Uruguay

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB−
Short-Term IDR	F3

Local Currency

Long-Term IDR	BBB−
Short-Term IDR	F3
Country Ceiling	BBB+

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Uruguay

(USDbn)	2017
GDP	59.2
GDP per head (USD 000)	17.1
Population (m)	3.5
International reserves	16
Net external debt (% GDP)	-15.7
Central government total debt (% of GDP)	57.0
CG foreign-currency debt	13.9
CG domestically issued debt (UYUbn)	344.6

Related Research

Global Economic Outlook (March 2018)

Analysts

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Key Rating Drivers

Ratings Affirmed: Uruguay's ratings are supported by strong structural features in terms of social and institutional development, a healthy external balance sheet, and the sovereign's favourable debt maturity profile and financing buffers. These factors are balanced by a weak track record of compliance with inflation and fiscal targets, weighing on policy credibility, relatively elevated and dollarised public debt, and high budget rigidity.

Uneven Recovery: Real GDP growth rebounded to 2.7% in 2017, showing resilience to volatile regional growth. But the recovery has been uneven, and the labour market remains weak. Growth was just 1.6% net of the small telecom sector. Consumption has been boosted by cyclical factors (lower inflation and a strong currency), and exports have been buoyed by tourism inflows and a bumper soy harvest. However, investment is weak and contracted 15%.

Structural Challenges: Low investment and protests in the agricultural sector have highlighted competitiveness issues, namely high production costs. The authorities have responded with utility rate cuts for farmers and enhanced investment incentives. New salary guidelines aim to avoid excessive real wage gains at the expense of jobs, but the link between wages and productivity remains weak. A large pulp mill is the main bright spot on the horizon.

Disinflation Challenge: Inflation has risen back to the top of the target range (5%+/−2pp) as of early 2018, but core inflation and expectations remain at their lowest levels in many years around 7%. The disinflation strategy to de-index wages will face a test in 2018, as most salary contracts will be renegotiated. Wage growth above the nominal guidance in recent years points to persisting inertial wage-price pressures. Monetary transmission channels remain weak.

Strong External Liquidity: A current account surplus (1.6% of GDP in 2017), sovereign borrowing and resident preference for local-currency assets have driven considerable real peso appreciation. The central bank has accumulated significant FX reserves in response, and reserve coverage and external liquidity ratios have strengthened from already high levels.

Partial Fiscal Improvement: Uruguay's fiscal position improved in 2017 due to tax hikes, but inertial spending pressures prevented the greater improvement targeted by the government. Fitch expects the government not to meet its 2.5%-of-GDP public-sector deficit goal for 2019. A further cyclical revenue rebound is unlikely, new tax hikes have been ruled out, and persisting spending pressures could intensify ahead of 2019 elections. Fitch projects debt-to-GDP will rise gradually as the real peso appreciation that has stabilised debt metrics since 2015 wears off.

Major Pension Law: A new law will allow individuals near retirement to abandon their private pensions and move fully into the public system. This will lead to a large but uncertain transitory improvement in fiscal metrics, but implies a net fiscal cost in the long term that will add to social security imbalances already weighing on public finances.

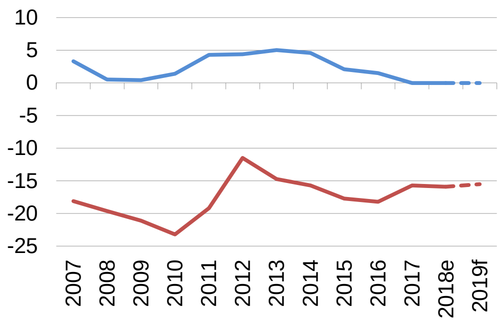
Rating Sensitivities

Debt Stabilisation, Disinflation: The ratings could be positively affected by fiscal consolidation consistent with stabilisation and de-dollarisation of public debt, a sustained inflation reduction and anchoring of expectations, and/or improvement in growth prospects.

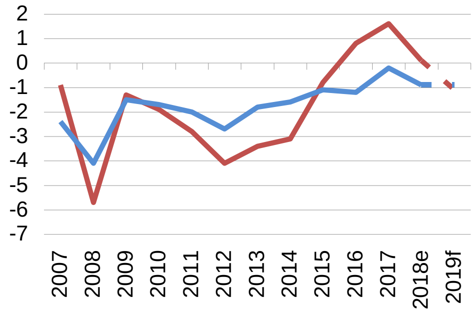
Fiscal Slippage, Buffer Erosion: The ratings could be negatively affected by a faster trend increase in the government debt burden, deterioration in growth prospects, and/or erosion of external buffers.

