Rating Report
Report Date:
May 29, 2015
Previous Report:
May 30, 2014

Insight beyond the rating.

Oriental Republic of Uruguay

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Ratings

Issuer	Debt Rated	Rating	Trend
Uruguay, Oriental Republic of	Long-Term Foreign Currency– Issuer Rating	BBB (low)	Stable
Uruguay, Oriental Republic of	Long-Term Local Currency– Issuer Rating	BBB (low)	Stable
Uruguay, Oriental Republic of	Short-Term Foreign Currency – Issuer Rating	R-2 (middle)	Stable
Uruguay, Oriental Republic of	Short-Term Local Currency – Issuer Rating	R-2 (middle)	Stable

Rating Rationale

DBRS, Inc. has confirmed the Oriental Republic of Uruguay's long-term foreign and local currency issuer ratings at BBB (low). DBRS has also confirmed the short-term foreign and local currency issuer ratings at R-2 (middle). The trend on all ratings is Stable.

The Stable trends reflect DBRS's view that risks to the outlook are broadly balanced. Growing public expenditures and above target inflation are main policy challenges. In addition, the Uruguayan economy remains exposed to regional and global spillovers via the terms of trade, tourism, and financial channels. However, due to ongoing economic diversification from high levels of investment, prudent debt management, and large financial buffers, DBRS believes the credit fundamentals in Uruguay are stable.

Upward pressure on the ratings could occur if efforts are made to improve fiscal performance. A framework that aligns expenditure growth with revenues to produce more consistent countercyclical fiscal results could be credit positive. Further progress on de-dollarization and on returning inflation expectations to within the policy target range could also add upward pressure to the ratings. In contrast, deterioration in Uruguay's macroeconomic management that weakens the economy's resilience to adverse shocks could put downward pressure on the ratings. (Continued on page 2)

Rating Considerations

Strengths
(1) Strong growth performance
(2) High foreign direct investment
(3) Effective debt management
(4) Strong and stable public institutions

Challenges
(1) Limited fiscal flexibility
(2) Risks from external volatility
(3) Above target inflation expectations
(4) Financial dollarization

Summary Statistics

For the year ended December 31	2012	2013	2014	2015F
Nominal GDP (US$ billions)	51.4	57.5	57.5	59.3
GDP per capita (US$)	15,136	16,870	16,199	16,642
Real GDP (% change yoy)	3.3	5.1	3.5	2.8
Unemployment rate (%)	6.3	6.5	6.6	6.7
Inflation (year end, %)	8.1	8.6	8.9	7.4
Current account balance (% GDP)	-5.2	-5.1	-4.6	-3.8
External debt (% GDP)	41.0	39.7	42.2	44.4
Public sector balance (% GDP)	-2.7	-2.4	-3.3	-3.2
Public sector primary balance (% GDP)	-0.2	0.4	-0.5	-0.4
Public sector gross debt (% GDP)	60.5	57.5	58.5	64.3
Human Development Index	0.787	0.790	na	na

Source: 2015 overall and primary fiscal balance: government projections; All other forecasts: IMF

Rating Rationale (Continued from page 1)

Despite weaker regional and global economic performance, the Uruguayan economy continues to demonstrate its resiliency by outpacing regional peers. From 2004 to 2014, real GDP expanded at an average annual rate of 5.3%, above the Latin American average of 3.9%. On the supply side, higher levels of investment boosted productivity in the agricultural sector, expanded production into higher value-added agribusiness, and diversified the economy. Positive demand factors include favorable terms of trade and strong regional demand for tourism services. This solid growth performance has been accompanied by a rising employment rate and substantial real wage gains. After expanding by a real 3.5% in 2014, cyclical deceleration is expected to continue through 2016 before converging back to its potential growth rate of approximately 3-3.5%.

Higher levels of investment bode well for growth over the medium-term. Total investment averaged 21.8% of GDP from 2008-2014, up from a low of 15.2% in 2003. FDI in particular is among the highest in its peer group. The Montes de Plata pulp mill began operations last year and, along with impending mining investments in iron ore, will likely improve growth prospects. Furthermore, ongoing efforts to increase infrastructure and energy investments are vital for Uruguay to sustain high rates of economic growth.

