Argentina

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	B
Short-Term IDR	B

Local Currency

Long-Term IDR	B
Short-Term IDR	B
Country Ceiling	B

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Argentina

(USDbn)	2016
GDP	549.4
GDP per head (USD 000)	12.5
Population (m)	43.9
International reserves	31.4
Net external debt (% GDP)	-8.5
Central government total debt (% GDP)	46.6
CG foreign-currency debt	148.1
CG domestically issued debt (ARSbn)	1,350

Related Research

Global Economic Outlook (September 2016)

Argentina (April 2016)

Analysts

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Key Rating Drivers

Ratings Affirmed: 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.

Improved Policy Framework: The central bank has focused on fighting inflation and has also announced the implementation of inflation targeting. 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.

Recovery in International Reserves: International reserves had increased to USD32.5bn in early October, up 30% from end-2015 levels. The increased flexibility of the Argentine peso should contribute to 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.

High Inflation, Growth Recovery: The economy could 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%) but has shown month-on-month deceleration, and inflation expectations have declined significantly.

Gradual Fiscal Consolidation: The general government deficit could increase to 5.6% of GDP in 2016, from 4.8% in 2015 and above the 4.1% 'B' category median. The government is on track to meet its 2016 federal primary deficit target of 4.8% (excluding central bank and social security transfers), but it has revised up its 2017 target to 4.2% from 3.3% of GDP, reflecting 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 1Q16.

2017 Mid-Term Elections: 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 reorganisation.

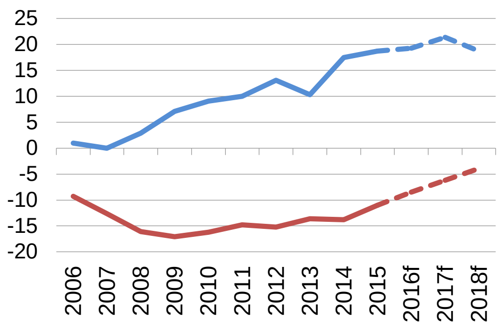
Rating Sensitivities

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

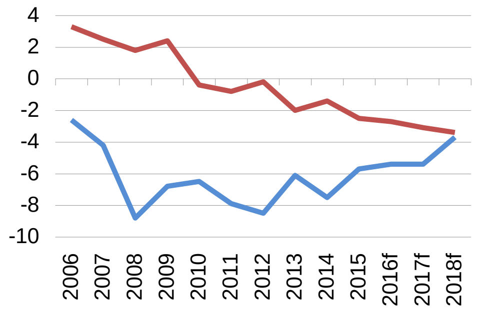
Financing Pressures, Reserves Decline: Erosion of international reserves, re-emergence of financing pressures, and failure to consolidate fiscal accounts or to improve funding sources such as maintaining access to capital markets would be ratings negative.

Peer Comparison

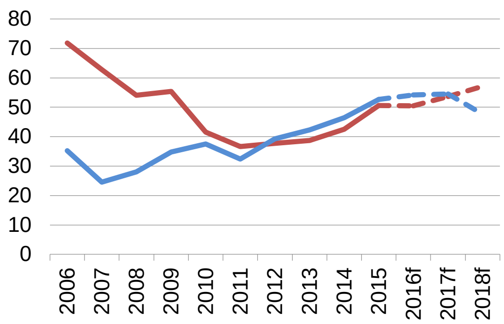
Net External Debt
% of GDP



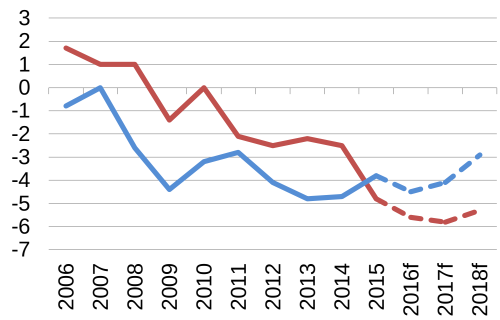
Current Account Balance
% of GDP



General Government Debt
% of GDP

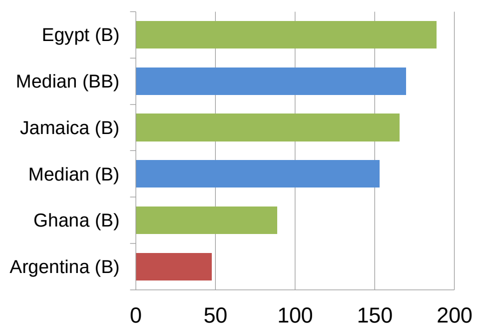


General Government Balance
% of GDP

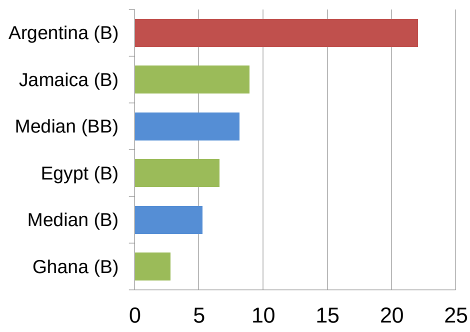


Argentina Medians

International Liquidity Ratio, 2017
%



GDP per capita Income, 2016e
At market exchange rates, USA=100



Related Criteria

Sovereign Rating Criteria (July 2016)
Country Ceilings (August 2016)

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Weakness	Neutral	Weakness	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 stronger than those of 'B' and 'BB' rated peers.

