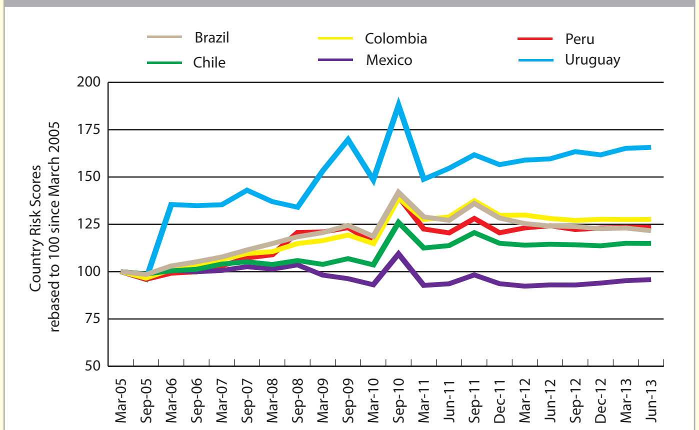
URUGUAY SOVEREIGN BOND CAPS STELLAR YEAR

The fast-growing country's latest Global Bond issue is welcomed by the market

Stellar performance: Uruguay's country risk ranking



Source: Euromoneycountryrisk.com

2013 has been another excellent year for Uruguay. The country successfully issued $2 billion of new 10-year notes in the international capital markets in August, meeting strong demand from investors attracted by the country's strong economic growth prospects and its recently acquired investment grade rating.

The interest from investors did not come as a surprise. Uruguay has become one of the most attractive countries in Latin America for foreign direct investment (FDI) over the past decade, its fast-growing economy driven by investment, exports and a structural transformation of its buoyant agriculture sector. The country has one of the highest rates of FDI against GDP in Latin America: in 2012, total FDI amounted to $2.7 billion, an increase of 15% over the past two years, giving an overall rate of 5.4%. Within Latin America, only Chile (11.3%) and Peru (6.2%) had higher rates.

The country has made big strides in increasing agricultural exports – especially soybean, meat and dairy products – in recent years. But growth is also being driven by domestic demand, with the economy experiencing very low unemployment and strong real wage increases.

"Fiscal stability, the consolidation of a transparent regime of investment promotion and the maintenance of a clear legal framework were key factors to attract and strengthen investment in Uruguay," said finance minister Fernando Lorenzo. "Based on that and in new mega-investments –especially those related to energy and infrastructure sectors – the Uruguayan economy will continue growing significantly." The official estimate for the current year is GDP growth of 4%, despite a less favourable external outlook elsewhere in Latin America this year.

Transforming public finances

Strong economic performance is mirrored by the transformation of Uruguay's public finances. The list of recent achievements by Uruguayan policy-makers is remarkable. The government has successfully reduced the high level of indebtedness the country once endured. Total public net debt has fallen by 40 percentage points in the past eight years, to just 27% of GDP. The average maturity of central government debt has been extended from 7.4 years at the end of 2004 to more than 11 years as of June 2013, a fourfold reduction in the percentage of debt maturing each year, effectively limiting refinancing risk.

In addition, the Ministry of Finance has implemented a pre-funding policy, keeping cash reserves to cover debt service one year forward and to ward against external shocks. In August, the government had nearly 4.6% of GDP in cash reserves, enough to cover more than two and a half years of debt amortizations. The present administration has also beaten its own target ratio by increasing the proportion of central government debt denominated in local currency to 58% as of mid-2013, versus just 11% in 2004.

Safety net

Uruguay's financial cushion has been enhanced by nearly $2 billion (3.9% of GDP) in contingent credit lines it has agreed with multilateral institutions including the World Bank, the Inter-American Development Bank and CAF, the Andean Development Corporation. These lines protect the economy from unexpected external shocks and constitute an important source of funding should the capital markets close. During the global financial crisis of 2008, the government took advantage of such a financial safety net, disbursing contingent credit lines negotiated with multilaterals without going to private capital markets.

In May, Canadian rating agency DBRS became the fourth agency to award Uruguay an investment grade rating, after Standard & Poor´s and Moody's upgraded the country in 2012 and Fitch followed suit earlier this year.

The macro-prudential framework has been strengthened in recent years to ward against external shocks. In May, the IMF praised policy-makers for the "significant progress made in banking supervision, including in implementing the Basel II standards and in adopting a risk-based approach". The banking system is very comfortably capitalized, with more than two times the capital minimum required by the national regulator.

Investors are also attracted to Uruguay by the country's solid institutional framework and adherence to the rule of law. Over the past decade, Uruguay has consistently improved its position in the results of Euromoney's Country Risk Survey (ECR). Over the past decade, Uruguay has risen by 32 places in the rankings (see chart), which measure economists' views on the economic and political risk profile of emerging and developed markets. Uruguay has outperformed many of its Latin American peers during this period.

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