Favorable economic performance combined with persistent primary surpluses and proactive debt management led to a significant improvement in Uruguay's debt profile over the last decade. According to official data, gross public debt declined to 58.5% of GDP in 2014 from 107.5% of GDP in 2003. With debt net of liquid assets at 21.0% of GDP, the government achieved its net debt target of 24% of GDP by 2014. However, due to slower growth, wider deficits, and central bank reserve sterilization, public debt is expected to increase gradually. The DBRS baseline is for net debt to approach 30% of GDP by the end of the decade.

The recent weakening of economic and fiscal positions does not pose near-term risks to Uruguay's strong sovereign credit profile. The average maturity of central government debt increased to 15 years. With limited debt maturing and strong precautionary savings, the government has adequate resources to cover gross financing needs for well over 12 months. Contingent credit lines of 3.5% of GDP from multilateral lending institutions supplement the financial cushion. Offsetting these strengths are several challenges.

A widening fiscal deficit limits the scope for discretionary stimulus or countercyclical policy intervention in the event of an adverse shock – despite ample liquidity buffers that provide space for automatic fiscal stabilizers to function. Indeed, economic output and primary surpluses over the last decade have been above long-run trends, resulting in a declining debt burden. Yet, the public sector balance sheet has remained in a deficit position since 2008. It has widened due to an increase in primary spending towards social programs like pensions and healthcare. Revenue growth has not kept pace. As GDP growth moderates, the increase in rigid expenditures could continue to pressure the deficit, which the government expects at 3.2% of GDP in 2015.

As a small, open, and commodity dependent economy, Uruguay remains exposed to changes in external prices and demand. Risks stem from volatile global capital flows, abrupt shifts to the exchange rate, and weaker global and regional economic growth. Trade disruptions or a more severe economic downturn in Brazil or Argentina would directly affect economic activity through weaker demand for tourism services and lower levels of direct investment. A sharp deceleration in China also presents a downside risk to commodity prices and trade. However, the current account deficit of 4.6% of GDP in 2014 is fully funded by FDI. As a result, international reserves rose to $18.8 billion (32% of GDP) in April 2015, exceeding most international benchmarks for adequate reserve levels and cushioning the impact of an external shock.

Above target inflation remains another policy challenge. Consistent near double-digit inflation elevates market interest rates, increases the cost of economic activity, and perpetuates dollarization in the economy. Total dollarized credit and deposits in Uruguay remain well above other dollarized economies in Latin America. High levels of dollarization and low financial intermediation hinder the transmission of monetary policy. Annualized CPI averaged 8.9% in 2014 and 7.9% since 2007, above the central bank target band of 3-7%. The central bank has tightened substantially since it announced a change in its instruments in July 2013, as reflected by slower money aggregates (M1+) and higher private sector interest rates. Despite the tightening, 12-month inflation expectations remain above the target and short-term bank rates have become more volatile. This illustrates the limits of monetary policy effectiveness in the absence of fiscal spending and wage indexation adjustments.

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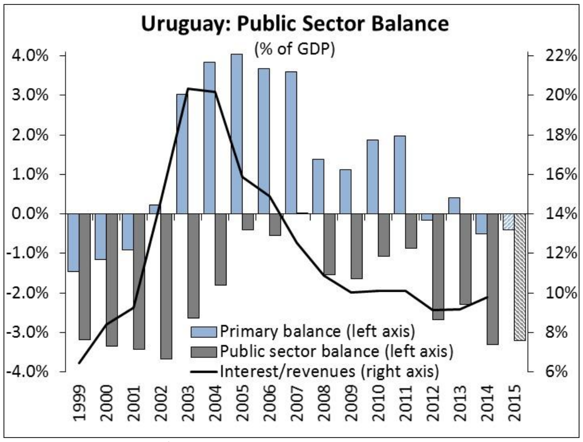
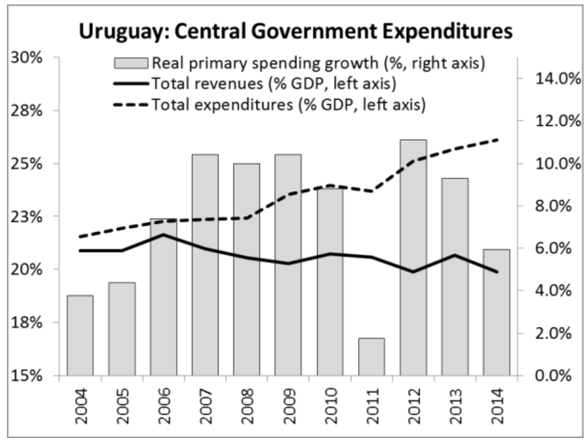
Local and Foreign Currency Ratings