Peer Comparison

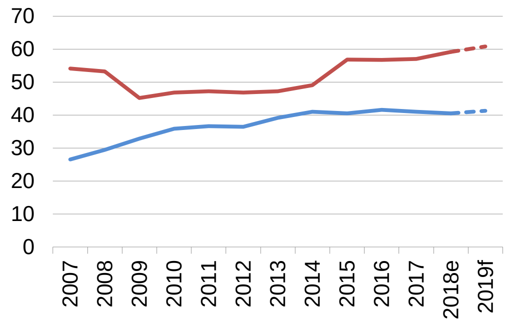
Net External Debt
% of GDP



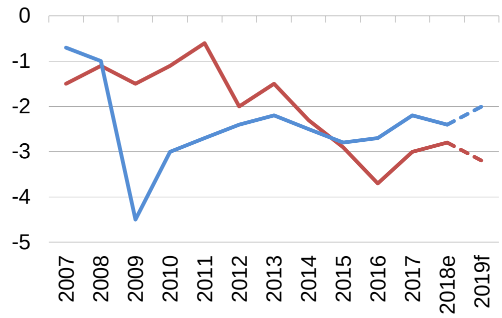
Current Account Balance
% of GDP



General Government Debt
% of GDP

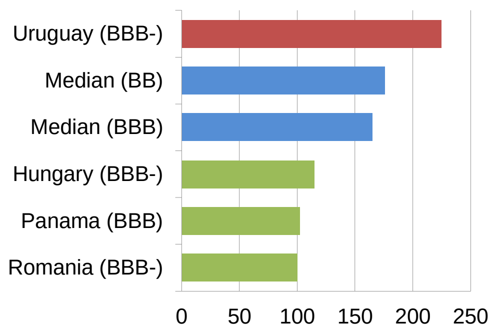


General Government Balance
% of GDP

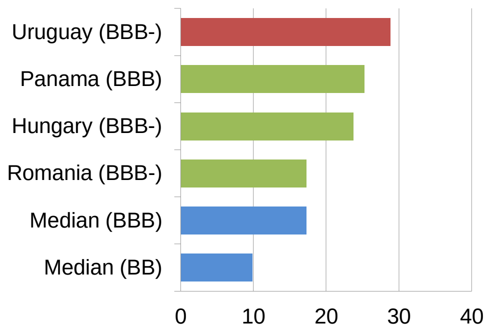


Uruguay Medians

International Liquidity Ratio, 2018
%



GDP per capita Income, 2017e
At market exchange rates, USA=100



Related Criteria

Sovereign Rating Criteria (March 2018)
Country Ceilings Criteria (July 2017)

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Weakness	Weakness	Neutral	Strength
Trend	Stable	Stable	Stable	Stable

Note: Relative to 'BBB' category
Source: Fitch

Strengths

- Uruguay's per-capita income is well above the 'BBB' median. Strong social development and governance indicators underpin creditworthiness and support policy continuity.
- The external balance sheet is strong and supported by a favourable current account balance. The net external creditor position and liquidity ratio are among the highest in the 'BBB' category. Banks and corporates are net external creditors, and the sovereign has a strong FX liquidity position despite being a net external debtor. Foreign reserve levels are high (even after netting out US dollar bank reserve requirements), and their coverage of liquid external liabilities has improved on lower non-resident deposits and holdings of local debt.
- Proactive public debt management has reduced refinancing risks. Debt maturities in the coming years are low, and an average maturity around 13 years is high. Financing flexibility is supported by precautionary multilateral credit lines and liquid assets, which currently cover debt servicing needs for over a year, and somewhat mitigate vulnerabilities from relatively high reliance on external financing sources.

Weaknesses

- Five-year average inflation at 8.4% is the highest of all investment-grade peers, and was among the highest in 2017 despite a dip. Structurally high inflation, dollarisation and low financial depth constrain the credibility and counter-cyclical flexibility of monetary policy. The authorities are working to reduce inertial price pressures by de-indexing wage contracts.
- General government debt of 57% of GDP in 2017 is above the 'BBB' median of 41%, even excluding 8.7pp in recapitalisation bonds held by the central bank (entailing negligible refinancing risk, but included by Fitch for consistency with other sovereigns). Foreign-currency debt is among the highest in the 'BBB' category at 24% of GDP (43% of total debt, or 49% net of recapitalisation bonds), exposing the sovereign balance sheet to exchange-rate risk, but the authorities have made recent progress in deepening peso funding.
- Fiscal policy credibility is relatively weak. Deficit targets have been frequently overshot in recent years, and a legal cap on increases in net debt has not been an effective anchor for fiscal policy due to frequent revisions. The spending profile is highly rigid and dominated by legally mandated and indexed social entitlements, with a very low share of capex.
- Uruguay's five-year average growth rate of 2.5% is below the 'BBB' median, despite showing resilience to volatility in large neighbouring economies. The investment rate of 16% in 2017 is among the weakest in the category, and the Ease of Doing Business score is low.

Local-Currency Rating

Uruguay's Long-Term Local-Currency IDR is in line with the Long-Term Foreign-Currency IDR. Public finances do not represent a strength relative to external finances, and there is no track record of preferential treatment of local-currency creditors vis-à-vis foreign-currency creditors.

Country Ceiling

Uruguay's Country Ceiling of 'BBB+' reflects the absence of capital controls or current account restrictions that could lead to transfer/convertibility risks. Vulnerability to external pressures is reduced by increased exchange rate flexibility, strong bank supervision and high liquidity.

