard deviation (SD), foreign direct investment (FDI)
Source: Fitch

Figure 2
FX & Monetary Pol. Adjustment



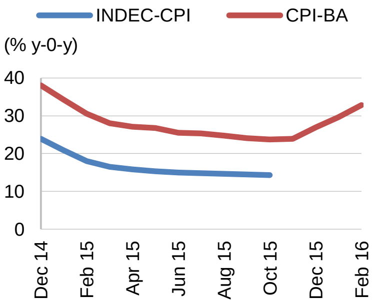
Source: IFS, BCRA & Fitch

Figure 3
ARS Real (REER) Adjusment



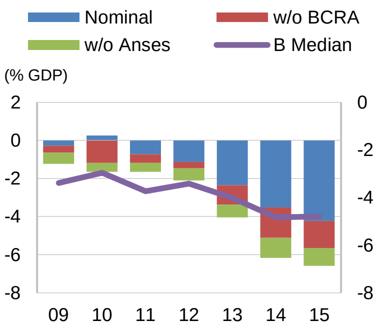
Source: BIS & Fitch

Figure 4
Rising Inflation w/o Official Figures



Source: INDEC, CBA & Fitch

Figure 5
Underlyng Fiscal Deterioration



Source: MECON & Fitch

Key Credit Developments

Improved Policy Consistency and Credibility

The Macri government intends to implement a policy framework based on a flexible exchange-rate regime, a monetary policy aimed at reducing inflation and gradual fiscal consolidation. As the previous government's policy mix reduced international reserves and growth and weakened public finances, the policy changes already implemented have reduced balance-of-payment pressures and near-term financing risks. They also aim to reduce macroeconomic instability.

The new monetary authorities are focused on reducing inflation, establishing policy credibility, and moving towards an inflation-targeting regime. The central bank has aggressively increased interest rates and reined in growth of monetary aggregates. In February, monetary base annual growth slowed markedly to 25% from 38% in December.

The central bank has abandoned the exchange rate as a nominal anchor. The exchange rate depreciated by 29% in mid-December in the aftermath of the removal in FX controls, and the authorities allowed the currency to float for the most part. The central bank sold USD700m at the beginning of March and hiked 35-day Lebac notes to 38%, as rapid depreciation risked exacerbating already high inflation. The peso subsequently fell further.

Higher Inflation: the Initial Cost of Adjustment

The government stated its expectation of 20%-25% end-year inflation earlier in the year, but already high inflation and inflation expectations have been adversely impacted by the weaker exchange rate and adjustments to electricity tariffs. Private and local-government estimates indicate that annual inflation has moved above 30% since December 2015. Complicating the current anti-inflationary policy is the fact that the government is in the process of developing a new CPI index as part of a broad effort to revamp the national statistics agency, INDEC.

While inflation could ease in H216, the inflation spike constitutes a macroeconomic and political challenge for the new government. Salary negotiations with unions will also have an impact on future inflation. Teaching unions have already achieved salary increases of up to 35% for lower-earning segments, thus creating the risk of indexation at a high level.

Normalising Fiscal Policy

Federal fiscal spending growth markedly outpaced revenues, leading to a deficit of 4.1% of GDP (6.4% of GDP without taking into account central bank and social-security profit transfers). At the general government level, Fitch estimates the deficit widened to 4.7% of GDP, up from 2.5% in 2014 and above the 4.1% median of the 'B' category. The fiscal deterioration was driven by current primary spending (focusing on social security, wages and transfers to provinces). Government arrears increased to 1% of GDP (ARS56bn) from 0.3% in 2014.

Fiscal policy outlines a gradual consolidation path while phasing out monetary financing by the central bank, reducing the primary deficit by about 1pp per year. The reduction in export taxes, elimination of VAT for certain consumption items and proposed modifications to income tax brackets could have a revenue cost of 1%, while expenditure measures, most notably subsidy reductions, could support a reduction in spending of 1.8% of GDP. Total energy subsidies amounted to 3.2% of GDP in 2015. The government has reduced electricity subsidies, but has yet to move in terms of gas and transport.