DBRS rates Uruguay's local and foreign currency ratings at the same level, in spite of the greater ability to generate revenues in local currency, because the domestic financial market is shallow. Further, the country has accumulated a large stock of foreign currency reserves. This helps the capacity to service foreign currency debt.

Fiscal Management and Policy

Uruguay's commitment to responsible fiscal policy has helped lower public debt ratios and foster macroeconomic stability since the 2002 financial crisis. Primary surpluses averaged 2.8% of GDP from 2003 to 2011, aided by reforms that broadened the tax base and improved tax administration. The debt-servicing burden over that time fell to 10.1% of public sector revenues from 20.4%. However, the public balance has deteriorated in recent years due to increases in primary spending, which has been higher than real GDP growth in each year since 2006 (with the exception of 2011). Reversing the trend in fiscal accounts would improve fiscal flexibility and help ease inflationary pressures. The new administration has made improving the fiscal position a key priority.





Source: Ministry of Economy and Finance, Haver, DBRS

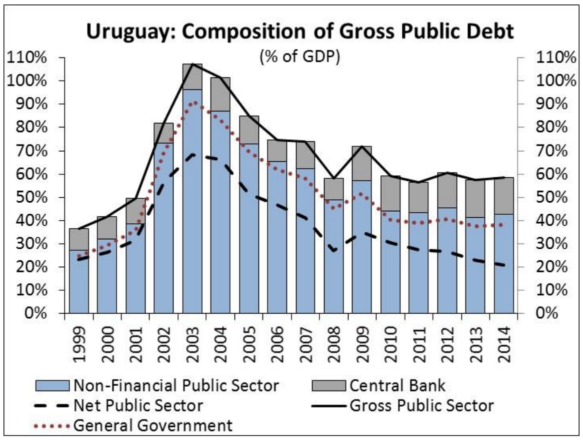
Deterioration in the public sector balance reflects increases in primary expenditures**.** Central government spending increased 3.7% of GDP from 2008 to 2014, driven by expanded social programs such as healthcare, social assistance, public salaries, and pensions – expenditure categories that are more permanent in nature. In contrast, central government revenues declined by 0.7% over the same period due to cooling economic activity. At -3.3% and -0.5% of GDP, respectively, the overall public and primary balances underperformed the original and revised deficit targets for the third consecutive year in 2014. The government projects a primary deficit of 0.4% and an overall deficit of 3.2% of GDP this year.

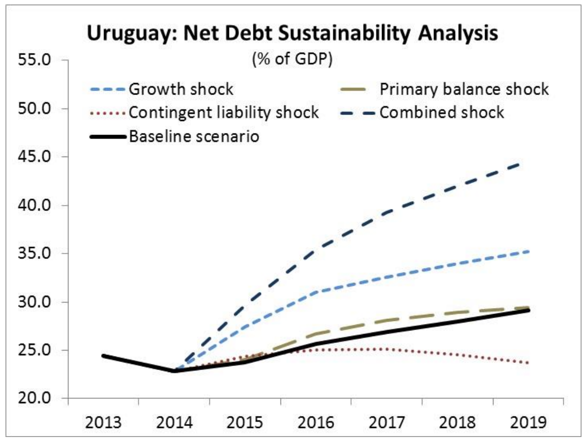
While the government expects commodity-based windfalls from mining, the fiscal framework does not link commodity activity revenues to expenditures. Along with the increase in revenue from pulp production, as the Montes de Plata pulp mill came online last year, the exploration and export of proven iron ore deposits could generate an additional stream of government receipts over the medium term. However, the evolution of the price, cost, and export of main agricultural commodities plays less of a role in revenue generation. The high degree of export diversification presents a challenge for authorities to adopt a fiscal rule linked to the commodity cycle, as seen in other commodity exporting countries. Revenue volatility is mostly associated with economic cyclicality. Efforts by the new administration to establish a framework to ensure fiscal targets based on structural estimates for GDP and revenues could strengthen the government's track record on fiscal management. The presentation of the next five-year budget is expected by August 2015.

