

# Fitch Downgrades Argentina's FC IDR to 'RD'

31 de julio de 2014

Fitch Ratings-New York: Fitch Ratings downgrades Argentina's ratings as follows: -- Foreign Currency Issuer Default Rating (IDR) to 'RD' from 'CC';-- Short-Term Foreign Currency Issuer Default Rating to 'RD' from 'C';-- Local Currency IDR to 'CCC' from 'B-';-- Discount Bonds issued under Foreign Law to 'D' from 'CC';-- Performing Foreign Law Exchanged Securities (Pars and Global 17) to 'C' from 'CC';-- Foreign Currency exchanged bonds under Argentine Law to 'C' from 'B-'; -- GDP linked securities to 'CC' from 'B-'; -- Local Currency exchanged bonds under Argentine Law to 'CCC' from 'B-';-- Foreign and Local Currency non-exchanged securities under Argentine Law to 'CCC' from 'B-'; -- Country Ceiling to 'CCC' from 'B-'.The ratings on the foreign currency exchanged bonds under Argentine Law have been simultaneously withdrawn due to the difficulty of monitoring the timely servicing of these bonds. The ratings on the GDP linked securities have also been withdrawn as these are no longer considered to be relevant to Fitch's coverage.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 discount bonds issued under foreign law after the expiration of the 30-day grace period on July 30. According to Fitch's criteria, this constitutes an event of default and Fitch has downgraded Argentina's Foreign Currency IDR to 'RD' and the affected securities to 'D'.The legal process related to the dispute between Argentina and certain holdout creditors that did not participate in the 2005 and 2010 exchange offers culminated with the denial of Argentina's cert petition to the U.S. Supreme Court. As such, the U.S. Lower Court ruling was upheld, which prohibited Argentina from making payments to exchanged bond holders unless payments were also made to the plaintiffs in the case. Argentina entered into the grace period related to its coupon payments on foreign law exchanged securities (the discount bonds) due on June 30. No agreement was achieved between the government of Argentina and the holdout creditors to avert a default upon the expiry of the grace period.Fitch's downgrade of the local currency IDR by one notch reflects the agency's view that the economy will 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).Fitch's downgrade of the Country Ceiling reflects the view that capital controls could be tightened further in the context of the sovereign's limited foreign financing options, especially as the authorities attempt to prevent a faster decline in international reserves. This could potentially impair the private sector's ability to access foreign exchange to meet debt service.Fitch has downgraded the rating of performing exchanged bonds under foreign law to 'C' to reflect a very high level of default risk, particularly given the imminence of the next scheduled coupon payments. There is significant uncertainty pertaining to any possible negotiations between the government of Argentina and the plaintiffs in the case. A negotiated settlement could facilitate the resumption of timely debt service payments by Argentina on these securities but such an outcome is subject to significant uncertainty.The next coupon payments are due on 30 September (Par bonds) and 2 December (Global 17 bonds). Moreover, cross-default provisions allow for holders of exchanged bonds series currently not in default to declare the acceleration of bond payments.

**RATING SENSITIVITIES** The Foreign and Local Currency IDRs do not have Rating Outlooks.In the absence of bond payment acceleration, Fitch would move the rating of other Foreign Currency exchanged bonds under foreign law (Pars and Global 17) to 'D' if missed payments on their scheduled due dates are not remedied at the end of their respective grace periods.On the other hand, 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 the ratings of Argentina and make an assessment based on the sovereign's capacity to service debt, its economic fundamentals, and the remaining litigation risks. Contact: Primary Analyst Santiago Mosquera Director +1-212-908-0271 Fitch Ratings, Inc. 33 Whitehall St. New York, NY 10004 Secondary Analyst Shelly Shetty Senior Director +1-212-908-0324 Committee Chairperson Tony Stringer Managing Director +44 20 3530 1219 Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com. Additional information is available at 'www.fitchratings.com'. Applicable Criteria and Related Research: --'Sovereign Rating Criteria' (Aug. 13, 2012). --'Country Ceiling Criteria' (Aug. 09, 2013). Applicable Criteria and Related Research: Country Ceilings Sovereign Rating Criteria Additional Disclosure Solicitation Status ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.