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Argentina's Sovereign Rating

On the Right Track. Challenging Road Ahead

Relatively Low Rating in a Diverse Neighborhood



Argentina is Currently Rated 'B'.

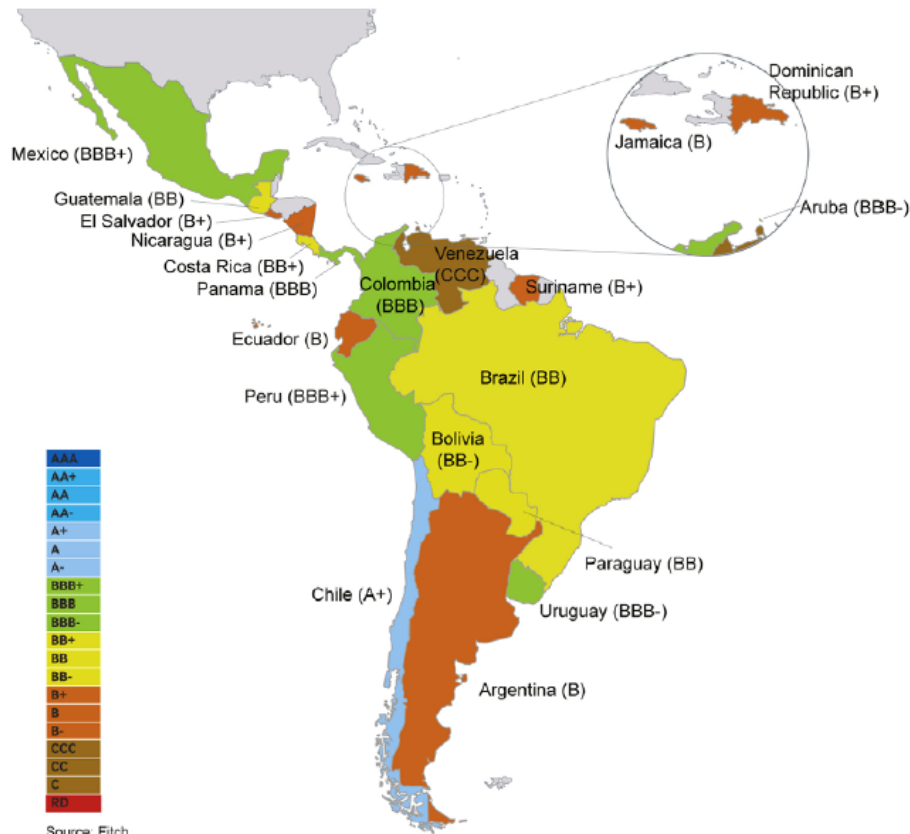
- One of the lowest ratings in the region.
- Higher only than Venezuela.
- A Whole Category Below the 'BB' Median.

A History of Rating Volatility.

- Two Defaults in about 20 Years.

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	



Upgrade Drivers & Sensitivities



“Argentina is the only Country Upgraded from ‘D’/‘RD’ directly to ‘B’. Twice”



Rating Upgrade Drivers

- Improved Policy Framework
- Recovery in International Reserves
- High Inflation
- Growth Recovery in 2017
- Gradual Fiscal Consolidation
- 2017 Mid-Term Elections

Rating Sensitivities

- Fiscal, External, Macro Improvement
- Financing Pressures, Reserves Declines

Rating Factors



Analytical Pillars

	Macro Performance, Policies, Prospects	Public Finances	External Finances	Structural Features
Sovereign Rating Model	<ul style="list-style-type: none"> • GDP growth • Inflation • Volatility 	<ul style="list-style-type: none"> • Deficit • Debt • FX debt • Interest payments 	<ul style="list-style-type: none"> • Commodity dependence • Reserve currency • Sovereign assets • Interest service • FX reserves 	<ul style="list-style-type: none"> • Governance • GDP p/c • Share of world GDP • Money supply • Default record
Qualitative Overlay Adjustment	<ul style="list-style-type: none"> • Macro policy framework • MT growth outlook • Macro stability 	<ul style="list-style-type: none"> • Financing flexibility • Debt sustainability • Fiscal rigidity 	<ul style="list-style-type: none"> • Financing flexibility • Debt sustainability • Vulnerability to shocks 	<ul style="list-style-type: none"> • Political risk • Banking sector • Business environment