An improved policy mix characterised by increased exchange-rate flexibility, a monetary policy focused on lowering inflation, progress toward improving the reliability and transparency of official figures, and a commitment to gradual fiscal consolidation reduces near-term balance-of-payments risks, improves the economy's capacity to manage FX pressures and reduces near-term financing risks.

Although current account deficits could increase over the forecast period, these will remain lower than at 'B' peers. Argentina is a net external creditor due to the strong external asset position of the non-financial private sector. The government's tax amnesty could support the repatriation of a portion of those funds to meet the external financing needs of the economy.

Gross general government debt (consolidating federal and provincial debt with federal debt held by ANSES) at 50% is similar to peers. The government reported that only 19.4% of GDP was held by the private sector in 1Q16.

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 dependence and recent episodes of balance-of-payments pressures. Increased exchange-rate flexibility, access to external financing and abandoning the use of international reserves for sovereign debt payments support adequate reserve levels.

High fiscal deficits, and resulting large fiscal financing needs, are expected to remain above the 'B' median. Increased access to local and external sources of financing and reduced reliance on intra-public sector borrowing reduce the fiscal shortfall's impact on external liquidity and macroeconomic performance.

Growth and inflation have markedly deteriorated relative to peers due to a less favourable external environment, inconsistent policy mix and the rebalancing of the Argentine economy in 2016. A record of macroeconomic instability, as indicated by the high volatility of GDP, CPI and real effective exchange rate (REER), remains a credit weakness.

Local-Currency Rating

Argentina's Long-Term Local-Currency IDR is in line with Long-Term Foreign-Currency IDR, as public finances are not a relative credit strength compared to external finances. The sovereign does not have a track record of preferential treatment of local-currency creditors vis-à-vis foreign-currency creditors.

Country Ceiling

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

Peer Group

Rating	Country
B+	Armenia
	Cote d'Ivoire
	Dominican Republic
	El Salvador
	Gabon
	Kenya
	Lesotho
	Nicaragua
	Nigeria
	Rwanda
	Sri Lanka
	Suriname
	Uganda
B	**Argentina**
	Angola
	Cabo Verde
	Cameroon
	Ecuador
	Egypt
	Ethiopia
	Ghana
	Jamaica
	Mongolia
	Pakistan
	Zambia
B−	Belarus
	Iraq
	Lebanon

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
10 May 16	B	B
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	

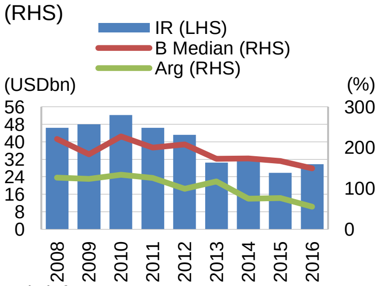
Strengths and Weaknesses: Comparative Analysis