Rising real expenditures limit fiscal flexibility and perpetuate inflationary pressures. While liquidity buffers and precautionary credit lines provide adequate space for automatic fiscal stabilizers to function, future deficits could limit Uruguay's scope for discretionary fiscal stimulus in the event of a shock. Furthermore, average annual real growth in central government primary expenditures of 8.3% since 2008 outpaced average annual real GDP growth of 5.2% over the same period, increasing domestic demand and partly responsible for pushing inflation above the central bank's target. Moderation in economic growth prospects could pressure the fiscal balance, particularly if forthcoming commodity revenues underperform expectations.

Debt and Liquidity

Primary surpluses, strong growth, and skillful debt management have led to a significant improvement in the level and composition of Uruguay's debt over the last decade. A government's estimate of consolidated gross public debt declined from a post-crisis peak of 107.5% of GDP in 2003 to 58.5% of GDP in 2014. Stripping away debt issued and held by the central bank and public companies, the general government public sector debt fell to 38.1% of GDP, from 91.6% in 2003. The administration met its target of achieving debt net of public sector assets of 24% of GDP by 2014 when net debt reached 21.0% of GDP last year. However, due to slower growth and wider deficits, public debt is projected to rise gradually over the forecast period. DBRS's baseline assumes net debt to rise towards 30% of GDP by 2019. In a combined shock scenario, net debt could reach above 40% of GDP by the end of the decade.





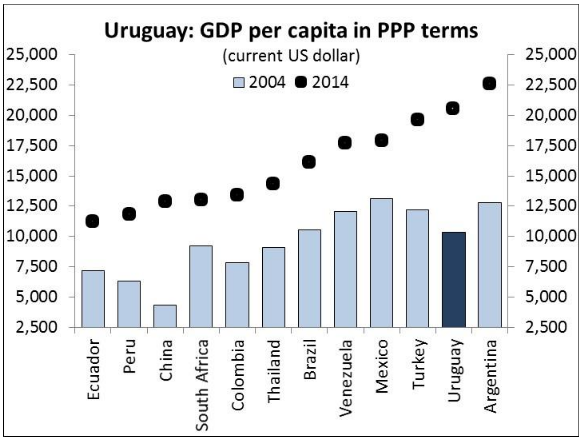
Note: Composition of gross public debt according to government data. IMF WEO net debt data used in DBRS net debt sustainability analysis. Net debt equals gross debt minus total financial assets of the public sector. Growth shock equals an average 1.7% contraction over two years and slower trend growth to 1.4%. Primary balance shock equals fiscal slippage or discretionary easing of 2% of GDP for two years and permanent fiscal underperformance of 1% of GDP. Contingent liability shock assumes new public liabilities equal to 2% of bank claims. The contingent liabilities shock is slight due to the shallow nature of the Uruguayan financial system. The assumed recovery value of assets improves the baseline net debt ratio. However, larger assumed liabilities could weaken gross debt over the longer term. Combined shock includes all three scenarios. Source: BCU, Ministry of Economy and Finance, IMF, Haver, DBRS