Peer Group

Rating	Country
BBB	Andorra
	Bulgaria
	Colombia
	Indonesia
	Italy
	Kazakhstan
	Panama
	Philippines
	Portugal
BBB−	**Uruguay**
	Aruba
	Hungary
	India
	Morocco
	Oman
	Romania
	Russia
	San Marino
BB+	Azerbaijan
	Croatia
	Namibia
	South Africa
	Turkey

Rating History

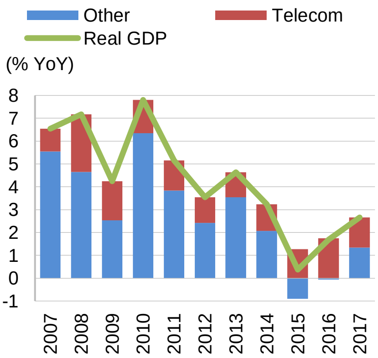
Date	Long-Term Foreign Currency	Long-Term Local Currency
22 Jul 16	BBB−	BBB−
7 Mar 13	BBB−	BBB
14 Jul 11	BB+	BBB−
27 Jul 10	BB	BB+
27 Jul 07	BB−	BB
07 Mar 05	B+	BB−
29 Mar 04	B	B+
17 Jun 03	B−	B
19 May 03	D	B
10 Apr 03	C	CCC−
12 Mar 03	CCC−	CCC−
07 Jan 03	B−	B
30 Jul 02	B	B
28 May 02	B+	BB−
13 Mar 02	BB+	BBB−
19 May 00	BBB−	BBB+
23 Jan 97	BBB−	NR
26 Oct 95	BB+	NR

Strengths and Weaknesses: Comparative Analysis

2017	Uruguay BBB−	BBB Median[a]	BB Median[a]	Panama BBB	Hungary BBB−	Romania BBB−
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.5	3.2	3.4	5.6	3.2	4.4
Volatility of GDP (10yr rolling SD)	2.3	2.6	2.3	3.0	3.2	4.3
Consumer prices (5yr average)	8.4	1.7	3.1	1.7	0.9	0.9
Volatility of CPI (10yr rolling SD)	1.1	1.9	2.4	2.7	2.3	3.0
Unemployment rate (%)	7.9	5.7	9.7	4.7	4.0	4.9
Type of exchange rate regime	Managed float	n.a.	n.a.	Dollarised	Free float	Managed float
Dollarisation ratio (% of bank deposits)	72.0	31.0	36.2	100.0	31.0	34.4
REER volatility (10yr rolling SD)	4.0	4.0	4.9	3.5	3.1	4.1
Structural features						
GDP per capita (USD, mkt exchange rates)	17,112	10,763	5,844	15,099	14,178	10,325
GNI per capita (PPP, USD, latest)	21,090	19,020	14,480	20,990	25,640	22,950
GDP (USDbn)	59.2	n.a.	n.a.	61.8	137.9	203.2
Human development index (percentile, latest)	71.1	67.9	57.7	67.9	77.5	73.7
Governance indicator (percentile, latest)[b]	80.4	58.5	47.8	57.5	66.4	59.6
Broad money (% GDP)	48.7	67.3	64.4	65.9	60.6	40.1
Default record (year cured)[c]	2003	n.a.	n.a.	1996	-	1984
Ease of doing business (percentile, latest)	50.8	70.9	57.2	58.8	75.2	76.8
Trade openness (avg. of CXR + CXP % GDP)	28.6	46.1	50.5	53.0	94.2	46.1
Gross domestic savings (% GDP)	18.8	23.9	18.5	39.9	30.2	24.1
Gross domestic investment (% GDP)	15.7	22.2	21.2	43.9	18.8	25.5
Private credit (% GDP)	26.5	56.7	61.7	80.1	33.5	32.9
Bank systemic risk indicators[d]	bb/1	n.a.	n.a.	bbb/2	bb/1	bb/1
Bank system capital ratio (% assets)	18.0	15.9	15.3	15.0	21.5	18.8
Foreign bank ownership (% assets)	51.0	26.0	28.2	50.7	60.0	90.4
Public bank ownership (% assets)	49.0	13.8	30.1	11.8	6.5	8.4
External finances						
Current account balance + net FDI (% GDP)	1.2	1.3	0.4	3.9	4.5	-0.9
Current account balance (% GDP)	1.6	-0.7	-3.2	-4.9	3.4	-2.8
Net external debt (% GDP)	-15.7	3.3	13.1	25.0	8.5	18.8
Gross external debt (% CXR)	234.1	130.1	124.7	281.8	115.1	109.6
Gross sovereign external debt (% GXD)	45.3	34.3	34.0	19.1	30.3	39.2
Sovereign net foreign assets (% GDP)	-4.1	4.9	0.5	-20.1	-11.0	1.6
Ext. interest service ratio (% CXR)	6.5	4.6	4.0	6.8	2.5	4.0
Ext. debt service ratio (% CXR)	17.8	16.0	12.1	19.6	16.2	21.0
Foreign exchange reserves (months of CXP)	11.6	7.0	4.3	1.5	2.6	5.3
Liquidity ratio (latest)[e]	219.9	175.0	164.8	102.3	114.6	100.3
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	52.1	17.2	18.9	0.7	11.7	14.5
Sovereign net foreign currency debt (% GDP)	-3.4	-7.3	-0.5	17.7	-4.1	2.9
Public finances[f]						
Budget balance (% GDP)	-3.0	-2.5	-3.2	-1.9	-2.0	-3.0
Primary balance (% GDP)	-0.3	-0.3	-0.8	-0.1	1.0	-1.9
Gross debt (% revenue)	197.1	164.8	182.0	186.6	160.2	124.6
Gross debt (% GDP)	57.1	41.1	48.5	37.0	71.7	38.0
Net debt (% GDP)	51.4	31.2	44.2	17.7	67.5	30.9
Foreign currency debt (% total debt)	41.3	35.2	53.5	100.0	22.6	57.5
Interest payments (% revenue)	9.4	7.1	9.6	8.8	6.7	3.7
Revenues and grants (% GDP)	29.0	29.1	29.7	19.8	44.7	30.5
Volatility of revenues/GDP ratio	0.9	5.8	5.1	6.6	2.8	4.2
Central govt. debt maturities (% GDP)	3.2	3.9	6.0	1.9	16.4	4.9

