STANDARD & POOR'S

Global Credit Portal®
RatingsDirect®

July 25, 2011

Research Update:
Uruguay's Sovereign Credit Ratings Raised To 'BB+', Outlook Stable

Primary Credit Analyst:
Sebastian Briozzo, Buenos Aires (54) 11 4891 2120;sebastian_briozzo@standardandpoors.com

Secondary Contact:
Richard Francis, New York (1) 212-438-7348;richard_francis@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Uruguay's Sovereign Credit Ratings Raised To 'BB+', Outlook Stable

Overview

- Continuity in the government's implementation of a consistent macroeconomic approach and a gradual decrease in its exposure to foreign currency debt improved Uruguay's resilience to external shocks.
- We're upgrading the Oriental Republic of Uruguay to 'BB+' from 'BB'.
- The higher rating is consistent with Standard & Poor's revised methodology and assumptions for rating sovereign governments.
- The outlook is stable.

Rating Action

On July 25, 2011, Standard & Poor's Rating Services raised its foreign and local currency sovereign credit ratings on the Oriental Republic of Uruguay to 'BB+' from 'BB'. The outlook on the ratings is stable. At the same time, we upgraded our transfer and convertibility assessment on Uruguay to 'BBB' from 'BBB-'.

We also raised our foreign currency issue ratings to 'BBB-' from 'BB+' in line with our '2' recovery ratings for Uruguay.

Rationale

The upgrade on Uruguay incorporates its growing track record on the implementation of prudent and consistent economic policies. The same direction of economic policies has remained throughout administrations of different political parties. Standard & Poor's expects the current policy mix, combined with an explicit policy goal of reducing Uruguay's government exposure to foreign currency debt, could continue to reduce Uruguay's vulnerabilities and provide additional policy flexibility to withstand external shocks of different sources.

Uruguay has been one of the most dynamic economies in Latin America in recent years. GDP growth averaged 6.3% between 2005 and 2011, after incorporating our expectation of 5.8% growth for 2011. While we estimate GDP growth to moderate after 2011 to about 4% to 5%, large-scale investment projects could enhance economic growth further over the next three years. These include construction of the Montes del Plata pulp plant, which by itself represents an estimated investment of $2 billion--equivalent to about 5% of Uruguay's GDP. In addition, an expected increase in the development of infrastructure, supported by a recently passed law on public private partnerships, and other large investment projects could likely lead to GDP growth rates above the 4% assumed as the trend growth for Uruguay, over the next three years.

Despite recent improvements, Uruguay's net general government debt remains relatively high at 47.5% of GDP. This is especially true given the still-significant proportion of foreign currency denominated debt (60% of total) and the context of a rigid expenditure structure and very limited monetary flexibility. Although a gradual de-dollarization trend persists in Uruguay, 75% of deposits remain denominated in foreign currency. The government's active liability management partially offsets these vulnerabilities at the current rating level. Principal payments over the next four years remain particularly low, at less than 1.3% of GDP per year, and about 61.4% of the bonds' principal payments maturing during the period are denominated in local currency.

Political pressures from within the government's party will remain, in our opinion. However, we don't expect it will affect the main direction of economic policy, which remains fundamental for Uruguay to continue to gain greater economic flexibility, withstand growing regional and global uncertainty, and persist on its upward rating momentum.

Outlook

Our stable outlook balances the growing chances that an ongoing solid economic policy will continue to reduce Uruguay's vulnerabilities with the still limited monetary and fiscal policy flexibility the government has. A declining government debt level with increasing participation of local currency debt in the context of high economic growth could create the basis for an upward movement on the rating. Conversely, increasing fiscal pressures that significantly modified the government fiscal program could lead to a lower rating.

Related Criteria And Research

- Government Rating Methodology And Assumptions, June 30, 2011

Ratings List

Upgraded

	To	From
Uruguay (Oriental Republic of)		
Sovereign Credit Rating	BB+/Stable/B	BB/Stable/B
Transfer & Convertibility Assessment		
Local Currency	BBB	BBB-
Senior Unsecured (local currency)	BB+	BB
Senior Unsecured (foreign currency)	BBB-	BB+
Recovery Rating	2	2

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.