Fitch Downgrades Argentina's FC IDR to 'CC'; LC IDR to 'B-' With a Negative Outlook. Ratings Endorsement Policy.

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Fitch Ratings-New York: Fitch Ratings has downgraded Argentina's long-term foreign currency (FC) Issuer Default Rating (IDR) to 'CC' from 'B' and the short-term IDR to 'C' from 'B'. All securities issued under international law have been downgraded to 'CC' while both FC and local currency (LC) denominated securities issued under Argentine Law have been downgraded to 'B-'. Fitch has also downgraded Argentina's LC IDR to 'B-' from 'B'; the Outlook on the LC IDR is Negative. The Country Ceiling has been downgraded to 'B-' from 'B'. The downgrade of the long-term foreign currency IDR reflects Fitch's view that a default by Argentina is probable. The increased probability that Argentina will not service its restructured debt securities issued under New York law on a timely basis reflects US District Judge Griesa's decision on Nov. 21 to remove the stay order on the ruling that Argentina must pay US$1.33 billion to holdout investors concurrent with or prior to its payments due to holders of the 2005 and 2010 restructured debt. The stay order will be removed with effect from Dec. 15. Argentina is due to pay approximately USD3 billion of GDP-linked warrants on Dec. 15, 2012. A missed payment on the GDP-linked warrants could trigger a cross default on all exchanged debt securities issued under international law. Subsequently, a missed coupon payment of any other external securities would also trigger a cross default on all exchanged bonds issued under international law. Following the US Court of Appeals decision to uphold Judge Griesa's ruling that Argentina breached the 'Equal Treatment Provision' of the original New York-based law bonds that defaulted in 2001, the court remanded the case back to Griesa for specific clarifications on how the ratable payment formula would work and to which third parties the injunctions should apply. On Nov. 21, Judge Griesa explained that the clarifications requested of his court by the superior court 'did not affect the basic ruling that there can be no payments by Argentina to exchange bondholders without an appropriate payment to plaintiffs'. In light of Argentina's official statements that the government will not honor the court's decision and the country's 2005 'Lock Law' which prohibits the government from re-opening the exchange or from conducting any type of settlement with holdouts without prior authorization from Congress, Judge Griesa decided that the stay should be lifted 'at the earliest possible time' so there is more assurance against a possible evasion. The Dec. 15 date 'gives some reasonable time to arrange mechanics' and allow the Appeals Court to consider the merits of the circuit court's clarifications on the two issues at stake. According to the ruling, the payment due to the plaintiffs should be made into an escrow account by Dec. 15 with the provision that it could be adjusted by any modifications that the Court of Appeals may impose subsequently. The Argentine government is in the process of challenging Judge Griesa's decision in the U.S. Appeals Court and has also announced its intention to take the case to the U.S. Supreme Court if needed, although it is not clear if the Supreme Court will agree to preside on the matter. Fitch will continue to monitor how the case evolves and the Argentine government's response in the coming weeks. A missed payment on exchanged debt securities issued under NY law (including the GDP-linked warrants), which remains uncured within the stipulated 30 days grace period, would constitute a default event. In such a scenario, on expiry of the grace period Fitch would move Argentina's FC IDR to 'RD' (Restricted Default) and the bond ratings of the affected securities to 'D' (Default). On the other hand, a positive resolution, under which the Argentine authorities decided to pay the plaintiffs in line with the court ruling, and which therefore allowed the sovereign to continue servicing its NY-law external debt without interruption after the Appeals Court's final ruling, would be reflective of its willingness to pay and lead to a positive rating action on the FC IDR. Fitch's downgrade of Argentina's local currency IDR reflects the sustained deterioration of its credit fundamentals. The uncertainty related to the impact of the

U.S. Court ruling is likely to further damage confidence and intensify political and social tensions in the country and undermine growth prospects. Argentina's economy has decelerated sharply in 2012 owing to the increased state intervention. This has been highlighted by the progressive tightening of capital controls, the nationalization of YPF and the inability of certain provinces to access USD to repay their dollar-denominated debt under local law. While the authorities have been able to stabilize international reserves by progressively tightening capital controls, this has come at the expense of increased economic distortions. The sustainability of this strategy is also vulnerable to international commodity prices, especially soy. The concentration of power in the executive continues to undermine policy predictability and contributes to a tense and polarized political climate in Argentina. The recent massive protests indicate a general public dissatisfaction with issues ranging from high inflation, stringent FX controls, weakening infrastructure and corruption allegations. The authorities' disregard for popular protest and their rhetoric suggests that interventionist policies that lead to further concentration of power and increase economic distortions are likely to intensify. As a consequence, further deterioration in Argentina's policy framework is possible, which could adversely impact the country's medium term growth prospects. The steady attempts by Argentine authorities to 'Pesofy' the economy, the recent intervention in the insurance sector to redirect 15% of their investments to real-economy projects and the recently approved financial system reform are all indications of the trend towards further financial repression or interventionist policies. Sustained economic weakness that heightens fiscal pressures, which in the context of limited financing flexibility could lead to significant erosion of international reserves and greater monetization of the fiscal deficit with adverse repercussions for inflation, would increase downward pressure on the rating. A material escalation of inflation from the already high levels could undermine Argentina's fragile equilibrium as depreciation pressures would mount due to erosion of competitiveness. Alternatively, improvement in the overall policy stance that leads to sustainable growth and greater financing flexibility would stabilize the rating. Improvement in the transparency of official data and normalization of relations with creditors and multilaterals would also buttress confidence. Contact: Primary Analyst Lucila Broide Director +1-212-908 0898 Fitch, Inc. One State Street Plaza New York, NY 10004 Secondary Analyst Santiago Mosquera Director +1-212-908 0271 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.