Figure 6

Federal Govt. Financing

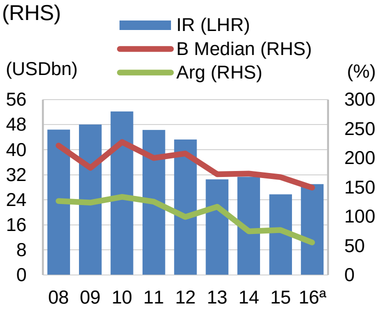
(% of GDP)	2016	2017
Uses[a]	**8.1**	**5.0**
Primary deficit	-3.1	-1.7
BCRA transfers	1.0	0.4
ANSES	0.5	0.4
Interest	2.4	2.5
Headline deficit	-3.9	-3.4
Amortizations	10.2	5.0
O/w BCRA	**5.1**	**3.1**
O/w other public	**0.9**	**0.3**
Sources	**8.1**	**5.3**
BCRA	1.9	0.8
Other public	0.8	0.4
Multilaterals	1.0	0.9
Local markets	2.3	1.8
Ext markets	1.2	1.1
Treasury Bills	0.9	0.3
Fin GAP	**0.0**	**-0.2**

[a] Does not include intra-public-sector refinancing
Source: Fitch estimates

Figure 7

Weaker External Buffers

Int. res. (LHS) & Fitch liquidity ratio (RHS)

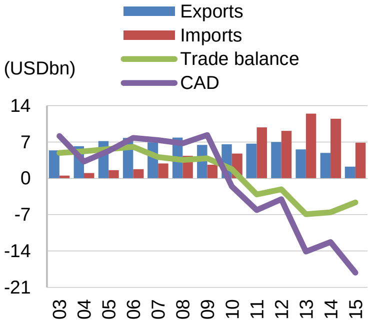


[a] Fitch forecasts
Source: IFS & Fitch

Figure 8

Energy External Deficit

Energy exports/imports/balance & CAD



Source: INDEC & Fitch

Fitch estimates gross government debt rose to 58.9% of GDP in 2015, from 48.8% in 2014, driven by the wider fiscal deficit and the depreciation of the peso. The central bank and ANSES hold approximately 62% of the government's debt stock. Financing needs are likely to remain high in 2016 at 10.2% of GDP, but intra-public-sector debt repayments/roll-overs constitute at least 56% of total debt repayments. In fact, the central bank already refinanced USD16bn of non-transferable securities[1], of which USD9.5bn were coming due in 2016, receiving instead tradable securities. Only 32% of 2016 debt repayments are denominated in US dollars and the most significant non-public sector foreign-currency repayment is USD2.1bn to the Paris Club.

Improved access to market financing would reduce the pressure on the central bank both through monetary financing and the use of international reserves to meet foreign-currency debt repayments. The government has indicated that failure to tap external funding would entail a sharper fiscal adjustment.

Easing of External Pressures

International reserves declined by USD5.6bn in 2015 to USD25.7bn and have increased to USD29.8bn since then. The operational liquidity of international reserves has improved since late 2015, as the central bank has entered a USD5bn repo operation[2] with international banks and the new authorities were able to monetise (convert to US dollars) USD3bn of the USD11bn swap line with China. Increased FX flexibility and less reliance on central bank for foreign-currency debt repayments should further reduce pressure on international reserves.

Provincial governments and corporates could try tapping external financing after resolution of the holdout issue. Beyond market funding, efforts to increase transparency and policy improvements could also unlock increased sources of bilateral and multilateral funding for the public sector.

After the removal of FX controls, the current-account deficit is likely to remain moderate over the forecast period given the weaker peso, lower energy prices and subdued economic activity. The current-account deficit reached 2.6% of GDP in 2015 and is likely to remain below the 'B' median over the forecast period. The outlook for Argentine exports balances weaker commodity prices and continued underperformance in Brazil against the elimination of export taxes and the depreciation of the Argentine peso. The external energy deficit, a key driver of deterioration in the current account in recent years, could remain contained given low international oil prices.

Making Progress Leaving Behind the Default Era

The Argentine government has reached an agreement with the majority of holdout creditors (86% of injunction holders) in order to comply with a New York court's 2014 ruling and allow for the lifting of the injunction that has prevented Argentina from servicing restructured debt.

Argentina has reached agreements worth USD7.5bn, but total payments could entail close to USD11.5bn (62% of total potential claims including principal, past-due interest and penalties). Judge Griesa has issued an indicative ruling establishing two preconditions to lift injunctions on restructured debt service: the modification of legislation preventing Argentina from complying with the pari-passu injunction (lock law and law of sovereign payment); and paying the holdouts who reached an agreement with government creditors by 29 February 2016. The judge's opinion remains to be ratified by the Appeals Court in early April.

The necessary legislation eliminating the lock law and law of sovereign payment and authorising financing for the settlement was approved by Congress in the last week of March. The deadline for the settlement is 14 April 2016, thus highlighting the tight time schedule.