2016	Argentina B	B Median[a]	BB Median[a]	Egypt B	Ghana B	Jamaica B
Macroeconomic performance and policies						
Real GDP (5yr average % change)	-0.1	4.0	3.6	2.8	5.5	0.6
Volatility of GDP (10yr rolling SD)	5.2	2.5	2.2	2.0	3.2	1.9
Consumer prices (5yr average)	19.6	4.5	3.6	10.0	14.1	6.6
Volatility of CPI (10yr rolling SD)	8.9	3.1	2.7	3.0	3.8	5.1
Unemployment rate (%)	8.1	11.3	9.3	12.7	-	13.2
Type of exchange rate regime	Managed float	n.a.	n.a.	Managed float	Managed float	Managed float
Dollarisation ratio (% of bank deposits)	9.0	28.8	19.6	0.0	0.0	47.5
REER volatility (10yr rolling SD)	11.0	4.7	5.0	8.4	-	6.5
Structural features						
GDP per capita (USD, mkt. exchange rates)	12,519	3,533	5,052	3,798	1,549	5,083
GNI per capita (PPP, USD, latest)	-	7,720	12,150	11,020	3,960	8,724
GDP (USDbn)	549.4	n.a.	n.a.	326.9	43.4	14.3
Human development index (percentile, latest)	74.1	35.2	57.5	41.3	26.3	48.9
Governance indicator (percentile, latest)[b]	37.5	31.8	50.5	24.0	54.6	55.6
Broad money (% GDP)	25.2	43.4	67.2	73.8	30.5	63.1
Default record (year cured)[c]	2016	n.a.	n.a.	-	2004	2013
Ease of doing business (percentile, latest)	36.2	36.2	57.5	30.9	39.9	66.5
Trade openness (avg. of CXR + CXP % GDP)	15.3	45.3	52.3	18.4	47.9	52.7
Gross domestic savings (% GDP)	15.7	13.9	16.8	10.4	15.0	4.9
Gross domestic investment (% GDP)	16.5	25.0	21.4	13.0	24.8	22.0
Private credit (% GDP)	13.9	31.1	58.1	24.1	18.9	32.0
Bank systemic risk indicators[d]	b/1	n.a.	n.a.	b/1	b/3	b/1
Bank system capital ratio (% assets)	15.2	16.0	15.5	0.0	16.6	14.5
Foreign bank ownership (% assets)	28.0	43.5	25.0	0.0	0.0	0.0
Public bank ownership (% assets)	40.9	14.4	31.0	0.0	0.0	0.0
External finances						
Current account balance + net FDI (% GDP)	-1.9	-2.0	-0.8	-2.6	0.4	0.7
Current account balance (% GDP)	-2.7	-5.7	-2.4	-4.9	-6.7	-2.4
Net external debt (% GDP)	-8.5	20.3	15.7	7.5	42.7	43.7
Gross external debt (% CXR)	251.7	144.0	127.1	123.6	126.6	197.5
Gross sovereign external debt (% GXD)	62.8	57.3	39.3	71.5	78.4	75.6
Sovereign net foreign assets (% GDP)	-16.4	-16.4	-0.7	-8.6	-33.1	-54.0
Ext. interest service ratio (% CXR)	8.8	3.2	3.1	1.4	5.3	9.1
Ext. debt service ratio (% CXR)	18.9	11.6	12.7	11.6	10.3	21.3
Foreign exchange reserves (months of CXP)	4.1	3.9	4.4	3.1	2.6	5.1
Liquidity ratio (latest)[e]	47.6	162.4	157.3	188.6	88.5	165.4
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	51.5	26.0	18.8	19.3	54.1	17.0
Sovereign net foreign currency debt (% GDP)	26.9	15.1	1.8	8.6	33.1	57.9
Public finances[f]						
Budget balance (% GDP)	-5.6	-4.1	-3.8	-11.7	-5.0	-0.5
Primary balance (% GDP)	-3.1	-2.1	-2.0	-3.2	1.6	6.9
Gross debt (% revenue)	143.4	234.9	182.7	412.7	310.2	438.5
Gross debt (% GDP)	50.4	53.6	51.4	90.6	69.1	119.7
Net debt (% GDP)	48.1	48.3	43.3	81.5	66.3	115.9
Foreign currency debt (% total debt)	57.6	66.1	51.2	15.5	64.0	67.5
Interest payments (% revenue)	7.2	8.0	8.9	44.7	27.9	27.1
Revenues and grants (% GDP)	35.2	23.8	29.5	21.9	22.3	27.3
Volatility of revenues/GDP ratio	6.0	8.0	5.5	11.4	14.1	2.6
Central govt. debt maturities (% GDP)	8.6	5.8	4.8	29.0	17.4	3.3

[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 cured in May 2016
[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

Recovering But Weak Ext. Buffers

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

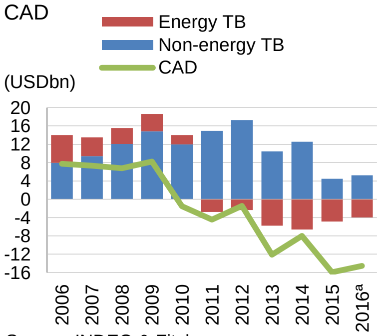


ᵃ Fitch forecasts

Source: IFS & Fitch

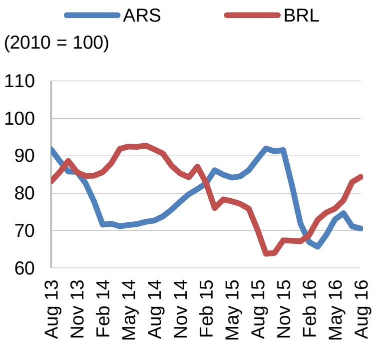
Structural External Deficit

Energy exports/imports balance & CAD



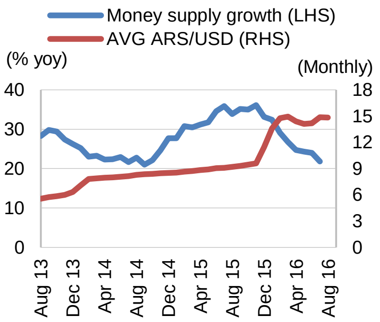
Source: INDEC & Fitch

ARS Real (REER) Adjustment



Source: BIS & Fitch

FX & Monetary Policy Adjustment



Source: IFS, BCRA & Fitch

Key Credit Developments

Default Cured, Easing of External Financing Constraints

While external liquidity remains weaker than at 'B' peers, increased exchange rate flexibility and the faster-than-anticipated resolution of the holdout issue[1] have facilitated access to external financing. Argentina returned to external capital markets after 15 years with a record issuance for emerging markets (USD16.5bn), re-tapped the external markets in June for USD2.7bn (for liability management purposes)[2] and recently issued EUR2.5bn. Subnational governments and the private sector have also taken advantage of improved market access.

International reserves reached USD32bn at the beginning of October, 30% above the end-2015 levels. Reserves' operational liquidity has improved, as the central bank repaid in advance a USD5bn repo with private banks and extended only USD1bn until the end of the year. The central bank also negotiated credit lines for USD2.5bn (including the BIS). The swap facility with China (USD10bn)[3] continues to support international reserves. Balance-of-payments pressure are likely to remain in check given increased exchange rate flexibility, access to external financing, and the discontinuation of using reserves for sovereign debt payments.