Source: Fitch



2 Industry Ratings

Upside Potential. Subject to Environment

Upgrades to Outpace Downgrades for the first time since 2007



- **Stable Outlook.** Stable Outlook dominates portfolio with more than 80% ratings, 3% Negative and 16% Positive Outlook. Most evolving from Negative Outlook.
- **Weak liquidity, manageable Leverage.** Average leverage below Latam peers with 2,7x Debt / EBITDA. Weak liquidity and tight Interest coverage ratios remain as key challenges.
- **External Headwinds.** Commodities prices, key commercial partners weakness and overall fragile global demand add uncertainty to local operating environment.
- **Sectors to Watch Closely.** Retailing, Building Materials & Construction, small E&P producers
- **International Capital Markets Access.** Starting late 2015 as of today more than USD 17 bn issuances.

Against Backdrop of Solid Corporate Financials and Strong Fundamentals Key Risks Include



Country Risks

- Evolving reforms – Infrastructure, utilities
- Governance
- Elections with potential trade and regulatory implications
- High commodity exposure

Business Risks

- Trade channels are becoming more fluid
- Foreign exchange movements can erode competitive cost position

Financial Risks

- Capital market windows are extremely volatile
- Size of issuance and issuer are important during periods of high market volatility
- Local capital markets stable but shallow
- Weak liquidity
- Increasing FX exposure

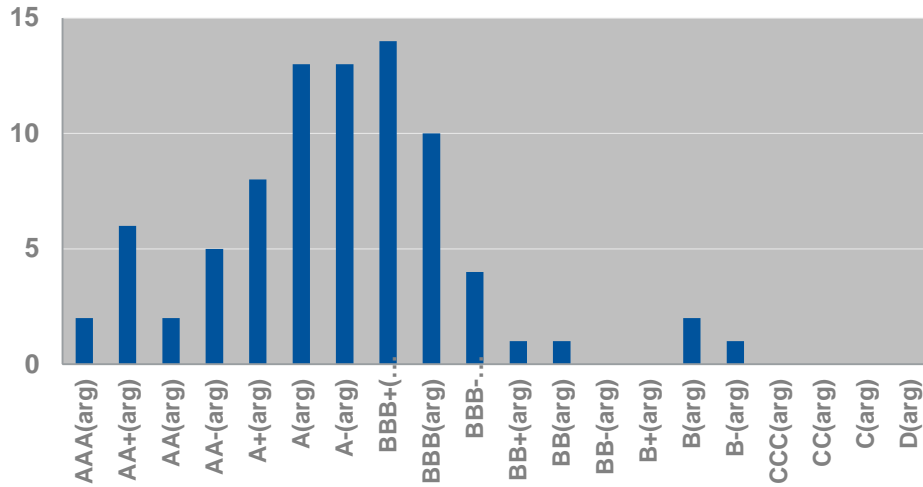
China / Brazil

- Slowdown economic activity

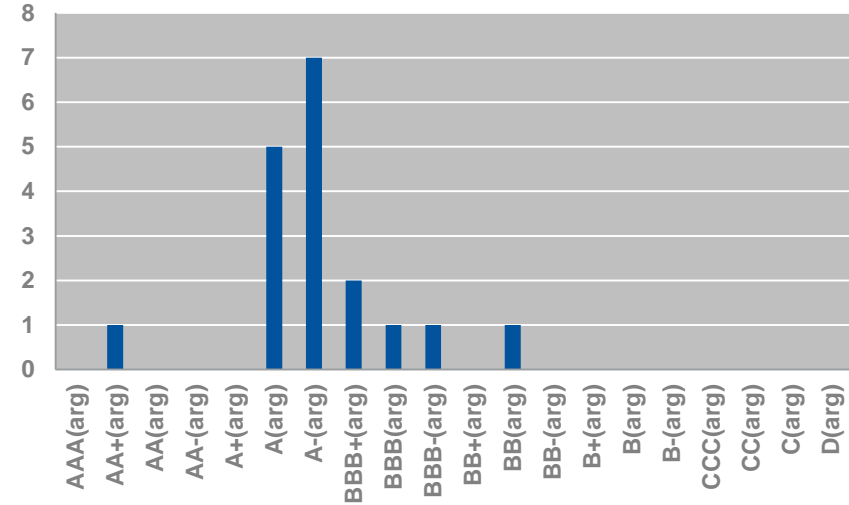
National Scale Ratings Distribution, Stable Outlook Dominates