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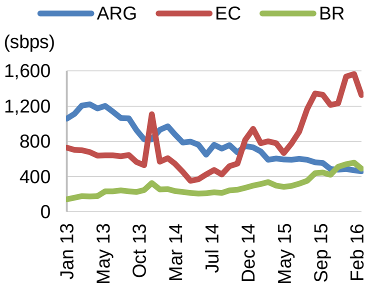
[1] These instruments were issued by the Kirchner administration to the central bank as part of the operation to prepay debt with the IMF.

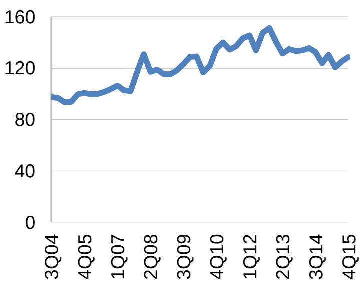
[2] Foreign banks agree to extend USD5bn to the central bank, receiving instead a similar amount of Argentine Treasury securities held by the central bank.

Figure 9
Lower Spreads Despite Default
EMBIG stripped spreads



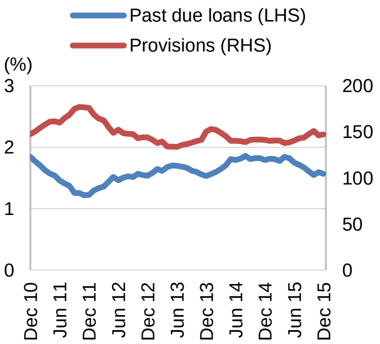
Source: JPM & Fitch

Figure 10
Still Favorable Terms of Trade
2004 = 100



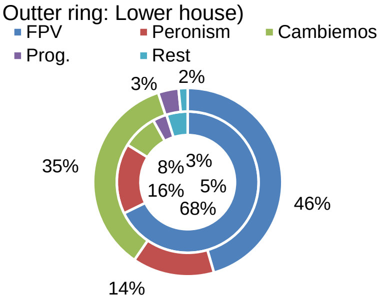
Source: INDEC & Fitch

Figure 11
Healthy Financial System



Source: BCRA & Fitch

Figure 12
Argentine Congress Composition
(Inner ring: Senate
Outter ring: Lower house)



Source: CNE & Fitch

While delays from the legislative and legal process cannot be entirely ruled out, Fitch's base case is that the government will be able to complete the settlement with the holdouts, resume servicing its restructured debt and open the economy to external sources of financing. Legal challenges from remaining holdout creditors cannot be fully discounted.

Subdued Growth Performance

After four years of weak performance, Fitch expects the economy to recover to growth of 3.6% in 2017. Improved FX availability, declining inflation and gradual fiscal consolidation could support recovery in the second half of 2016 and pick up speed in 2017. The agricultural sector is likely to lead recovery, due to favourable international prices given the positive impact of lower export taxes and the weaker peso.

The Argentine financial sector is small and the devaluation of the exchange rate has not negatively impacted its balance sheet. Credit to GDP is estimated by Fitch to have reached to 5.6% of GDP in 2015, among the lowest the 'B' category. A highly interventionist operating environment, high inflation, and soft demand have prevented credit from recovering to levels pre-2001 crisis.

Public-sector assets account for 25% of financial-sector assets, and central-bank policy instruments account for 60% of the total. The direct impact of the peso depreciation on credit quality is likely to be muted, as only 4.8% of domestic credit is denominated in foreign currency. NPLs stood at 1.7% at the end of 2015.

Change in Economic and Political Cycle

In its first 100 days, the Mauricio Macri administration programme has balanced the need to stabilise a deteriorating macroeconomic picture against the social and political costs of this process. With a minority in both chambers, the governing Cambiemos coalition has reached out to the Peronist opposition responsive to Sergio Massa and a splinter group from the formerly ruling FPV to obtain legislative support for its congressional agenda. The government dialogue with governors (Peronists control 16 of 23 provinces) in issues such as a new Coparticipacion agreement could also facilitate support in the Senate.

Currently, the government's and a faction of the Peronist opposition's political calculations are aligned in addressing macroeconomic imbalances, facilitating access to external financing and bolstering growth. Mid-term legislative elections are scheduled for 2017, thus possibly conditioning the timeline and level of continued cooperation. In the short term, the government challenge is to manage the political cost of rising inflation, the weakening peso and job losses, most notably in the overburdened public sector.