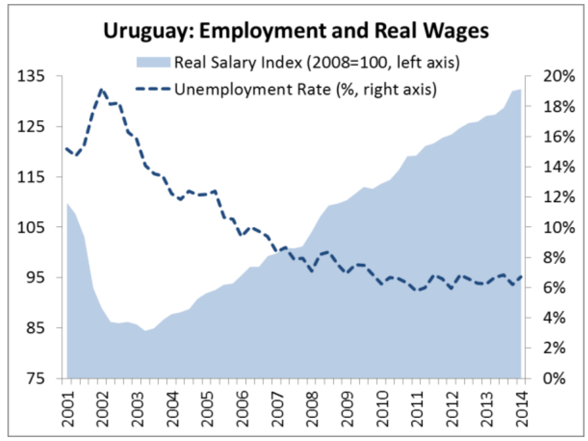
Weaker economic and fiscal results do not pose near-term risks to Uruguay's strong sovereign credit profile. Proactive debt management has significantly reduced rollover risk by smoothing the amortization schedule, extending the maturity structure, and implementing a 12-month pre-financing policy. A debt swap and successful 2050 global bond issuances over the last year pushed the average maturity of central government debt to 15 years, among the longest in either emerging or advanced economies. Central government debt maturing over the next 12 months amounts to an equivalent of just 2.0% of GDP. At 6.1% of GDP, present liquid assets are well in excess of 2015 and 2016 financing needs. Additionally, contingent credit lines with multilateral lending institutions (World Bank, CAF, FLAR, and IADB) offer an additional 3.5% of GDP in financial buffers. Thus, Uruguay has ample funding flexibility in the event of market turbulence.

The government has also made substantial progress reducing exchange rate risk. The share of central government debt denominated in local currency reached 49% as of 1Q15, from below 10% in 2003. Further still, three-quarters of market debt in foreign currency is hedged against foreign exchange risk. The government plans to continue its medium-term strategy of debt de-dollarization by issuing peso denominated debt and buying back foreign currency denominated bonds.

Economic Structure and Performance

Uruguay's economy has been a strong performer among its BBB-range rated peer group over the last decade. Growth expanded an average real annual rate of 5.3% from 2004-2014. This performance took place in the context of favorable commodity prices and strong regional and domestic demand. It was also the result of prudent macroeconomic policies, higher rates of investment, and increasing competitiveness in the agriculture sector. However, the IMF expects real growth to decelerate to 2.8% this year and 2.9% in 2016, from regional and global slowdowns, before gradually increasing towards the economy's approximate 3-3.5% potential by the end of the decade. Ongoing efforts at increasing infrastructure and energy investments should help weather the regional slowdown and sustain relatively high rates of economic growth.





Note: GDP per capita are IMF estimates Source: IMF, INE, Haver, DBRS.

Strong economic growth has contributed to a significant improvement in social indicators. Public social spending increased to 25% of GDP from 20% in 2005 to improve social conditions that deteriorated due to the recession and crisis early in the decade. The poverty rate declined to nearly 10% from roughly 40% in 2004 and inequality indicators have also improved. Furthermore, the employment rate has increased to well above pre-2002 crisis levels and unemployment, at 6.7%, remains close to historical lows. Robust job growth has been accompanied by average real annual wage growth of 4% since 2011. Shortages of skilled labor, recent changes to the collective bargaining process, and the prevalence of wage indexation help explain the rise in salaries. While positive for rising incomes, wage growth has exceeded the growth of labor output per hour worked and is a contributing factor to above target inflation. If left unchecked, continued rapid wage growth could weaken competitiveness for some sectors and increase the adjustment cost in the event of a shock.

Favorable levels of foreign investment and technological advances have diversified exports and increased growth in productivity and real incomes. Total investment averaged just 16.5% of GDP in the 1990s and declined to 15.2% in 2003. Since then, investment has significantly increased to average 21.8% of GDP from 2008 to 2014. Likewise, real per capita income has risen by 75% since the 2002 crisis. In current purchasing parity terms, GDP per capita exceeded $20,000 in 2014. Large FDI inflows have also contributed to a structural transformation of Uruguay's exports, the agriculture sector in particular. Uruguay has benefited from its comparative advantage in traditional sectors such as beef and dairy products while rapidly expanding into new markets such as soy, rice, and other cereals. The development of the pulp and paper industry has also broadened the export base.