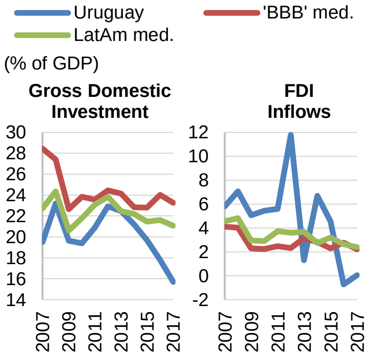
[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Uruguay concluded an exchange offer for all foreign-currency bond debt on 22 May 2003.
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)
Source: Fitch

Real GDP Growth



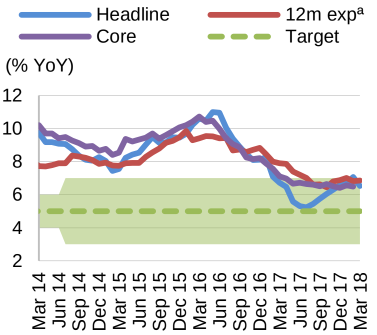
Source: BCU

Investment Trends



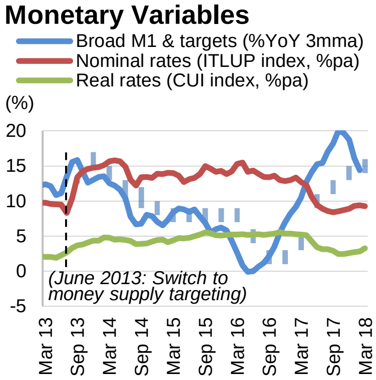
Source: BCU

Inflation Dynamics



[a] 12mn inflation expectation (survey median)
Source: BCU, CINVE

Monetary Variables



Source: BCU, BEVSA

Key Credit Developments

Economy Recovers, With Weak Spots

Uruguay's real GDP growth rebounded to 2.7% in 2017 from 1.7% in 2016 and 0.4% in 2015, marking a 15th year of positive and relatively resilient economic activity. The recovery was stronger net of the one-off impact (0.5pp) of suspension of an oil refinery for maintenance.

The recovery has been uneven in terms of sectoral output and demand, however, reflected in persisting labour market weakness. Growth was just 1.6% in 2017 net of telecommunications – a sector that is small but nonetheless contributed half of growth in 2017 and cumulative growth in 2013-2017 due to measurement issues in current national accounts series[1]. On the demand side, real wage gains (due to lower inflation) and a strong peso have lifted purchasing power and consumption, and buoyant tourism and a bumper soy harvest boosted net exports. On the other hand, fixed investment posted a 15% real contraction in 2017, and the weakness was broad-based in terms of public versus private projects and construction versus capital goods.

Fitch projects stable growth around 2.9% in 2018, balancing the boost from the resumption of the oil refinery and normalisation of investment with less favourable climatic conditions for agriculture and moderation in the cyclical factors supporting consumption. Fitch expects that construction of a major pulp mill as soon as 2020 (and related infrastructure before then) will provide a significant boost to the growth outlook, although a final investment decision is still pending. Investment prospects beyond this project face headwinds, however, as highlighted by the fall in fixed capital formation below 17% of GDP in 2017 and recent protests in the agricultural sector. Business groups and global surveys point to high local costs (eg taxes, utility rates), infrastructure deficiencies, a strong peso and a rigid labour market as key issues.

The government has responded to these concerns with measures to enhance tax incentives for investments and to cut fuel rates for the agricultural sector. It has proposed guidelines for wage hikes that it believes will avoid job losses and allow some variability between strong and weak sectors, but the link to productivity remains weak. A broader structural reform agenda remains limited, but includes implementation of a financial inclusion law and advancing PPP projects.

Disinflation Process Faces a Test

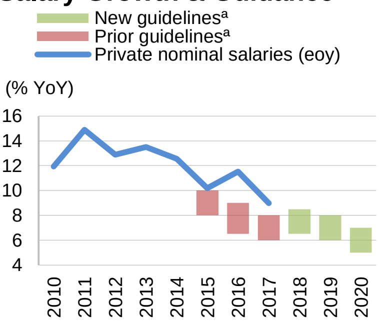
Inflation stood at 6.7% as of March, near the upper bound of the target range of 5%+/−2pp. It has risen since mid-2017 on rising food prices and the wearing-off of base effects (ie prior peso appreciation). Core inflation measures and inflation expectations have remained at their lowest levels in many years at around 7%. This could portend some progress in reduction of Uruguay's structurally high inflation levels, but the trend in the coming year should allow a clearer assessment as favourable base effects wear off.

The disinflation strategy centres on tight monetary policy and wage guidelines aimed at scaling back indexation. The tightness of the monetary stance is difficult to assess, and its efficacy is blunted by shallow and highly dollarised financial markets. Money supply growth has exceeded targets even as these have been hiked, but this has been accompanied by growing (though unobservable) money demand amid an investor shift into peso assets. Real interest rates have risen back above 3% as of March from 2.5% in late 2017, but remain below the 4%-6% levels observed in late 2013 (after an overhaul in the monetary framework) through mid-2017.

