

Highlights of the Sovereign Rating on the Republic of Argentina

Updated Rating

Long-term Local Currency: B_i -

Long-term Foreign Currency: CCC_i,

Outlook: Stable

Previous Rating

Long-term Local Currency: B_i -

Long-term Foreign Currency: CCC_i

Outlook: Negative

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Analysts: Wang Qing, HU Qianfang

Email: wangq@unitedratings.com.cn

Tel: 010-85172818-8611

Fax: 010-85171273

Add: 12F, PICC Building, No. 2 Jianguomen
Outer Street, Beijing

<http://www.unitedratings.com.cn>

Rating Opinions

United Ratings has decided to maintain the long-term local and foreign currency ratings of the Republic of Argentina (hereinafter, "Argentina") at B_i - and CCC_i, respectively, with the outlook adjusted from Negative to Stable.

Argentina has brought an end to the default status and returned to the international bond market, seeing significant improvements in its external relations. The new government's reform plan seems helpful to bring the economy back on the track of long-term sustainable growth. However, since the country is still facing pressure from its complicated political procedures and social endurance capacity, the concrete effects are yet to be observed. The fiscal retrenchment helps to curb the deficit increase, but the strength could be weakened due to the objection of the society. The monetary policy is under radical adjustment, and the assets quality of the banking sector is deteriorating. The current account will remain in deficit, while external financing requirement is strong, so the country's foreign currency debt servicing ability is still weak. In summary, although the domestic economy would hardly see any significant improvement in the near term, the amelioration in the external micro-environment as well as the reform measures adopted by the new government are expected to enhance the country's ability to pay off local and foreign currency debts.

Reasons for Outlook Adjustment

- Argentina has managed to get out of the default status and went back to the international bond market. So its external relations have been improved greatly.
- The new government's policy orientation helps to lay a solid foundation for long-term economic growth, and the domestic macro political and economic environments are improving, but the concrete results are yet to be observed.
- In the short run, the economy will fall into recession, and the new government will face major challenges from inflation and economic slowdown.
- The fiscal retrenchment helps to curb the deficit increase, but its strength could be weakened due to the objection of the society.
- The current account remains in deficit, while the external financing requirement is strong, so the country's foreign currency debt servicing ability is weak.

To sum up, Argentina has come back to the international bond market, its external environment has seen improvements, and the short-term effects of the reform measures by the new Argentine government are pending further observations. However, in the medium and long run, these measures are conducive to the improvement and progress of the domestic economy. In the context of price decline of international bulk commodities, the country's deficit in

current account is still high. Therefore, its external financing requirement is still strong, while its foreign currency debt servicing ability remains weak in the near term. But in the long run, the ability is likely to increase. In view of these points, United Ratings adjusted the outlook from Negative to Stable on Argentina's sovereign ratings in local and foreign currencies in the coming 1-2 years.

Key Indicators of the Sovereign Rating on the Republic of Argentina

	2011	2012	2013	2014	2015	2016 ^f
Nominal GDP (billion USD)	532.8	584.6	615.4	570.4	632.2	524.2
GDP per capita (USD)	12913.4	14007.5	14582	13367.4	14657.1	12026.1
Real GDP growth (%)	6.1	-1.1	2.3	-2.6	2.4	-1.2
Inflation rate (%)	24.4	25.3	20.7	38.1	26.5	42.8
Total lending/GDP (%)	29	33.4	39.9	47.7	51.4	52
Domestic credit growth (%)	36.7	40.1	37.8	42.7	53.1	36.2
M2 growth (%)	26	34.8	27.1	29.9	39.6	34.2
Budget balance of governments/GDP (%)	-1.4	-2.1	-1.9	-2.7	-4.8	-4.9
Primary balance of governments/GDP (%)	0.2	-0.2	-0.7	-1.1	-2.8	-2.9
Public debt/GDP (%)	35.1	36.5	39.3	41	50.1	53.8
Current-account balance/GDP (%)	-0.8	-0.2	-2	-1.4	-2.5	-2.7
Total foreign debt/GDP (%)	24.9	22.8	22.1	24.6	21.5	29.6
Total external debt/Current-account credit (%)	128	133.9	143.1	161.8	181.5	202.6
Short-term foreign debt/Total foreign debt (%)	19.8	19.4	16.3	16	16.7	14.8
International reserves/Total foreign debt (%)	34.9	32.5	22.4	22.4	18.8	20.7
Gross external financing requirement/GDP (%)	8.1	11.6	14.8	14.6	17.1	16.4

Source: Sovereign Rating Database of United Ratings.

Note: "f" stands for forecasts.