After the modification of the FX market, the monetary authority has maintained its commitment to increased exchange rate flexibility, having intervened in the FX market sporadically (last time in June after a lull since March) to manage volatility. Given increased FX capital inflows, the challenge for policymakers will be to prevent the return of REER appreciation leading to competitiveness losses and increased external imbalances.

The current account deficit could increase to 2.7% of GDP in 2016 and widen gradually over the forecast period, but remain below the 'BBB' median and moderate in the context of access to external financing. FDI inflows could improve from relatively low levels, and the tax amnesty announced by the government could also increase non-debt inflows. Nevertheless, a faster-than-anticipated growth recovery, failure to reduce fiscal deficits and REER appreciation represent upside risk for current account deficits. The external energy deficit is likely to remain a structural driver of the current account deficit, dependent on oil prices.

Disinflation and the Challenge of Achieving "Normal" Inflation

After an inflationary spike in 1H16 reflecting a weaker ARS, higher food prices and utility tariff increases, monthly inflation has begun to decelerate according to local governments' and private inflation estimates. Annual inflation for the month of August declined to 43%, from the July peak of 46%. Indec inflation figures[4] also reflect deceleration.

The central bank tightened policy sharply in the first few months of the year, but started to gradually reduce its current policy rate (35-day Lebacs) to 26.75%, from 38% in March-April, as its expectations survey points to declining inflation expectations. Expectations have reduced their gap with the ceiling of the inflation range set by the central bank for 2017. In an effort to strengthen monetary policy credibility and predictability, the central bank has made official its

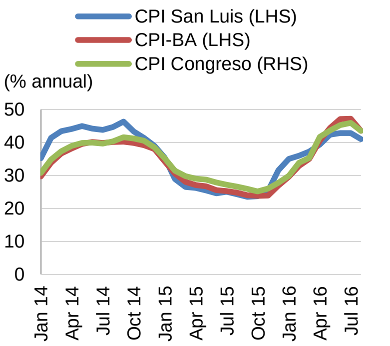
[1] The Macri administration obtained congressional approval to remove the Lock Law and Sovereign Payments Law (two pieces of legislation that prevented authorities from negotiating with holdouts) and paid settlement agreements with holdout creditors on 22 April after raising the necessary funds in external markets.

[2] The government has also expressed its intention to repurchase its GDP warrants (residual value of USD13bn in 1Q16) at the end of the year. It has tapped external markets for USD2.7bn in late June with this purpose.

[3] The ARS-RMB swap is included in international reserves, and the Macri administration converted USD3.2bn to USD.

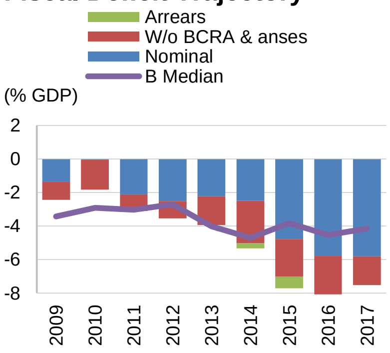
[4] The National Statistics Institute (INDEC) resumed publication of inflation figures after revamping the Greater Buenos Aires region CPI index starting in April with the publication of month-on-month inflation figures.

Challenge of Taming Inflation



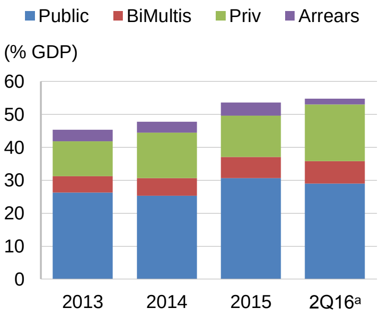
Source: National and Estimates & Fitch

Fiscal Deficit Trajectory



Source: MECON & Fitch

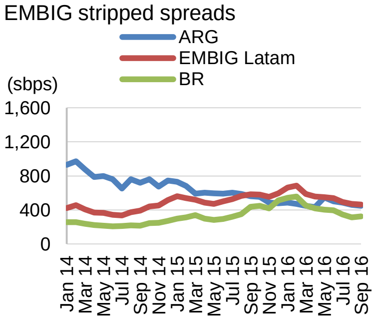
Federal Debt Composition



[a] Fitch estimates
Source: MECON & Fitch

Still Supportive Market Conditions

EMBIG stripped spreads



Source: JPM & Fitch

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[5].

While market expectations have come down rapidly in recent months, and also validated lower financing costs for the government, the disinflation process could face challenges from the backward indexation mechanism such as 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.

Slow Path of Fiscal Consolidation

Fitch estimates that the general government deficit[6] could increase to 5.6% of GDP in 2016, from 4.8% in 2015. The deterioration reflects lower revenue collection due to the weakness of the economy, and targeted tax reductions[7]. On the expenditure side, the payment of arrears worth 0.7% of GDP and adjustments to the subsidy reduction strategy[8] have prevented further expenditure reductions. Fitch expects the government to meet its 2016 federal primary deficit target of 4.8% of GDP (excluding central bank and social security transfers), but the fiscal consolidation path going forward will be more gradual than initially anticipated.