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Public Debt Dynamics

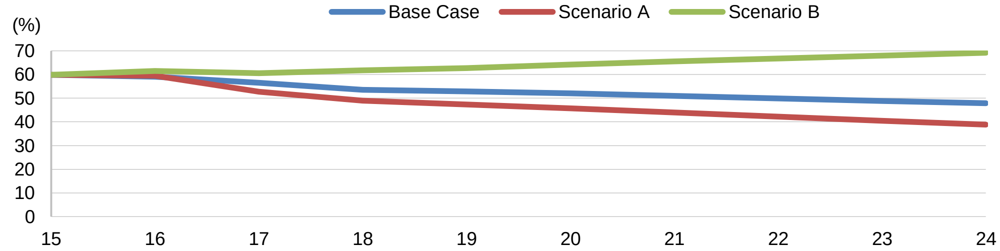
According to Fitch's baseline projections, gross general government debt should decline at a moderate pace over the medium term. The main risk to debt sustainability would be a failure to reduce the primary budget deficit, continued rapid Argentine peso weakening and growth underperformance.

Debt Dynamics – Fitch's Baseline Assumptions

	2015	2016	2017	2018	2019	2020	2021
Gross general government debt (% GDP)	58.9	58.3	56.0	53.5	52.8	52.0	50.9
Primary balance (% of GDP)	-2.3	-1.7	-0.7	-0.5	-0.5	-0.5	-0.5
Real GDP growth (%)	2.1	-0.3	3.6	3.0	3.0	3.0	3.0
Avg. nominal effective interest rate (%)	7.4	7.2	7.3	7.2	7.2	7.1	7.1
Local currency/USD (annual avg.)	9.23	14.63	17.37	19.51	21.46	23.61	25.97
GDP deflator (%)	24.6	36.0	22.8	20.0	15.0	15.0	15.0

Sensitivity Analysis

GG debt (% of GDP)



Source: Fitch

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Scenario A	Elimination of the primary deficit, and higher growth prospects (4%MT) and slower ARS depreciation)
Scenario B	Maintenance of 1.5% GDP primary deficit, stagflation and higher depreciation.

Forecast Summary

	2011	2012	2013	2014	2015	2016e	2017f
Macroeconomic indicators and policy							
Real GDP growth (%)	8.4	0.8	2.9	0.5	2.1	-0.3	3.6
Unemployment (%)	7.2	7.2	7.1	7.3	7.5	7.6	8.0
Consumer prices (annual average % change)	9.8	10.0	10.9	17.4	25.9	32.0	29.5
Short-term interest rate (bank policy annual avg.) (%)	10.7	12.0	14.9	20.4	21.2	28.0	22.0
General government balance (% of GDP)	-2.0	-2.6	-2.3	-2.9	-4.7	-4.2	-3.4
General government debt (% of GDP)	38.5	40.9	43.8	48.8	58.9	58.3	56.0
ARS per USD (annual average)	4.11	4.54	5.46	8.08	9.23	14.63	17.37
Real effective exchange rate (2000 = 100)	50.3	57.7	59.3	56.4	71.8	67.7	63.7
Real private sector credit growth (%)	22.9	10.8	9.6	-6.8	9.5	-10.3	3.4
External finance							
Current account balance (% of GDP)	-1.1	-0.7	-2.3	-1.5	-2.6	-3.0	-2.6
Current account balance plus net FDI (% of GDP)	0.6	1.7	-1.0	-0.7	-2.1	-2.4	-1.4
Net external debt (% of GDP)	-10.3	-10.7	-11.0	-13.8	-10.4	-8.4	-6.6
Net external debt (% of CXR)	-55.7	-65.3	-72.0	-86.5	-86.7	-54.7	-38.1
Official international reserves including gold (USDbn)	46.4	43.2	30.5	31.4	25.8	29.1	32.8
Official international reserves (months of CXP cover)	5.1	5.0	3.3	3.8	3.4	3.7	3.8
External interest service (% of CXR)	4.9	5.1	5.3	6.2	6.8	8.9	10.4
Gross external financing requirement (% int. reserves)	31.5	23.5	42.7	51.0	99.9	90.8	77.0
Real GDP growth (%)							
US	1.6	2.2	1.5	2.4	2.5	2.5	2.3
China	9.5	7.7	7.7	7.3	6.9	6.2	6.0
Eurozone	1.7	-0.8	-0.3	0.9	1.5	1.7	1.7
World	3.4	2.5	2.4	2.5	2.3	2.6	2.7
Oil (USD/barrel)	111.0	112.0	108.8	98.9	53.0	35.0	45.0