The renewal of most sector-level wage contracts in 2018 will serve as a test of the authorities' wage policy introduced in the last three-year wage round, involving nominal hikes in place of real hikes with ex post inflation adjustments. The government has proposed hikes with ranges for weak versus dynamic sectors: 6.5%-8.5% in year 1; 6%-8% in year 2; and 5%-7% in year 3. Favourable real wage outcomes in the last three-year cycle could facilitate their adoption by

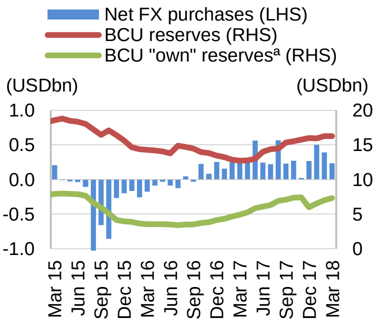
[1] Telecom has grown to represent 15% of real GDP in 2017 from 3% in the 2005 base year, implying an outsized contribution to real GDP growth despite a falling share in nominal GDP. Eventual GDP rebasing or a shift to chain weighting could result in significantly lower historical real GDP growth.

Salary Growth & Guidance



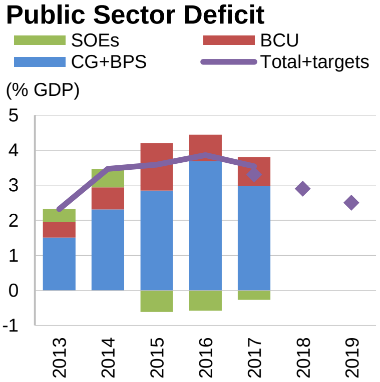
[a] Exec guidance for salary growth, ranges (weak to dynamic sectors)
Source: INE

FX Reserves & Intervention



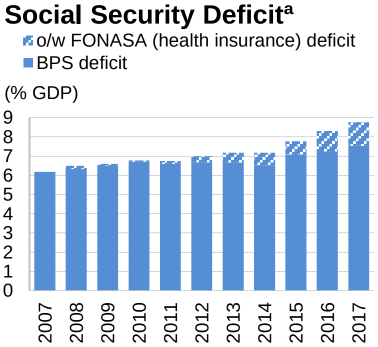
[a] FX reserves ex. bank reserve reqs and public sector deposits
Source: BCU

Public Sector Deficit



Source: MEF

Social Security Deficit[a]



[a] As implied by net transfers from the central government
Source: BPS

resistant unions. However, data show that wage growth exceeded the prior guidelines in the last three years, signalling persisting wage-price inertia despite the wage policy shift.

Further Strengthening of External Finances

Uruguay's external position remains strong. Robust goods and tourism services exports, along with moderate import growth amid ebbing domestic investment, have lifted the current account balance to a surplus of 1.6% of GDP in 2017, from a deficit of 3.1% in 2014, according to new balance-of-payments (BOP) statistics[2]. Net FDI was negative in 2016 and 2017, due to slightly negative inward FDI (divestments have exceeded new investment) and small but positive outward FDI.

A current account surplus and capital inflows from sovereign borrowing and resident preference for local-currency assets have put pressure on the peso. The real effective exchange rate stood 24% above its 10-year average in February, and private analysts suggest the peso is overvalued (by around 14%, according to the IMF). The authorities dispute this, pointing to productivity gains and a strong current account balance. Nevertheless, the central bank (BCU) has intervened in FX markets, accumulating USD1.3 billion in "own" reserves (ie net of public deposits and reserve requirements in USD) in 2017 and a further USD1.4 billion in 1Q18. As a result, reserve coverage and external liquidity ratios continue to rise from already strong levels.

Fiscal Position Improves, but Consolidation Goal Appears Difficult

Uruguay's fiscal position improved in 2017 on consolidation efforts after five years of gradual deterioration, but fell short of the government's goal. Income tax hikes yielded 0.6pp of GDP as originally budgeted, indirect taxes saw a cyclical boost from a consumption-driven recovery, and utility tariff increases lifting public companies' profits yielded further revenues. Spending growth offset some of the savings, including a 0.5pp-of-GDP jump in indexed pension benefits and a 0.2pp final impact from the full-year effect of health insurance expansion (FONASA). The central government deficit fell to 3.0% of GDP in 2017 from 3.7% in 2016. Given this improvement partly captured higher taxes and dividends from public utilities, the public-sector deficit fell by a smaller degree (3.9% to 3.6%) and fell short of the government's 3.3% goal.

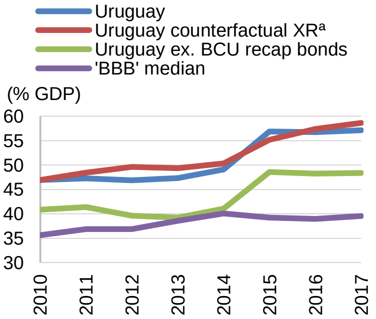
Fitch projects a modest further improvement in fiscal deficits in 2018, to 2.8% of GDP at the central government level and to 3.4% for the public sector. Tax hikes on imports and gambling should yield modest additional revenues, and spending pressures may subside on a smaller automatic pension hike (9.0%, versus 11.7% in 2017) and no further expansion of FONASA.

Fitch does not expect the government to meet its target to lower the public-sector deficit to 2.5% by 2019. Room for budget cuts is narrow, given that current spending is highly rigid and capital spending has already been reduced to record-low levels. The upcoming 2019 election cycle could narrow appetite for further tax hikes or further fuel spending pressures, especially around the government's key pledge to increase education funding.

