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Research Update:

Uruguay 'BBB-/A-3' Ratings Affirmed; Outlook Remains Stable

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Overview

- Uruguay's stable political system, strong institutions, and favorable medium-term growth prospects are balanced by its vulnerability to regional trends, still highly dollarized economy, and limited fiscal flexibility.
- We are affirming our 'BBB-/A-3' foreign and local currency sovereign credit ratings on Uruguay.
- The outlook on the long-term ratings remains stable, reflecting our expectation for policy continuity.

Rating Action

On May 22, 2013, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term and 'A-3' short-term foreign and local currency sovereign credit ratings on the Oriental Republic of Uruguay. The outlook remains stable. In addition, our transfer and convertibility assessment of 'BBB+' is unchanged.

Rationale

The ratings on Uruguay reflect its stable political system, strong public institutions, favorable medium-term growth prospects, and improving debt profile, all of which reduce its vulnerability to external shocks. The ratings also reflect rigidities due to a still high level of dollarization, limited fiscal and monetary flexibility, and vulnerability to commodity price swings and adverse economic trends in the region.

Eleven years of continued GDP growth should boost Uruguay's per capita GDP above US$16,000 in 2013. Rising prosperity and improving social indicators augur well for political stability and continuity of key economic policies beyond the election cycle. In addition, continued success in attracting foreign direct investment could contribute to both economic growth and diversification.

The share of dollar-denominated assets and liabilities in the financial system remains well above 50%, and inflation remains higher than the central bank's targeted range. That, along with limited fiscal flexibility and vulnerability to adverse developments in neighboring Argentina, highlights the constraints on the sovereign rating on Uruguay.

Outlook

The stable outlook reflects our expectation for continuity of pro-investment policies, as well as cautious fiscal policy after the elections in 2014. We expect the government to maintain prudent debt-management policies that compensate for the still large, though declining, share of the country's debt that is denominated in foreign currency.

The government's ability to adjust fiscal and other economic policies in the event of an adverse external shock will influence the credit rating over the coming years. Continued economic growth and diversification, along with a declining debt burden and improvement in both monetary and fiscal flexibility, would provide Uruguay with greater capacity to withstand external shocks. That, along with a decline in dollarization, could result in an upgrade. Conversely, a weaker commitment to macroeconomic stability or an inadequate response to external risks could harm the country's external liquidity and raise its debt burden, resulting in a downgrade.

Related Criteria And Research

- Uruguay, June 26, 2012
- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Ratings List

Ratings Affirmed

Uruguay (Oriental Republic of)	
Sovereign Credit Rating	BBB-/Stable/A-3
Transfer & Convertibility Assessment	BBB+
Senior Unsecured	BBB-
Short-Term Debt	A-3

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.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.