Source: Fitch

Figure 13

Fiscal Accounts Summary

(% of GDP)	2012	2013	2014	2015	2016e	2017f
General government						
Revenue	**32.8**	**34.9**	**37.8**	**39.3**	**37.3**	**36.5**
Expenditure	**35.3**	**37.2**	**40.7**	**44.0**	**41.5**	**39.8**
O/w interest payments	2.1	1.5	1.8	2.4	2.6	2.7
Primary balance	-0.5	-0.9	-1.0	-2.3	-1.7	-0.7
Overall balance	**-2.6**	**-2.3**	**-2.9**	**-4.7**	**-4.2**	**-3.4**
General government debt	**40.9**	**43.8**	**48.8**	**58.9**	**58.3**	**56.0**
% of general government revenue	124.8	125.4	129.0	151.4	158.0	155.3
Central government deposits	4.2	4.1	4.3	3.2	3.0	3.0
Net general government debt	36.7	39.7	44.5	56.3	56.0	53.6
Central government						
Revenue	**19.9**	**21.1**	**23.2**	**23.9**	**22.7**	**22.3**
O/w grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**21.9**	**23.0**	**25.7**	**27.9**	**26.6**	**25.7**
O/w current expenditure and transfers	20.1	21.7	24.1	25.7	24.2	23.2
- Interest	1.9	1.2	1.6	2.2	2.4	2.5
O/w capital expenditure	2.2	2.7	3.0	2.9	2.7	2.6
Current balance	0.2	0.8	0.5	-1.2	-1.2	-0.8
Primary balance	-0.2	-0.7	-0.9	-1.9	-1.5	-0.9
Overall balance	**-2.0**	**-1.9**	**-2.5**	**-4.1**	**-3.9**	**-3.4**
Central government debt	36.9	39.7	44.9	55.2	55.2	53.5
% of central government revenues	185.4	188.3	193.7	234.1	246.1	242.7
Central government debt (ARSbn)	**1,020.3**	**1,351.7**	**1,982.1**	**3,097.0**	**-**	**-**
By residency of holder						
Domestic	-	-	-	-	-	-
Foreign	-	-	-	-	-	-
By currency denomination						
Local currency	332.5	399.9	508.5	825.5	-	-
Foreign currency	687.8	951.8	1,473.6	2,271.5	-	-
In USD equivalent (eop exchange rate)	140.4	146.4	173.2	173.4	-	-
Average maturity (years)	10.9	10.8	10.7	10.6	-	-
Memo						
Nominal GDP (LCbn)	2,765.6	3,406.3	4,412.4	5,609.0	7,606.3	9,671.7

Source: Ministry of Finance and Fitch estimates and forecasts

Figure 14

External Debt and Assets

(USDbn)	2010	2011	2012	2013	2014	2015
Gross external debt	**148.7**	**159.3**	**158.6**	**158.4**	**160.6**	**167.4**
% of GDP	32.0	28.3	26.0	25.4	29.4	27.6
% of CXR	172.3	153.1	158.9	165.9	185.0	221.9
By maturity						
Medium-and long-term	123.4	125.0	131.4	130.0	139.9	133.9
Short-term	25.3	34.2	27.2	28.5	20.7	33.5
% of total debt	17.0	21.5	17.2	18.0	12.9	20.0
By debtor						
Sovereign	**91.3**	**93.0**	**90.6**	**89.9**	**94.9**	**100.5**
Monetary authorities	3.1	8.1	6.1	4.1	7.1	15.1
General government	88.2	84.9	84.5	85.8	87.8	85.3
O/w central government	-	-	-	-	-	-
Banks	**2.9**	**3.8**	**2.9**	**2.7**	**2.7**	**2.5**
Other sectors	**54.6**	**62.5**	**65.1**	**65.9**	**63.0**	**64.5**
Gross external assets (non-equity)	**206.2**	**217.2**	**223.8**	**227.2**	**235.7**	**230.3**
International reserves, incl. gold	52.2	46.4	43.2	30.5	31.4	25.8
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	2.4	2.2	2.6	2.3	2.4	2.6
Other sector foreign assets	151.6	168.6	178.0	194.2	193.9	193.9
Net external debt	**-57.4**	**-57.9**	**-65.2**	**-68.8**	**-75.1**	**-62.9**
% of GDP	-12.4	-10.3	-10.7	-11.0	-13.8	-10.4
Net sovereign external debt	39.1	46.6	47.4	59.3	63.5	74.7
Net bank external debt	0.5	1.6	0.3	0.3	0.3	-0.1
Net other external debt	-97.0	-106.1	-112.9	-128.	-138.9	-137.5
Net international investment position	**42.0**	**49.0**	**54.6**	**61.3**	**73.9**	**0.0**
% of GDP	9.0	8.7	9.0	9.8	13.5	0.0
Sovereign net foreign assets	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.1**
% of GDP	-8.4	-8.3	-7.8	-9.5	-11.6	-12.4
Debt service (principal & interest)	**13.0**	**15.4**	**12.0**	**9.4**	**12.9**	**20.5**
Debt service (% of CXR)	15.0	14.8	12.0	9.8	14.8	27.2
Interest (% of CXR)	5.1	4.9	5.1	5.3	6.2	6.8
Liquidity ratio (%)	133.8	125.6	99.1	116.8	74.8	76.8
Net sovereign FX debt (% of GDP)	7.8	8.7	11.3	12.7	18.0	17.4
Memo						
Nominal GDP	464.8	562.5	609.6	623.9	546.4	600.8
Inter-company loans	22.1	25.5	29.4	30.7	28.3	0.0