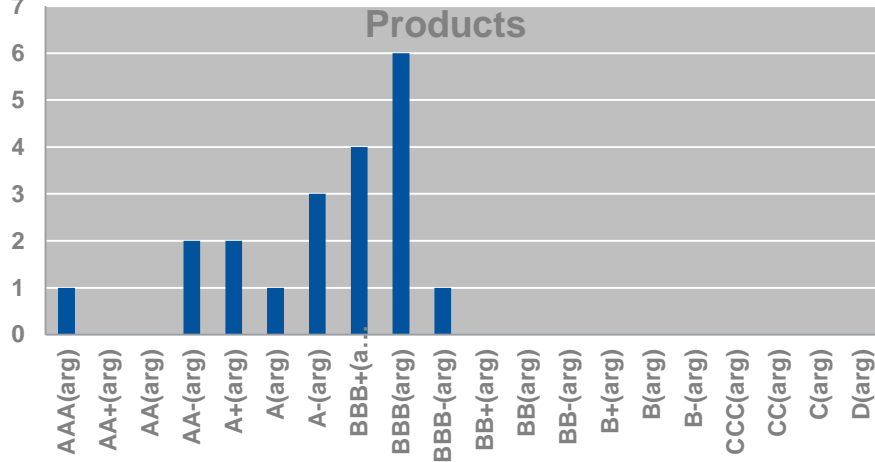
IDR: Corporates Portfolio National Scale