Higher investment levels bode well for sustained economic growth in the coming years. A substantial expansion of energy infrastructure could improve growth prospects, as Uruguay imports over half of its energy consumption. Hydroelectric generation supplies a majority of domestic electricity and in periods of inadequate rainfall, as in 2008 and 2012, Uruguay imports expensive substitutes. Going forward, the government is planning significant public and private investment in energy-related infrastructure to meet the economy's growing energy needs, including a connection to Brazil's electricity grid, a series of wind parks, and the expansion of biomass power. The objective is to gradually reduce dependency on imported petroleum, diversify suppliers, and limit fiscal exposure. Transport infrastructure, however, has not kept up with the economy's expansion. In order to narrow the infrastructure deficit, Congress passed legislation in June 2011 to facilitate the creation of public-private partnerships (PPPs) to focus on roads, railways, and ports.

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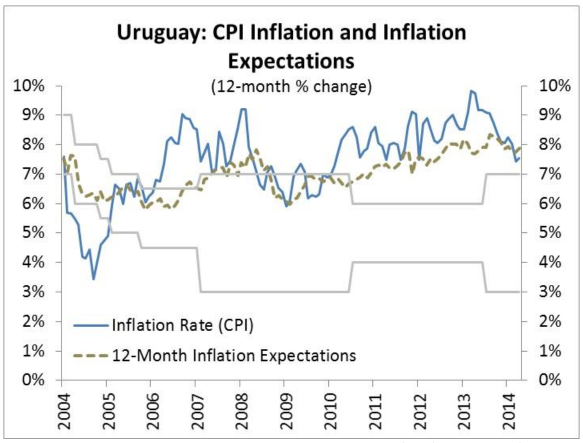
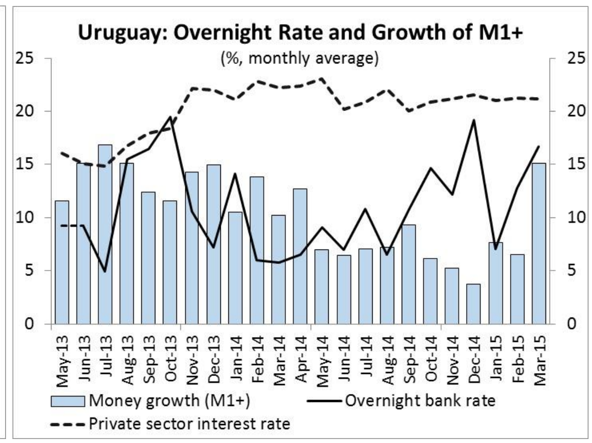
Monetary Policy and Financial Stability

Despite changes to Uruguay's monetary policy framework and significant policy tightening, the central bank has thus far been unsuccessful in lowering inflation expectations. For the last eight years, annual inflation has remained near or above the upper limit of the BCU's target range due to a variety of reasons. These include rising public expenditures, strong domestic demand, droughts, rising international food and energy prices, financial dollarization, and capital inflows. Authorities have responded to disruptive capital inflows by increasing reserve requirements and changing the policy framework, and to price pressures by tightening the monetary policy stance and occasional price control agreements on basic goods with retailers. While disruptive short-term capital inflows have steadied, inflation remains above the target band.

Between July 2010 and 2013, price and exchange rate pressure raised competitiveness concerns. Inflation increased from 6.4% to 8.7%. In response, the BCU raised the benchmark policy rate 300 basis points to 9.25%. This effort did not dampen the rise in prices but played a role in attracting substantial short-term portfolio flows. The trade-weighted exchange rate strengthened 19.7% in that span, provoking concerns of an overvalued peso.





Note: Private sector interest rate: interest rate for firms and families borrowing in local currency. Source: INE, BCU, Haver, DBRS

To counter these challenges, the BCU announced in June 2013 new controls on capital inflows and a reformulated inflation target. The BCU introduced new reserve requirements on nonresidents' purchase of locally issued Treasury notes and increased capital requirements on central bank sterilization notes. It also widened the inflation target band from 4-6% to 3-7% starting in July 2014. Moreover, the BCU replaced the interest rate target with a money supply – plus saving deposits (M1+) – growth target. Successful monetary contraction is evident by monthly growth of M1+ moderating from the 15.7% moving 3-month average in mid-2013 to 5.1% in late-2014, despite stronger money growth in early 2015. BCU policy, along with expected tightening U.S. monetary policy and global strengthening of the dollar, helped slow capital inflows, reverse peso appreciation, and calm some competitiveness concerns. Between April 2013-2015, the UYU/USD exchange weakened to $26.4 from $18.9. The BCU decision in September 2014 to remove nonresident reserve requirements on investments marked the end of the capital measures introduced in 2013.