Under the 2017 budget proposal, the “clean” federal primary deficit was revised up to 4.2% of GDP from 3.3% outlined in the original fiscal strategy. This revision reflects real spending increases due to social and pension outlays, and the reactivation of public investment through initiatives such the Belgrano Plan, a key proposal of President Macri that would build infrastructure in the Northern provinces. The tax amnesty initiative[9] provides upside risk to revenue projections, but will be partly directed to meet the government’s new commitments for social security[10].

The Macri administration’s 2017 budget attempts to reduce the pervasive discretionary character during the previous administration, partly through more realistic estimates on growth and inflation, and ratify the commitment to fiscal consolidation. Nevertheless, the government’s fiscal strategy will depend on an economic recovery that supports revenue growth, the containment of expenditure pressures and availability of financing sources. The consolidated provincial deficit widened to 0.9% of GDP in 2015 and could remain at similar levels over the forecast period. Expenditure pressures stem from a heavy wage bill (54% of total expenditure).

High Financing Needs, But Reduced Financing Pressures

Gross general government debt (consolidating federal and provincial debt with federal debt held by 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 1Q16. In the first part of the year, and in addition to returning to external capital markets, the government’s local financing strategy was aimed at capturing USD liquidity through short-term

[5] The central bank will also switch its current policy rate to a seven-day repo rate in 2017, and meet on a weekly basis. The monetary authority is also moving towards consolidation its monetary absorption instruments by reducing its series and organising maturities.

[6] Fitch estimates the general government balance by consolidating the federal (national public sector) and consolidated provincial balances.

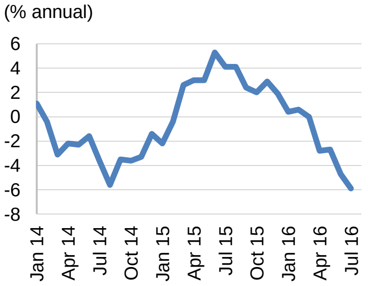
[7] The Macri administration implemented reduction to export taxes, lower VAT for low income families, and increasing the threshold for income tax payments estimated at 1% of GDP.

[8] The reduction of the government’s heavy subsidy bill (4.5% of GDP at end-2015) was challenged in lower courts The Supreme Court ordered the government to comply with public audiences but did not constrain the ability of the government to raise tariffs. Audiences were held in August, and the government is attempting to phase out subsidy transfers by 2019.

[9] The tax amnesty for declaring assets held abroad by Argentines will take place between September 2016 and March 2017. Local estimates range from declaration of between USD20bn and USD80bn in assets. By declaring assets, Argentines could select: 1) paying 10% tax penalty; or 2) investing in either a three-year zero-coupon or a seven-year 1% coupon government bond.

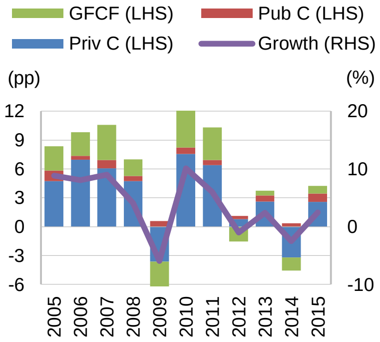
[10] The Historic Reparation Act complies with past judicial rulings updating benefits for pensioners. This could add 1.2%-1.5% of GDP to social security payments permanently, which already accounts for 34% of federal spending.

Contracting Economic Activity
Eco. Activity Estimate



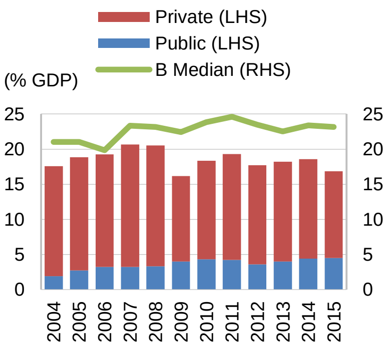
Source: INDEC & Fitch

The Consumption Decade



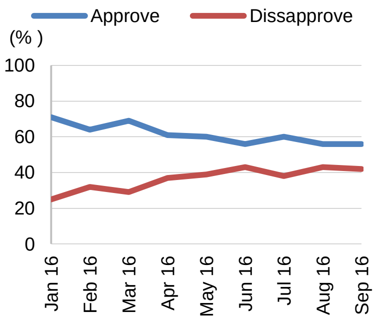
Source: INDEC & Fitch

The Investment Deficit



Source: MECON & Fitch

Majority Still Approves Government



Source: Poliarquia-La Nacion

issuances. In 2H16, the sovereign issued inflation-linked instruments and increasingly issued local currency at fixed rates. Argentina tapped local markets with a three-year ARS50bn 18.2% fixed-rate bond in late September, thus signalling improved market appetite for ARS debt.

Fitch forecasts the general government deficit to equal 5.8% of GDP in 2017 and total amortisations at 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. Central bank transfers are forecast to fall from 2% of GDP in 2016 to 1.5% in 2017. The most significant bond repayment in 2017 is the USD-denominated Bonar X (USD6.9bn), which could be rolled over given current market conditions, and at least 25% of total 2017 amortisations are intra-public sector (down from 50% in 2015). Significant financing requirements, though, create vulnerability to global conditions and investor confidence.