In 2017, the congress passed a law to allow the cohort of persons closest to retirement to disaffiliate from their private pensions and move fully into the public system. This will lead to a transitory improvement in fiscal figures due to: 1) a one-off revenue boost as private funds are transferred to the public system; and 2) a cash surplus for the few years that contributions of persons still working in this cohort are projected to exceed benefits. The funds will go into a trust, and will not lower sovereign borrowing needs. Fitch has not included this impact in its fiscal projections and will assess compliance with fiscal targets net of this. Over the long term, the reform will cost an estimated USD2.4 billion (0.1% of GDP per year), further widening social security imbalances and pressuring public finances if parametric reforms are not pursued.

[2] The revision of Uruguay's BOP statistics to BPM6 resulted in significant changes. Historical current account balances were revised up (eg a 0.8% of GDP surplus in 2016 vs a 0.1% deficit under BPM5), due to expansion of surveying to "merchanting" firms that buy and sell foreign merchandise with positive net margins, partially offset by negative primary income given most are foreign-owned. FDI revisions show more volatile flows, both in the equity and intercompany debt components.

General Govt Debt



[a] UYU/USD depreciation equivalent to relative inflation
Source: MEF and Fitch

Debt Metrics Under Pressure Despite Recent Stability

Uruguay's general government debt remained stable in 2017 at around 57% of GDP, capturing 48.2pp in central government marketable debt, 8.7pp in non-marketable recapitalisation bonds issued to the BCU (included by Fitch for consistency with other sovereigns), and 0.2pp in local government debt. The real appreciation of the peso has kept the debt ratio stable since 2015, but this favourable effect is likely to wear off. Fitch projects debt metrics will resume a gradual upward path as fiscal deficits persist and the peso depreciates in line with relative inflation.

The sensitivity of debt metrics to the exchange rate highlights Uruguay's relatively large stock of foreign-current-denominated debt, which was 24% of GDP at end-2017 and 43% of the total (49% excluding BCU recapitalisation bonds). However, Uruguay's government made progress in de-dollarising its debt in 2017 via two peso-denominated global bond issuances. Reliance on external financing exposes Uruguay to risk from global financial volatility, but vulnerabilities are somewhat mitigated by a long-dated debt profile and financing buffers including contingent credit lines and liquid assets, which at USD2.4 billion and USD2.2 billion at end-2017 cover 145% of 2018 debt service needs.

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Public Debt Dynamics

Fitch projects general government debt will rise from 57% of GDP in 2017 and stabilise below 62% by 2020. This assumes the government will fall short of its 2019 fiscal targets, but that construction of the pulp plant will improve real GDP growth and debt dynamics for several years, after which a more moderate growth pace could put debt back on a moderate upward path in the absence of further consolidation. The main risks would be failure to lower the deficit, slower growth, or greater peso depreciation given a large stock of debt in foreign currency.

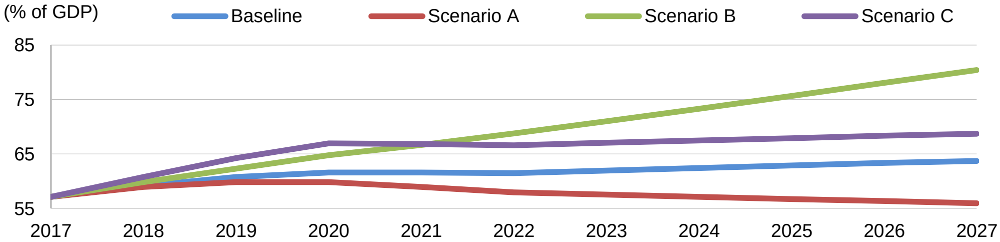
Debt Dynamics: Fitch's Baseline Assumptions

	2017	2018	2019	2020	2021	2022	2027
Gross general government debt (% GDP)	57.1	59.2	60.9	61.6	61.6	61.5	63.7
Primary balance (% of GDP)	-0.3	-0.1	-0.3	-0.1	0.0	0.0	0.0
Real GDP growth (%)	2.7	2.9	3.0	3.7	3.7	4.0	3.0
Avg. nominal effective interest rate (%)[a]	5.1	5.1	5.0	5.0	5.0	5.0	4.8
UYU/USD (annual avg.)	28.7	29.8	31.7	33.1	34.2	35.1	38.8
GDP deflator (%)	4.0	6.9	6.6	6.3	6.8	6.3	6.0

[a] Does not reflect capitalised interest on debt in inflation-indexed units (UIs), captured instead as stock-flow adjustments

Sensitivity Analysis

Gross general government debt (% of GDP)



Source: Fitch debt dynamics model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Scenario A	Achievement of the deficit goal of 2.5% of GDP by 2019 (consistent with a 0.5% primary surplus) and further consolidation to a 1%-of-GDP surplus in the following years.
Scenario B	Failure to lower the primary deficit further below 0.3% of GDP, real GDP growth stabilises at 2.5% (and UPM pulp mill investment does not take place).
Scenario C	Same assumptions as baseline with additional 15% peso depreciation in 2018-2020 (overvaluation estimated by private sector).