The new policy framework has made interest rates volatile and has created some market confusion. The market initially interpreted the new framework as expansionary and the overnight interbank rate fell to 4.8% in July 2013. The BCU tightened liquidity over subsequent months and the rate overcorrected to average 14.1% from August through January 2014, occasionally spiking above 30%. Such volatility has caused banks to maintain higher liquid reserves and tap the overnight market less frequently, thus constricting already low levels of lending in the economy. Credit does not appear to be a main catalyst for inflation, but rising market rates have implications for weaker economic growth. The average private sector interest rate for local currency borrowing rose to 21% since mid-2013, from roughly 15% prior to the change in the framework.

Despite the policy shift and monetary contraction, inflation remains above the target policy band. Tighter monetary policy along with the decline in oil prices caused annual CPI to fall to 7.6% in March 2015, down from 9.7% a year earlier. Annualized inflation nonetheless increased to 8.2% in April 2015. Exceeding the 10%

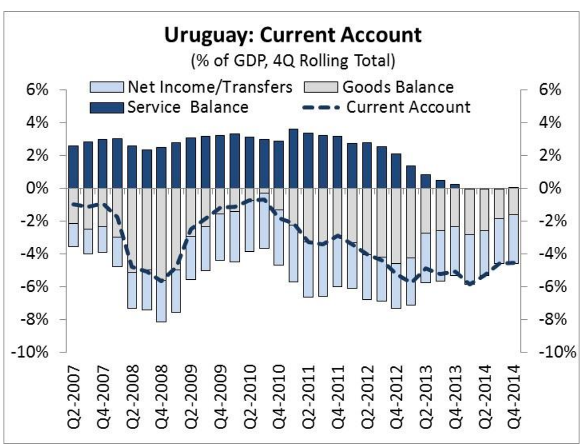
annual inflation threshold could be disruptive, canceling salary agreements and triggering wage negotiations. Inflation expectations for the next 12 months have remained above 7% since late 2011, and reached 7.9% in April 2015. Structural issues that perpetuate high inflation expectations, such as rising public expenditures and wage indexation, persist and could continue to complicate a reduction in price pressures.

High dollarization and low financial intermediation are challenging features of the Uruguayan financial system. Dollarization blunts the effectiveness of monetary policy. The BCU has no control over dollar interest rates and less ability to affect aggregate savings and demand through changes in the local money supply. Dollarization also creates currency mismatches and balance sheet vulnerabilities that carry exchange rate and liquidity risks. The appreciation of the dollar and the expected rise in global interest rates increases the cost of dollar credit for firms and households. The share of dollarized credit to total loans in Uruguay is 61%, and the share of total dollarized deposits is 78%. These results remain well above the median dollarized share of credit and deposits for Pacific Alliance countries (Colombia, Chile, Peru and Mexico), of 22% and 18%, respectively. Furthermore, credit extension is shallow. Total credit amounted to only 27% of GDP in 2014 compared against an average of 32% of GDP in Pacific Alliance countries. This reflects the limited availability and utilization of financial services since the 2002 crisis.

Notwithstanding, the Uruguayan financial system is in a healthy position and better prepared to withstand external shocks. The banking system is small, liquid, and well capitalized with a very low level of non-performing loans. Prudential measures include higher reserve requirements on foreign currency deposits, higher capital requirements on foreign currency credit, and strengthened surveillance of systemic macro-financial risks. Non-resident deposits, which were a source of vulnerability in the past, also remain at low levels. At the onset of the Argentine crisis in 2001, non-resident deposits accounted for 41% of total deposits. The crisis spread to Uruguay when Argentines withdrew their money from Uruguayan banks, causing a run by all depositors. Since then, the level of non-resident deposits has remained stable at roughly 15% of total deposits and is more than matched by banks' liquid foreign currency assets and reserve requirements.