Delay in Economic Recovery

The economy has been weakened by high inflation, the impact of utility tariff increases (electricity), the ARS initial depreciation, weaker commodity prices and the Brazilian recession. The economy could contract by 1.7% in 2016 and could recover to 3.2% growth in 2017, driven by improvement in real incomes, the reactivation of public investment, and a better growth outlook for Brazil. On the supply side, construction and agriculture will likely lead the rebound.

Argentina does not only face a cyclical downturn and relative price adjustment. Over the past decade, the economy has been propelled by consumption and public spending, thus creating the challenge to switch from a consumption-led model to increasing investment. The government reports investment announcements worth USD48bn from private and public-private initiatives. Investment is low compared to 'B' peers, and private investment has been on the decline. The investment outlook is dependent on consolidating economic policy predictability, lower interest rates, and development of long-term financing mechanisms.

The financial sector is small and stable, reflecting a conservative approach in light of strong state intervention and macroeconomic distortions under previous governments. The incipient credit recovery (currently driven by foreign-currency credit) could provide support for domestic demand, as inflation and interest rates come down and employment begins to recover.

Institutional Progress, Electoral Challenges

In spite of having a minority position in Congress, the Macri administration has been able to muster the necessary support to move forward with key pieces of legislation such as the law to settle with holdout creditors and the tax amnesty. Nevertheless, the cooperation has not been consistent, as the government has resisted heterodox initiatives such as three-month labour immobility (vetoed by President Macri) and the establishment of import controls.

The government is making progress in rebuilding the institutional framework of economic policy through the transition to inflation targeting regime and increasing the credibility of budgetary process as the anchor of economic policy. Moreover, the re-establishment of IMF reviews under Article IV (carried out at the end of September after 10 years) stresses the new government's intention of improving transparency. Finally, the government has engaged in a process of recovering/improving the reliability of official figures produced by INDEC.

Legislative elections are scheduled to take place in 2017. The Macri administration maintains strong approval ratings, and the Cambiemos coalition's electoral fortunes will depend on the magnitude and perception of economic rebound and the stage of the process of the Peronist party reorganisation, as it is divided among factions such as: 1) loyalists to former president CFK; 2) governors controlling the senate; and 3) the "renovation front" under former chief of cabinet Sergio Massa.

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.

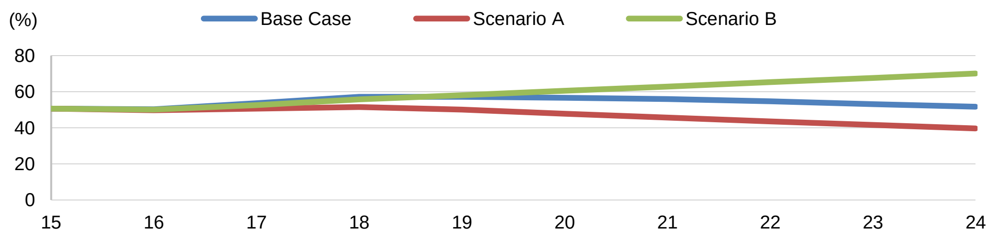
Public Debt Dynamics

According to Fitch's baseline projections, gross general government debt should peak at 57% and reduce gradually over the medium term. The main risks to debt sustainability would be a failure to reduce the primary budget deficit, rapid Argentine peso weakening and growth underperformance.

Debt Dynamics: Fitch's Baseline Assumptions

	2015	2016f	2017f	2018f	2019f	2020f	2021f
Gross general government debt (% GDP)	50.6	50.4	53.6	57.2	57.1	56.7	55.9
Primary balance (% of GDP)	-2.4	-3.1	-3.1	-2.4	-2.0	-1.5	-1.0
Real GDP growth (%)	2.4	-1.7	3.2	3.4	3.5	3.5	3.5
Avg. nominal effective interest rate (%)	6.9	7.9	7.7	7.8	8.0	8.2	8.4
ARS/USD (annual avg.)	9.23	14.63	17.37	19.98	22.44	24.68	27.15
GDP deflator (%)	23.7	40.0	19.7	16.7	15.0	15.0	15.0

Sensitivity Analysis
GG debt (% of GDP)



Source: Fitch

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Scenario A	Sustained recovery reaching 4% growth MT; elimination of primary deficit by 2020; annual 5% depreciation; and inflation declining to upper single digits.
Scenario B	Growth stagnating at 1% MT; failure to reduce primary deficits below 2% of GDP; Rapid ARS depreciation (20%); and inflation remaining above 20%.

