MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Uruguay's government bond rating to Baa2; stable outlook

Global Credit Research - 29 May 2014

New York, May 29, 2014 -- Moody's Investors Service has today upgraded Uruguay's government bond rating to Baa2 from Baa3, and assigned a stable outlook to the Baa2 rating. The upgrade was driven by the strengthening of Uruguay's sovereign credit profile, as reflected by the convergence of fiscal and debt metrics with the medians for the Baa peer group, an overall government debt profile that is currently associated with moderate credit risks, and the country's reduced vulnerabilities to regional and commodity shocks.

Key drivers of today's rating action include:

1. The consolidation of Uruguay's government sovereign credit profile, which incorporates (i) low rollover risks given average debt maturity of more than 10 years; (ii) moderate gross financing needs in absolute and relative terms over the next three to five years; and (iii) large financial buffers that provide cover against an adverse turn of events in global financial markets.

2. Uruguay's orderly transition towards lower, albeit more stable, growth levels, which Moody's anticipates will be supported by a steady increase in the investment ratio and productivity gains.

3. A decline in Uruguay's exposure to regional shocks and an increase in its commodity diversification that have enhanced the country's credit resilience materially, thereby reducing the extent to which adverse events can affect the country's sovereign credit outlook.

RATIONALE FOR UPGRADE TO Baa2

-- FIRST DRIVER: CONSOLIDATION OF A GOVERNMENT SOVEREIGN CREDIT PROFILE ASSOCIATED WITH MODERATE RISKS

With an average debt maturity of 11.9 years as of March 2014, Uruguay is part of a shrinking group of sovereigns with debt maturities in excess of 10 years. Rollover risks are modest given annual principal payments of around 2% of GDP over the next three to five years -- indeed, Moody's expects gross financing needs to remain low in absolute and relative terms, and to amount to less than 5% of GDP annually during the same period.

Uruguay has complemented its precautionary liquidity reserves by a second layer of financial buffers, which comprise contingent credit lines that are available for rapid disbursement and are comparable in size to the government's cash reserves. Combined, the country's total financial buffers are equivalent to nearly 7.5% of GDP and provide cover equivalent to around four years of principal payments or, alternatively, 24 months of debt service (principal + interest).

In addition, Uruguay's ratio of government debt to GDP of 40% is aligned with the Baa median level. The reduction of the ratio in previous years was supported by high GDP growth and moderate fiscal deficits. Despite lower growth in recent years, the ratio has reported minimal changes and Moody's expects that it will remain in line in the peer group median.

The government's balance sheet reports a significantly lower, although still high, exposure to foreign-currency-denominated debt relative to peers. Proactive liability management operations have allowed the authorities to exceed the target that was set at the start of the current administration: in fact, the share of foreign-currency-denominated debt currently stands at around 45%, half the level reported in 2004-2005.

-- SECOND DRIVER: TRANSITION TOWARD MORE STABLE ANNUAL GROWTH LEVELS SUPPORTED BY HIGHER INVESTMENT RATIOS AND PRODUCTIVITY GAINS

The Uruguayan economy reported GDP growth of around 6% during the last decade, exceeding the median for the peer group. After a period of above-trend growth, the economy has transitioned towards lower - albeit more sustainable -- annual growth, which Moody's expects to be more closely aligned with Uruguay's estimated potential GDP growth of around 4% annually. The rating agency views this shift as credit positive and expects that the economy will report a more stable growth pattern in the future.

A robust investment performance in previous years led to a steady increase in Uruguay's investment ratio, which currently stands at around 24% of GDP. With the economy set to operate with higher investment ratios than in the recent past, Moody's expects that Uruguay's growth performance in the coming years will be strongly supported by prospects of robust investment and enhanced productivity gains.

-- THIRD DRIVER: DECLINING EXPOSURE TO REGIONAL SHOCKS AND INCREASED COMMODITY DIVERSIFICATION ENHANCE URUGUAY'S CREDIT RESILIENCE

Uruguay remains exposed to regional economic and financial shocks -- mainly in the form of economic links to Argentina, which will continue to weigh on the performance of the Uruguayan economy. However, the associated vulnerabilities are not sufficiently significant to materially affect the country's credit rating on account of a much reduced exposure to the region as a whole, and Argentina in particular.

Moody's also notes that, despite Uruguay's relative commodity dependence, the country has been able to diversify its commodity base while simultaneously expanding its export markets. These attributes have enhanced the country's resilience to commodity-related shocks. In this respect, Uruguay is favorably positioned in terms of concentration risk when compared with other commodity-producing countries.

RATIONALE FOR STABLE OUTLOOK

The stable outlook on Uruguay's Baa2 ratings reflects Moody's view that Uruguay's current ratings balance underlying strengths derived from the government's robust credit profile with potential risks associated with (i) a degree of dollarization that continues to be higher than that found in other Baa-rated sovereigns, and (ii) the country's small open economy and relatively high commodity exposure.

WHAT COULD MOVE THE RATING UP/DOWN?

Upward rating pressure could result from (i) fiscal consolidation efforts that translate into lower fiscal deficits (higher primary surpluses) and lead to additional reductions in both the government debt-to-GDP and interest-to-revenues ratios; and (ii) continued diversification in Uruguay's export base that contributes to reduce concentration risks.

Downward rating pressure could result from (i) a deterioration of the underlying (structural) fiscal balance, and (ii) a reversal of the declining trend in foreign-currency-denominated debt that takes the corresponding share above the 50% mark.

COUNTRY CEILINGS

Uruguay's long-term local-currency ceilings for bonds and deposits have been changed to A2 from Baa1. Uruguay's long-term foreign-currency bond ceiling has been changed to A2 from Baa1, while the long-term foreign-currency deposit ceiling was raised to Baa2 from Baa3. The short-term ceilings for foreign-currency debt and foreign-currency deposits were raised to Prime-2 from Prime-3. Country ceilings reflect a range of undiversifiable risks to which issuers in any jurisdiction are exposed, including economic, legal and political risks. These ceilings act as a cap on ratings that can be assigned to the foreign- and local-currency obligations of entities domiciled in the country.

GDP per capita (PPP basis, US$): 16,723 (2013 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 4.4% (2013 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 8.5% (2013 Actual)

Gen. Gov. Financial Balance/GDP: -1.6% (2013 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -5.6% (2013 Actual) (also known as External Balance)

External debt/GDP: 42.9% (2013 Actual)

Level of economic development: Moderate level of economic resilience

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

On 22 May 2014, a rating committee was called to discuss the rating of the Uruguay, 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 fiscal or financial strength, including its debt profile, has materially increased. The issuer has become less susceptible to event risks.

METHODOLOGY

The principal methodology used in this rating was Sovereign Bond Ratings, published in September 2013. Please see the Credit Policy 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 rating action, if applicable.

REGULATORY DISCLOSURES

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

Bart Oosterveld
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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