Source: Central Bank, IMF, World Bank and Fitch estimates and forecasts

Figure 15

Public Sector Amortization Schedule on Medium-and Long-Term Debt at September 2015

(USDbn)	2016	2017	2018	2019	2020	2021	2022
Bonds	22.7	12.1	6.6	7.1	10.2	10.9	9.0
O/w BCRA	9.5	0.0	0.0	0.0	6.6	9.6	7.8
Multilateral	1.8	1.8	1.8	1.6	1.4	1.3	1.1
Guaranteed	0.5	0.9	0.3	0.0	0.0	0.0	0.0
Commercial Banks	2.0	1.2	0.0	0.0	0.0	0.0	0.0
Official	2.1	2.0	2.0	1.7	0.1	0.1	0.1
Transitory advances BCRA	16.2	2.3	0.0	0.0	0.0	0.0	0.0
Other	0.2	0.1	0.1	0.7	0.2	0.1	0.1
Total	45.6	20.5	10.9	11.1	11.9	12.5	10.3

Source: Ministry of Finance, Central Bank and Fitch

Figure 16

Balance of Payments

(USDbn)	2012	2013	2014	2015	2016e	2017f
Current account balance	**-4.0**	**-14.1**	**-8.1**	**-15.9**	**-15.4**	**-14.6**
% of GDP	-0.7	-2.3	-1.5	-2.6	-3.0	-2.6
% of CXR	-4.0	-14.8	-14.1	-25.1	-21.7	-20.2
Trade balance	**12.3**	**1.6**	**5.9**	**-0.5**	**-1.0**	**0.1**
Exports, fob	80.3	76.0	68.3	56.8	60.2	66.2
Imports, fob	68.0	74.4	62.4	57.2	61.2	66.1
Services, net	**-3.0**	**-3.8**	**-3.1**	**-4.0**	**-3.9**	**-2.9**
Services, credit	15.0	14.7	13.8	13.9	15.3	16.9
Services, debit	18.1	18.4	16.9	17.9	19.2	19.8
Income, net	**-12.8**	**-11.0**	**-10.7**	**-11.1**	**-9.6**	**-10.5**
Income, credit	2.4	2.7	2.6	2.7	2.6	2.7
Income, debit	15.1	13.7	13.3	13.8	12.1	13.2
O/w: Interest payments	5.1	5.1	5.4	5.1	7.1	9.2
Current transfers, net	**-0.5**	**-0.9**	**-0.2**	**-0.4**	**-1.2**	**-1.2**
Capital and financial accounts						
Non-debt-creating inflows (net)	12.0	9.3	3.4	2.8	5.2	9.0
O/w equity FDI	11.1	8.8	4.1	3.0	3.2	7.0
O/w portfolio equity	0.9	0.5	-0.7	-0.2	2.0	2.0
O/w other flows	0.0	0.0	0.1	0.0	0.0	0.0
Change in reserves	-3.3	-11.8	1.4	-14.4	3.3	3.7
Gross external financing requirement	10.9	18.4	19.8	33.5	24.7	25.3
Stock of international reserves, incl. gold	43.2	30.5	31.4	25.8	29.1	32.8

Source: IMF and Fitch estimates and forecasts

The ratings above were unsolicited and have been provided by Fitch as a service to investors.