Forecast Summary

	2012	2013	2014	2015	2016f	2017f	2018f
Macroeconomic indicators and policy							
Real GDP growth (%)	-1.1	2.3	-2.6	2.4	-1.7	3.2	3.4
Unemployment (%)	7.2	7.1	7.3	8.4	8.1	7.7	7.7
Consumer prices (annual average % change)	10.0	10.9	17.4	25.9	33.8	29.8	18.5
Short-term interest rate (bank policy annual avg.) (%)	12.0	14.9	20.4	21.2	30.0	22.0	17.0
General government balance (% of GDP)	-2.5	-2.2	-2.5	-4.8	-5.6	-5.8	-5.3
General government debt (% of GDP)	37.7	38.7	42.6	50.6	50.4	53.6	57.2
ARS per USD (annual average)	4.54	5.46	8.08	9.23	14.63	17.37	19.98
Real effective exchange rate (2000=100)	57.7	59.3	56.9	73.3	65.4	70.8	75.0
Real private sector credit growth (%)	7.5	5.9	-14.6	9.6	-6.7	12.8	11.4
External finance							
Current account balance (% of GDP)	-0.2	-2.0	-1.4	-2.5	-2.7	-3.1	-3.4
Current account balance plus net FDI (% of GDP)	2.2	-0.5	-0.9	-0.8	-1.9	-2.2	-2.2
Net external debt (% of GDP)	-15.2	-13.6	-13.8	-11.0	-8.5	-6.2	-3.9
Net external debt (% of CXR)	-89.5	-87.8	-90.8	-93.2	-60.7	-43.1	-27.0
Official international reserves including gold (USDbn)	43.2	30.5	31.4	25.8	31.4	31.6	32.2
Official international reserves (months of CXP cover)	5.1	3.4	4.0	3.4	4.1	3.8	3.6
External interest service (% of CXR)	5.1	5.3	6.3	6.8	8.8	10.0	10.7
Gross external financing requirement (% int. reserves)	18.0	38.0	50.8	99.8	86.7	124.0	89.2
Real GDP growth (%)							
US	2.2	1.7	2.4	2.6	1.4	2.0	2.2
China	7.7	7.7	7.3	6.9	6.5	6.3	5.8
Eurozone	-0.9	-0.4	1.0	2.1	1.6	1.4	1.4
World	2.5	2.4	2.5	2.6	2.4	2.8	2.9
Oil (USD/barrel)	112.0	108.8	98.9	52.6	42.0	45.0	55.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2013	2014	2015	2016f	2017f	2018f
General government						
Revenue	**35.5**	**36.4**	**37.5**	**35.2**	**34.6**	**34.3**
Expenditure	**37.7**	**38.9**	**42.3**	**40.8**	**40.4**	**39.6**
O/w interest payments	1.5	1.8	2.3	2.5	2.7	2.9
Primary balance	-0.7	-0.7	-2.4	-3.1	-3.1	-2.4
Overall balance	**-2.2**	**-2.5**	**-4.8**	**-5.6**	**-5.8**	**-5.3**
General government debt	**38.7**	**42.6**	**50.6**	**50.4**	**53.6**	**57.2**
% of general government revenue	109.1	116.8	134.9	143.4	154.8	166.8
Central government deposits	4.2	4.1	3.1	2.3	2.2	2.0
Net general government debt	34.6	38.5	47.5	48.1	51.4	55.2
Central government						
Revenue	**21.4**	**22.2**	**22.7**	**21.0**	**20.8**	**20.6**
O/w grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**23.3**	**24.6**	**26.5**	**25.9**	**25.7**	**24.9**
O/w current expenditure and transfers	22.0	23.0	24.5	23.6	23.2	22.3
- Interest	1.2	1.5	2.1	2.3	2.5	2.7
O/w capital expenditure	2.7	2.8	2.8	2.3	2.4	2.5
Current balance	0.8	0.5	-1.1	-2.7	-2.5	-1.9
Primary balance	-0.7	-0.8	-1.8	-2.6	-2.4	-1.7
Overall balance	**-1.9**	**-2.4**	**-3.9**	**-4.9**	**-4.9**	**-4.4**
Central government debt	34.1	38.8	46.9	46.6	49.6	52.9
% of central government revenues	159.8	174.5	207.0	221.8	237.7	257.2
Central government debt (ARSbn)	**1,147.2**	**1,786.0**	**2,739.2**	**3,743.2**	**-**	**-**
By residency of holder						
Domestic	-	-	-	-	-	-
Foreign	-	-	-	-	-	-
By currency denomination						
Local currency	449.5	690.2	992.4	1,350.4	-	-
Foreign currency	697.6	1,095.8	1,746.8	2,392.7	-	-
In USD equivalent (eop exchange rate)	107.3	128.8	133.3	148.1	-	-
Average maturity (years)	9.0	8.1	7.8	8.1	-	-
Memo						
Nominal GDP (ARSbn)	3,361.2	4,608.7	5,838.5	8,037.8	9,924.7	11,972.6