Forecast Summary

	2013	2014	2015	2016	2017	2018e	2019f
Macroeconomic indicators and policy							
Real GDP growth (%)	4.6	3.2	0.4	1.7	2.7	2.9	3.0
Unemployment (%)	6.6	6.6	7.9	8.0	7.9	7.7	7.5
Consumer prices (annual average % change)	8.6	8.9	8.7	9.6	6.2	6.9	7.1
Short-term interest rate (bank policy annual avg.) (%)	11.4	14.4	13.5	13.5	10.3	9.0	9.0
General government balance (% of GDP)	-1.5	-2.3	-2.9	-3.7	-3.0	-2.8	-3.2
General government debt (% of GDP)	47.3	49.1	56.9	56.8	57.1	59.2	60.9
UYU per USD (annual average)	20.48	23.25	27.33	30.16	28.68	29.83	31.69
Real effective exchange rate (2000 = 100)	123.4	121.4	125.8	131.3	140.5	139.1	139.1
Real private sector credit growth (%)	16.0	7.4	11.8	-5.4	-2.9	-0.8	0.4
External finance							
Current account balance (% of GDP)	-3.4	-3.1	-0.8	0.8	1.6	0.1	-1.1
Current account balance plus net FDI (% of GDP)	1.4	1.3	0.7	-0.8	1.2	0.9	0.1
Net external debt (% of GDP)	-14.7	-15.7	-17.7	-18.2	-15.7	-15.9	-15.5
Net external debt (% of CXR)	-42.8	-46.2	-56.9	-60.9	-53.4	-56.0	-54.5
Official international reserves including gold (USDbn)	16.3	17.6	15.6	13.5	16.0	17.3	18.0
Official international reserves (months of CXP cover)	9.0	9.9	11.0	10.6	11.6	11.7	11.3
External interest service (% of CXR)	5.4	5.8	7.3	7.4	6.5	6.6	6.6
Gross external financing requirement (% int. reserves)	29.3	25.5	13.9	4.9	7.7	6.2	10.1
Real GDP growth (%)							
US	1.7	2.6	2.9	1.5	2.3	2.8	2.5
China	7.8	7.3	6.9	6.7	6.9	6.5	6.1
Eurozone	-0.3	1.2	2.0	1.8	2.0	1.8	1.4
World	2.6	2.8	2.7	2.5	2.9	3.1	3.0
Oil (USD/barrel)	108.8	98.9	53.0	45.1	54.9	57.5	57.5

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2014	2015	2016	2017	2018e	2019f
General government						
Revenue	**27.6**	**27.2**	**27.8**	**29.0**	**29.2**	**29.2**
Expenditure	**29.9**	**30.0**	**31.5**	**32.0**	**32.0**	**32.4**
O/w interest payments	2.3	2.3	2.7	2.7	2.8	2.9
Primary balance	0.0	-0.5	-1.0	-0.3	-0.1	-0.3
Overall balance	**-2.3**	**-2.9**	**-3.7**	**-3.0**	**-2.8**	**-3.2**
General government debt	**49.1**	**56.9**	**56.8**	**57.1**	**59.2**	**60.9**
% of general government revenue	178.2	209.5	204.3	197.1	203.0	208.5
Central government deposits	5.8	7.1	7.0	5.7	5.7	5.4
Net general government debt	43.0	49.1	50.0	51.4	53.4	55.3
Central government						
Revenue	**20.0**	**19.7**	**20.3**	**21.3**	**21.4**	**21.4**
O/w grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**22.3**	**22.5**	**24.0**	**24.2**	**24.2**	**24.6**
O/w current expenditure and transfers	18.7	19.0	20.0	20.2	20.1	20.4
- Interest	2.3	2.3	2.7	2.7	2.8	2.9
O/w capital expenditure	1.4	1.2	1.4	1.3	1.3	1.4
Current balance	-1.0	-1.6	-2.3	-1.7	-1.5	-1.9
Primary balance	-0.1	-0.5	-1.0	-0.3	-0.1	-0.3
Overall balance	**-2.3**	**-2.8**	**-3.7**	**-3.0**	**-2.8**	**-3.2**
Central government debt	48.9	56.7	56.6	57.0	59.1	60.7
% of central government revenues	244.8	287.8	278.2	268.0	276.0	283.6
Central government debt (UYUbn)	**650.6**	**825.3**	**899.1**	**966.4**	**1,101.9**	**1,242.9**
By residency of holder						
Domestic	283.8	358.0	453.4	460.4	499.6	549.7
Foreign	366.8	467.2	445.6	506.0	602.3	693.1
By currency denomination						
Local currency	388.4	439.0	478.9	566.9	634.4	703.0
Foreign currency	262.3	386.2	420.2	399.6	467.5	539.9
In USD equivalent (eop exchange rate)	10.8	12.9	14.4	13.9	15.1	16.6
Average maturity (years)	14.4	14.4	13.8	13.0	-	-
Memo						
Nominal GDP (UYUbn)	1,330.5	1,455.8	1,589.2	1,697.1	1,865.7	2,048.0

