MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Upgrades Argentina's Rating to B2; Outlook Stable

29 Nov 2017

New York, November 29, 2017 -- Moody's Investors Service ("Moody's") has today upgraded the Government of Argentina's local and foreign currency issuer and senior unsecured ratings to B2 from B3. The senior unsecured shelves were upgraded to (P)B2 from (P)B3. The outlook on the ratings is stable.

At the same time Argentina's short-term rating was affirmed at Not Prime (NP). The senior unsecured ratings for unrestructured debt were affirmed at Ca and the unrestructured senior unsecured shelf affirmed at (P)Ca .

The key drivers of the upgrade of the rating to B2 are:

1) A record of macro-economic reforms that are beginning to address long existing distortions in Argentina's economy.

(2) The likelihood that reforms will continue and in turn sustain the recent return to positive economic growth.

The stable outlook on Argentina's B2 ratings balances Argentina's credit strengths of its large, diverse economy and moderate income levels against the credit challenges posed by still high fiscal deficits and a reliance on external financing, which increases its vulnerability to external event risk.

Moody's has also raised Argentina's foreign currency bond ceiling to B1 from B2 and the foreign currency deposit ceiling to B3 from Caa1. The long term local currency bond and deposit ceilings were raised to Ba2 from Ba3. The short-term foreign-currency bank deposit ceiling, the short-term foreign-currency bond ceiling, and the short term local currency bond and deposit ceilings all remain unchanged at NP.

RATINGS RATIONALE

RATIONALE FOR THE UPGRADE TO B2

CREDIT POSITIVE POLICY REFORMS

Since December 2015 the Macri administration has implemented several policies addressing economic distortions that had constrained Argentina's credit profile. The reforms include a free-floating exchange rate, an open capital account, an independent central bank with multi-year inflation targeting, and more credible public statistics. The combination of these reforms have bolstered economic growth prospects. The government further aims to reduce the fiscal deficit in 2018 and 2019.

Moody's expectation is that reforms will likely continue as midterm elections have strengthened the government's political position. President Macri's Cambiemos coalition won almost 42% of all votes for the lower House of Congress, the largest single party share of the national vote. The Cambiemos coalition still lacks a majority in Congress, but it has expanded its presence in both congressional chambers. The increased number of Cambiemos legislators in Congress provides the Macri administration with stronger political support which we expect will facilitate the approval of additional credit-positive policy reforms.The Macri administration has announced tax, pension and labor reforms following its electoral win in October's legislative midterms.

The reforms announced include reducing certain corporate taxes to improve competitiveness; labor reform aimed at lowering the cost of hiring in Argentina and increasing the share of formal employment; and a change in how pension outlays are calculated, which will help reduce pension payments and in turn reduce the fiscal deficit. The government is also continuing to reduce energy subsidies to better reflect real production and distribution costs.

The reforms aim to bolster the economic recovery by promoting increased private investment while continuing the process of macroeconomic stabilization. The authorities' also aim to gradually reduce the fiscal deficit starting in 2018. The government has formally targeted the primary deficit, which will reach 4.2% of GDP this year, to fall by 1% of GDP annually in 2018 and 2019. However, higher interest payments mean that the financial deficit will make only moderate progress on this front, and fiscal deficits in the order of 5% of GDP will remain a key credit constraint. Fiscal consolidation will require a period of sustained growth, and a reduction in government expenditures, such as on energy-related subsidies.

IMPROVED MACROECONOMIC PROSPECTS

Economic growth appears to be more sustainable than prior consumption-led booms, as reforms continue to be implemented. After years of stop-and-go economic growth Argentina is poised to grow two years in a row in 2017-18, the first time since 2011. We expect the economy will grow 3% this year and 3.5% in 2018, after contracting 2.3% in 2016. The improvement is the result of a combination of factors, including increased business and consumer confidence and higher investment rates.

Gross fixed capital formation rose 7.7% in the second quarter and we expect investment to continue to rise even as it remains lower than most other Latin American countries. We estimate Argentina's investment-to-GDP will reach 17.2% in 2017, an increase from the 16.4% of GDP in 2016, but lower than the 21% median of Latin American sovereigns. Investment should continue to rise next year and end closer to 18% of GDP.

Faster economic growth has started to positively affect socio-economic indicators. Poverty has fallen. Employment data show increased job creation in the private sector that is starting to make up for the job losses suffered last year. Wage increases are boosting private consumption. Overall, we expect these trends to continue and deepen in 2018 and 2019, leading to increased political support for the governing administration.

Stronger and balanced growth, if sustained, and accompanied by an increase in external competitiveness could over time strengthen Argentina's fiscal and external positions, by raising government revenues, exports and foreign investment. Inflation still remains high, and will end close to 23% this year. But the central bank's anti-inflation stance is gradually reducing core inflation and we expect consumer prices to fall to around 15% in 2018 and to continue falling after that.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook balances recent improvements to the economy and the country's policymaking with still high fiscal deficits that are mostly funded in foreign currency and growing external imbalances.

WHAT COULD CHANGE THE RATING UP/DOWN

A positive rating action is dependent on a continuation and deepening of the credit positive policy stance that the Macri administration began implementing in December 2015. Particularly important will be continued and sustainable reduction in the fiscal deficits and inflation.

A negative rating action could result if fiscal deficits do not reverse their upward trend, or an increase in external vulnerabilities including a sharp drop in available official international reserves.

GDP per capita (PPP basis, US$): 20,053 (2016 Actual) (also known as Per Capita Income)

Real GDP growth (% change): -2.2% (2016 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 40% (2016 Actual)

Gen. Gov. Financial Balance/GDP: -5.9% (2016 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -2.7% (2016 Actual) (also known as External Balance)

External debt/GDP: 33.2% (2016 Actual)

Level of economic development: Low level of economic resilience

Default history: At least one default event (on bonds and/or loans) has been recorded since 1983.

On 27 November 2017, a rating committee was called to discuss the rating of the Argentina, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have materially increased. The issuer's institutional strength/framework, have materially increased. The issuer's governance and/or management, have materially increased. The issuer has become less susceptible to event risks.

The principal methodology used in these ratings was Sovereign Bond Ratings published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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