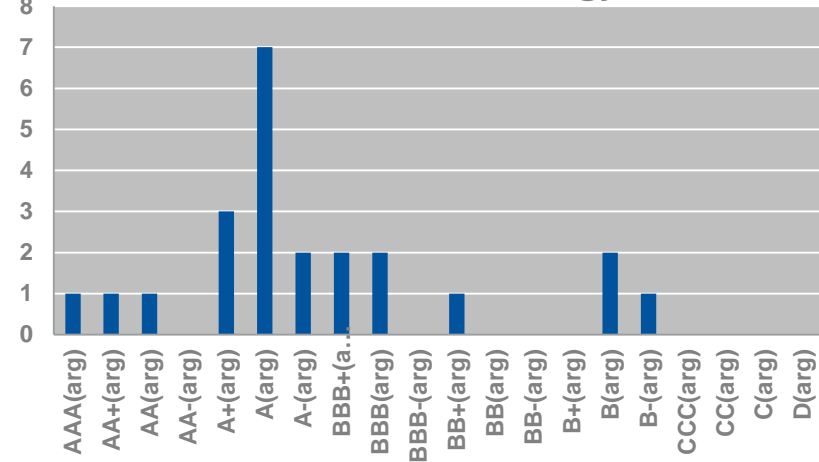
IDR: Industrials



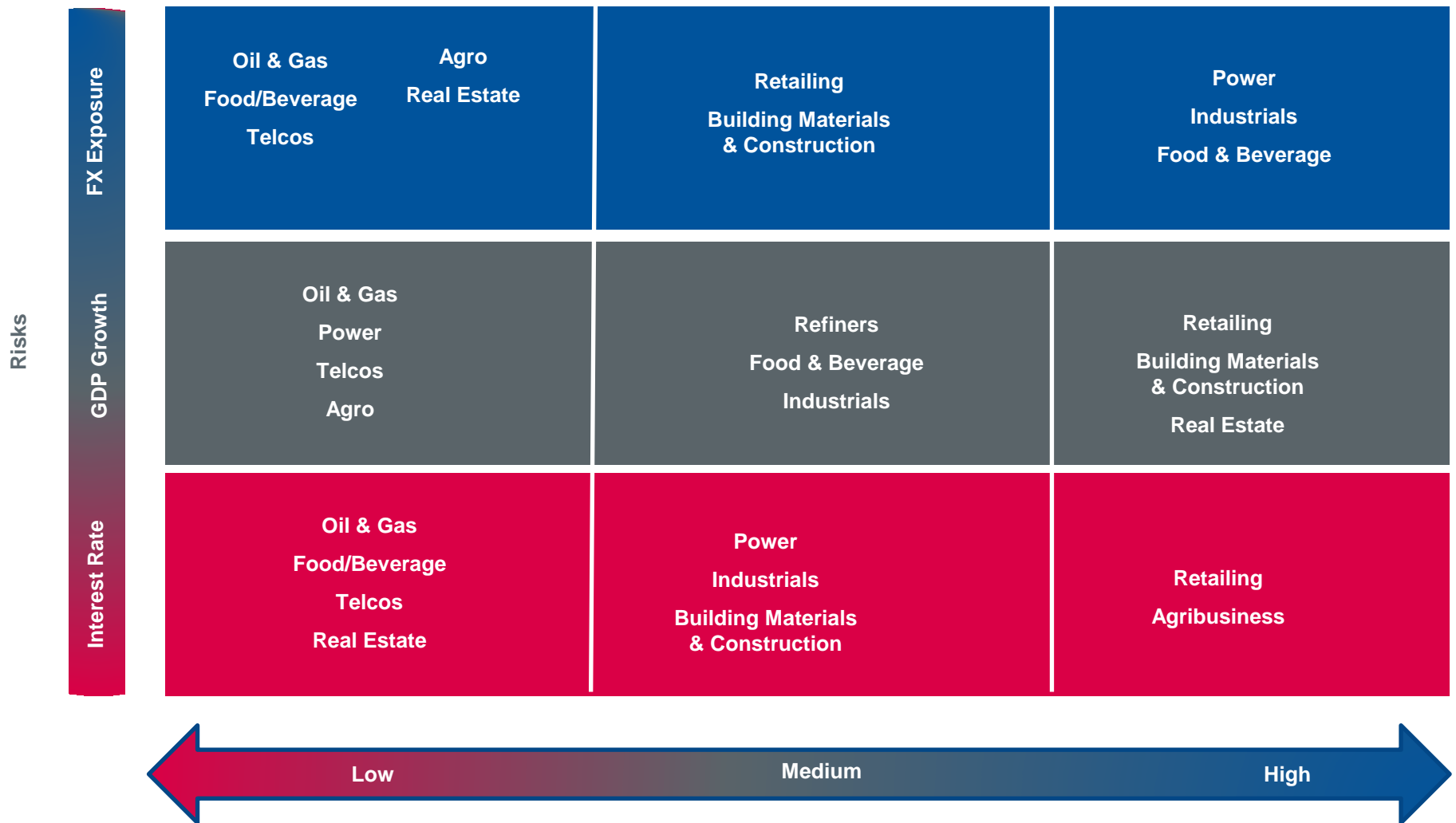
IDR: Retail, Leisure & Consumer Products



