

# Fitch Downgrades Argentina's Par Bonds Ratings to 'D'

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Fitch Ratings-New York: Fitch Ratings downgrades Argentina's ratings as follows: -- Par Bonds issued under Foreign Law to 'D' from 'C'. In addition, Fitch has affirmed the following:-- Foreign Currency Issuer Default Rating (IDR) at 'RD';-- Local Currency IDR at 'CCC';-- Short-term Foreign Currency IDR at 'RD';-- Country Ceiling at 'CCC'. -- Performing Foreign Law Exchanged Securities (Global 17) at 'C';-- Local Currency exchanged bonds under Argentine Law at 'CCC';-- Foreign and Local Currency non-exchanged securities under Argentine Law at 'CCC'; -- Discount Bonds issued under Foreign Law at 'D'. The ratings on all of Argentina's Fitch-rated securities have been simultaneously withdrawn as these are no longer considered to be relevant to Fitch's coverage.

**KEY RATING DRIVERS** Argentina has not been able to cure the missed coupon payments on its par bonds issued under foreign law after the expiration of the 30-day grace period on October 30. According to Fitch's criteria, this constitutes an event of default and Fitch has downgraded the affected securities to 'D'. The only exchanged FC bond under foreign law that remains performing is the Global17 bond, which has a coupon payment scheduled for December 2. Moreover, cross-default provisions allow for holders of exchanged bond series currently not in default to declare the acceleration of bond payments. Fitch's affirmation of the foreign currency IDR at 'RD' reflects Argentina's inability to cure the default. Fitch's affirmation of the local currency IDR at 'CCC' reflects the agency's view that the economy will continue to suffer from higher uncertainty and financial volatility following the sovereign default, especially as the duration of default is unpredictable. The Argentine economy is already in recession and this is likely to worsen as the default event affects confidence and potentially further constrains foreign exchange flows to the country, leading to exchange rate volatility (official as well as parallel market rates). Potentially higher fiscal deficits and monetization of those deficits could further weaken Argentina's economy. Moreover, pressure on foreign reserves is likely to resume, especially next year as there are sizeable maturities falling due on some of these bonds (e.g. Boden 2015).

**RATING SENSITIVITIES** Note that the Foreign and Local Currency IDRs do not have Rating Outlooks. The resumption of timely debt service on defaulted bonds will likely lead to the upgrade of the foreign currency IDR. At such time, Fitch will review Argentina's ratings and make an assessment based on the sovereign's capacity to service debt, its economic fundamentals, and the remaining litigation risks.

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