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2011	2012	2013	2014	2015	2016f
Gross external debt	**143.5**	**142.0**	**143.4**	**153.0**	**164.9**	**193.7**
% of GDP	26.9	24.3	23.3	26.8	26.1	35.3
% of CXR	138.4	142.9	150.6	176.3	219.9	251.7
By maturity						
Medium- and long-term	105.3	110.6	112.3	130.9	121.7	162.7
Short -term	38.2	31.5	31.1	22.1	43.2	31.0
% of total debt	26.6	22.1	21.7	14.4	26.2	16.0
By debtor						
Sovereign	**77.2**	**74.0**	**75.9**	**89.4**	**96.6**	**121.6**
Monetary authorities	10.7	8.7	6.7	9.6	16.9	18.4
General government	66.5	65.3	69.2	79.8	79.6	103.2
O/w central government	-	-	-	-	-	-
Banks	**3.8**	**2.9**	**2.7**	**2.7**	**3.4**	**3.2**
Other sectors	**62.5**	**65.1**	**64.8**	**60.9**	**64.9**	**68.9**
Gross external assets (non-equity)	**222.6**	**231.0**	**227.0**	**231.8**	**234.7**	**240.5**
International reserves, incl. gold	46.4	43.2	30.5	31.4	25.8	31.4
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	2.2	2.6	2.3	2.4	3.0	3.2
Other sector foreign assets	0.2	0.2	0.2	0.2	0.2	0.2
Net external debt	**-79.1**	**-89.0**	**-83.6**	**-78.8**	**-69.8**	**-46.7**
% of GDP	-14.8	-15.2	-13.6	-13.8	-11.0	-8.5
Net sovereign external debt	30.8	30.8	45.4	58.0	70.8	90.2
Net bank external debt	1.6	0.3	0.3	0.3	0.4	0.1
Net other external debt	-111.5	-120.1	-129.3	-137.1	-141.0	-137.0
Net international investment position	**49.5**	**57.8**	**61.6**	**68.2**	**52.6**	**-**
% of GDP	9.3	9.9	10.0	12.0	8.3	-
Sovereign net foreign assets	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.1**
% of GDP	-5.8	-5.3	-7.4	-10.2	-11.2	-16.4
Debt service (principal & interest)	**15.3**	**12.0**	**9.4**	**12.9**	**20.5**	**14.6**
Debt service (% of CXR)	14.7	12.1	9.8	14.9	27.3	18.9
Interest (% of CXR)	4.8	5.1	5.3	6.3	6.8	8.8
Liquidity ratio (%)	111.9	91.8	105.4	70.5	74.5	47.6
Net sovereign FX debt (% of GDP)	13.0	15.1	17.6	22.2	21.9	26.9
Memo						
Nominal GDP	533.2	584.6	615.7	570.7	632.3	549.4
Inter-company loans	25.5	29.4	29.6	28.5	28.8	0.0

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

Sovereign Debt Service Schedule on Medium- and Long-Term Debt at 1Q16

(USDbn)	2016	2017	2018	2019	2020	2021	2022
Bonds	10.2	15.6	7.5	5.8	5.2	11.0	13.6
O/w BCRA	0.0	0.0	0.0	0.0	0.0	9.6	7.8
Multilateral	1.4	1.8	1.8	1.6	1.5	1.4	1.1
Guaranteed	0.4	0.7	0.2	0.0	0.0	0.0	0.0
Commercial Banks	1.6	1.1	0.1	0.0	0.0	0.0	0.0
Official	1.6	2.1	2.1	2.3	0.2	0.2	0.2
Transitory advances BCRA	16.1	7.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.0	0.1	0.5	0.1	0.1	0.1
Total	31.5	28.5	11.8	10.2	7.0	12.6	15.0

Source: Ministry of Finance, Central Bank and Fitch

Balance of Payments

(USDbn)	2013	2014	2015	2016f	2017f	2018f
Current account balance	**-12.1**	**-8.0**	**-15.9**	**-14.6**	**-17.6**	**-20.2**
% of GDP	-2.0	-1.4	-2.5	-2.7	-3.1	-3.4
% of CXR	-12.8	-9.3	-21.3	-18.9	-21.4	-23.5
Trade balance	**4.7**	**6.0**	**-0.4**	**1.3**	**0.3**	**-0.3**
Exports, fob	76.0	68.4	56.8	57.3	61.3	64.4
Imports, fob	71.3	62.4	57.2	56.0	61.1	64.7
Services, net	**-3.7**	**-3.1**	**-3.9**	**-3.5**	**-4.5**	**-4.9**
Services, credit	14.6	13.7	13.9	15.2	16.0	16.8
Services, debit	18.3	16.8	17.8	18.7	20.4	21.6
Income, net	**-12.3**	**-10.8**	**-11.3**	**-11.9**	**-12.9**	**-14.2**
Income, credit	2.4	2.6	2.3	2.4	2.4	2.4
Income, debit	14.7	13.3	13.6	14.3	15.3	16.7
O/w: Interest payments	5.1	5.4	5.1	6.8	8.2	9.2
Current transfers, net	**-0.8**	**-0.2**	**-0.4**	**-0.4**	**-0.5**	**-0.8**
Capital and financial accounts						
Non-debt-creating inflows (net)	10.1	4.3	9.0	6.0	7.0	9.0
O/w equity FDI	9.7	4.1	8.7	4.0	5.0	7.0
O/w portfolio equity	0.3	0.2	0.2	2.0	2.0	2.0
O/w other flows	0.0	0.1	0.1	0.0	0.0	0.0
Change in reserves	-11.8	1.4	-4.7	5.6	0.2	0.6
Gross external financing requirement	16.4	15.5	31.3	22.3	38.9	28.2
Stock of international reserves, incl. gold	30.5	31.4	25.8	31.4	31.6	32.2

Source: IMF and Fitch estimates and forecasts

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