IDR: Utilities & Energy



Sector Specific Exposure to Key Risks

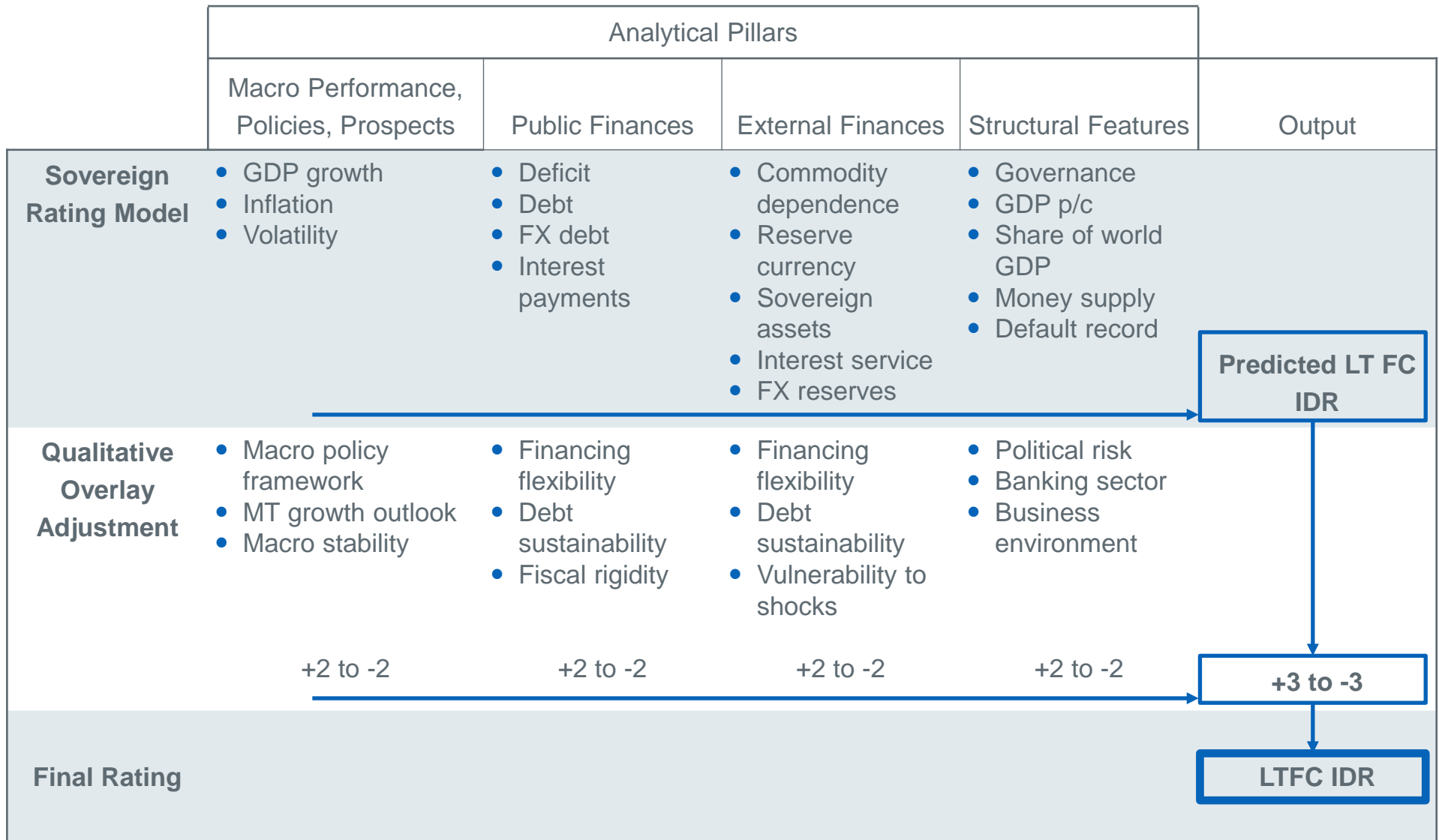




3 Rating Criteria

Forward Looking Transparency

Sovereign Criteria Overview



Source: Fitch

Sovereign Rating Model

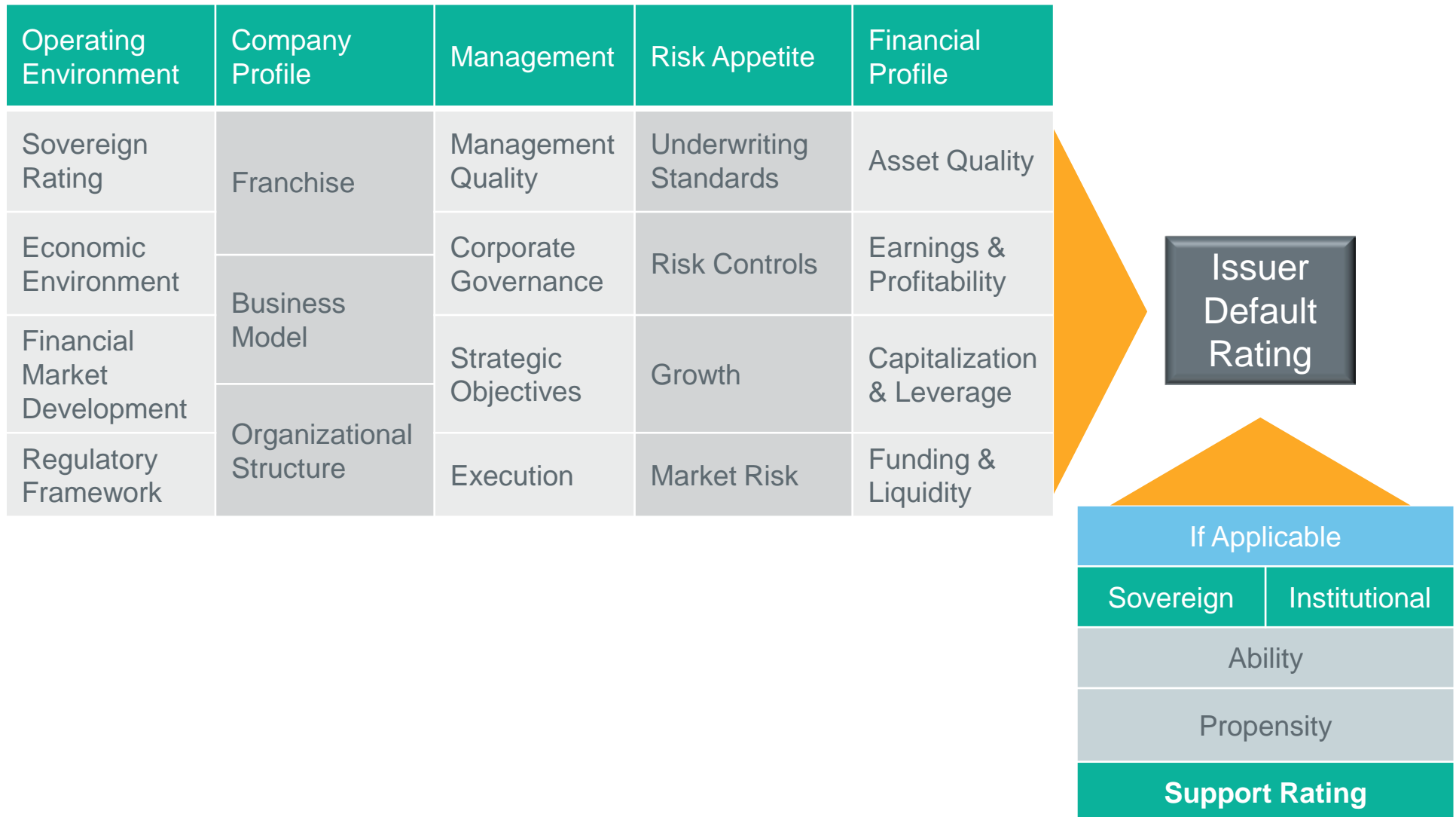


Pillar (weight)	Variable	Weight	Impact	Measure
Macroeconomic Performance (12%)	Consumer price inflation	3.7	-	3-year average CPI
	Real GDP growth	3.4	+	3-year average real GDP growth
	Real GDP growth volatility	4.7	-	Natural log of trailing 10-year standard deviation
Public Finances (17%)	Budget balance	3.7	+	3-year average general government balance/GDP
	Gross government debt	6.7	-	3-year average general government debt/GDP
	Interest payments	4.0	-	3-year average general government interest/revenue
	Public foreign-currency debt	2.3	-	3-year average FC-denominated debt/total debt
External Finances (18%)	Commodity dependence	2.1	-	Non-manufactured merchandise exports/current account receipts
	Current account + net FDI	0.5	+	3-year average (CAB + net FDI)/GDP
	Sovereign net foreign assets	4.2	+	FX Reserves + government external assets
	External interest service	1.3	-	3-year average interest serves/current account receipts
	Reserve currency flexibility	8.5	+	Natural log of share of currency in global FXR holdings
	Official international reserves	1.4	+	Months cover of import payments of year-end stock of reserves
Structural Features (53%)	Money supply	2.5	+	Natural log of broad money/GDP
	GDP per capita	15.1	+	Percentile rank of GDP p/c in USD at market exchange rates
	Composite governance indicator	18.7	+	Rule of law; gov't effectiveness; corruption; voice & accountability
	Share in world GDP	12.0	+	Natural log of GDP/Global GDP
	Years since default	5.3	-	Non-linear function of last default since 1980

The “Higher of” Approach. Key Rating Drivers.



Global Bank Rating Criteria





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