

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 unstructured debt were affirmed at Ca and the unstructured 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.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Gabriel Torres
VP - Senior Credit Officer
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Atsi Sheth
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any

other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.