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2012	2013	2014	2015	2016	2017
Gross external debt	**38.7**	**38.5**	**42.1**	**43.5**	**40.3**	**40.7**
% of GDP	75.5	66.9	73.5	81.6	76.4	68.7
% of CXR	197.3	195.0	216.5	262.5	256.0	234.1
By maturity						
Medium- and long-term	30.6	29.3	32.6	34.1	33.1	35.3
Short -term	8.1	9.2	9.4	9.3	7.2	5.4
% of total debt	20.9	23.9	22.4	21.5	17.8	13.3
By debtor						
Sovereign	**16.9**	**16.7**	**17.8**	**16.6**	**16.2**	**18.4**
Monetary authorities	1.3	1.6	1.7	1.1	0.7	0.8
General government	15.6	15.1	16.1	15.5	15.4	17.6
O/w central government	13.1	14.4	15.1	15.6	15.2	17.6
Banks	**4.7**	**5.1**	**5.5**	**6.0**	**4.5**	**3.8**
Other sectors	**17.1**	**16.7**	**18.8**	**20.8**	**19.5**	**18.5**
Gross external assets (non-equity)	**44.6**	**46.9**	**51.0**	**52.9**	**49.8**	**49.9**
International reserves, incl. gold	13.6	16.3	17.6	15.6	13.5	16.0
Other sovereign assets	0.1	0.1	0.1	0.1	0.0	0.0
Deposit money banks' foreign assets	8.5	8.3	8.7	11.0	10.6	9.7
Other sector foreign assets	22.4	22.3	24.7	26.2	25.7	24.5
Net external debt	**-5.9**	**-8.5**	**-9.0**	**-9.4**	**-9.6**	**-9.3**
% of GDP	-11.5	-14.7	-15.7	-17.7	-18.2	-15.7
Net sovereign external debt	3.2	0.4	0.1	0.9	2.7	2.4
Net bank external debt	-3.8	-3.2	-3.2	-5.0	-6.1	-5.9
Net other external debt	-5.3	-5.6	-5.9	-5.4	-6.1	-6.0
Net international investment position	**-17.0**	**-15.3**	**-17.1**	**-15.0**	**-15.6**	**-17.1**
% of GDP	-33.2	-26.6	-29.9	-28.2	-29.6	-28.9
Sovereign net foreign assets	**-3.2**	**-0.4**	**-0.1**	**-0.9**	**-2.7**	**-2.4**
% of GDP	-6.3	-0.6	-0.3	-1.8	-5.1	-4.1
Debt service (principal & interest)	**2.4**	**3.1**	**3.5**	**3.2**	**2.3**	**3.1**
Debt service (% of CXR)	12.3	15.6	18.1	19.3	14.8	17.8
Interest (% of CXR)	4.7	5.4	5.8	7.3	7.4	6.5
Liquidity ratio (%)	206.0	167.1	158.6	172.5	194.8	219.9
Net sovereign FX debt (% of GDP)	-7.9	-11.2	-11.7	-5.0	1.8	-3.4
Memo						
Nominal GDP	51.3	57.5	57.2	53.3	52.7	59.2
Inter-company loans	11.3	9.8	11.4	13.8	12.9	12.1

Source: Central Bank, IMF, World Bank and Fitch estimates and forecasts

External Debt Service Schedule on Medium- and Long-Term Debt at 31 December 2017

(USDm)	2017	2018	2019	2020	2021	2022	2023+
Sovereign: Total debt service	**1,857**	**1,685**	**1,341**	**1,434**	**1,764**	**3,053**	**28,098**
Amortisation	864	531	213	318	666	2,040	17,747
Official bilateral	0	0	0	0	0	0	0
Multilateral	256	140	143	134	128	127	1,615
O/w IMF	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Bonds placed in foreign markets	608	391	70	184	539	1,913	16,133
Interest	993	1,154	1,128	1,117	1,097	1,013	10,350
Non-sovereign public sector	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

Source: Ministry of Finance

Balance of Payments

(USDbn)	2014	2015	2016	2017	2018e	2019f
Current account balance	**-1.8**	**-0.4**	**0.4**	**0.9**	**0.1**	**-0.7**
% of GDP	-3.1	-0.8	0.8	1.6	0.1	-1.1
% of CXR	-9.1	-2.7	2.7	5.3	0.4	-3.8
Trade balance	**2.0**	**1.3**	**2.0**	**2.8**	**2.3**	**1.9**
Exports, fob	13.8	11.1	10.5	11.4	11.6	12.0
Imports, fob	11.8	9.8	8.5	8.6	9.3	10.2
Services, net	**-0.4**	**0.4**	**0.8**	**1.2**	**1.1**	**1.1**
Services, credit	4.6	4.5	4.1	4.8	5.0	5.2
Services, debit	5.0	4.1	3.4	3.6	3.9	4.1
Income, net	**-3.6**	**-2.3**	**-2.6**	**-3.4**	**-3.6**	**-3.9**
Income, credit	0.8	0.7	0.8	0.8	0.9	0.8
Income, debit	4.4	3.0	3.4	4.2	4.5	4.8
O/w: Interest payments	1.1	1.2	1.2	1.1	1.2	1.2
Current transfers, net	**0.2**	**0.2**	**0.2**	**0.3**	**0.2**	**0.2**
Capital and financial accounts						
Non-debt-creating inflows (net)	3.1	-0.5	0.6	0.8	0.5	0.8
O/w equity FDI	2.5	-0.4	0.9	0.8	0.5	0.8
O/w portfolio equity	0.6	-0.2	-0.4	0.0	0.0	0.0
O/w other flows	0.0	0.2	0.0	0.0	0.0	0.0
Change in reserves	-1.4	1.7	2.2	-2.4	-1.3	-0.7
Gross external financing requirement	4.2	2.4	0.8	1.0	1.0	1.7
Stock of international reserves, incl. gold	17.6	15.6	13.5	16.0	17.3	18.0

Source: IMF and Fitch estimates and forecasts

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