Balance of Payments

Uruguay's balance of payments remains resilient and the widening trend of the current account deficit has begun to reverse. The decline in capital goods and energy imports, as well growth in pulp exports, has managed to offset the decline in Argentine tourism. Main external risks stem from volatile global capital flows and weaker global and regional economic growth. The economy is nonetheless cushioned from an external shock by significant buffers, including foreign exchange reserve assets in excess of most international benchmarks for adequate reserve levels.



Source: BCU, Haver, DBRS

The current account deficit widened since 2010 due to a variety of transient factors. These include higher than normal capital and energy imports, as well as weaker export performance. The deficit nearly reached 6% of GDP early last year. As these temporary factors diminish, as the currency weakens in response to changes in international finance conditions, and as exports recover, the current account deficit is expected to continue to narrow back towards the five-year historical average of 3.5% of GDP. The Montes de Plata pulp mill began operations last year and supported the goods balance. Furthermore, the passage of a law in 2013 provides guidelines for investment in large scale mining and the exploitation of the 18 million tons of proven iron deposits in central Uruguay. These reserves have the potential to create an additional 2-4% of GDP in annual export revenue over the 20-30 year life cycle of the project. Even at 4.6%, the 2014 current account deficit is fully financed by FDI inflows equivalent to 4.8% of GDP.

Weaker growth from regional and global partners increases vulnerabilities to spillovers through trade, tourism, and investment channels. Real average growth of main partners (Argentina, Brazil, EU, USA, China, and Chile) slowed to 2.7% in 2012-2014 from 5.6% during 2004-2008. Consequently, goods exported from Uruguay fell to an average annual growth of 4.5% from 22.2% over the same periods. Furthermore, the significant moderation in tourism receipts reflects the economic slowdown in Argentina and efforts by the Argentine government to restrict spending by residents abroad. Argentina accounts for over half of Uruguay's tourism receipts. Likewise, Argentina has increased its importance as a source of FDI and accounted for an average of 29% of total FDI inflows in 2009-2013, up from 22% in 2004-2009. As with tourism, further restrictions by Argentine authorities that impede regional capital flows could negatively affect FDI in Uruguay.

While Uruguay growth remains sensitive to external factors, geographical and product diversification have reduced concentration risks. Uruguay's small open economy has historically been correlated with its two large neighboring economies, Argentina and Brazil. Yet, extra-regional partners have increased in importance. Brazil and Argentina account for roughly 23% of total exports, 18% from Brazil alone. European countries accounts for another 16% and the rest of the Americas 19%. China has emerged over the last decade as a vital export market with 13% of the total. Meat and dairy products make up over half of export goods. Crude materials like soybean also increased in significance, as well as exports of other primary products, cereals, agribusiness, wood & pulp products, and chemicals.

The country has also built a formidable reserve buffer to manage shocks. At $18.8 billion, reserves equal 15 months of imports, 32% of GDP, and over 291% of short-term external debt. The moderate international investment position of -13.8% of GDP has slightly widened but reflects higher FDI liabilities. Conversely, liabilities from portfolio investments and nonresident deposits have substantially declined. These factors increase Uruguay's resilience to withstand external shocks.

Political Environment

Last election:	26 October 2014 (first round), 30 November 2014 (run-off)
Next election:	October 2019
Party in power:	Coalition – Broad Front (Frente Amplio)
Senate:	Broad Front holds 15 of 31 seats
Chamber of Deputies:	Broad Front holds 50 of 99 seats
President:	Tabaré Vázquez – Broad Front

Since the 1984 general elections ended Uruguay's civic-military dictatorship, national elections have resulted in peaceful political transitions. Power has alternated between the National Party, Colorado Party, and the leftist coalition Broad Front. The combination of a proportional representation system that encourages coalitions within the legislature, a centrist electorate and relatively infrequent elections provides a strong sense of stability and encourages a focus on long-term policy goals. Transparency International's 2013 Corruption Perceptions Index ranks Uruguay as the least corrupt country in Latin America and placed it as 19th least corrupt of 177 countries. Furthermore, Uruguay ranks first, second, or third in Latin America on recognized social and institutional stability indices, including the EIU Democracy Index, the World Bank Worldwide Governance Indicators, and the Economic Freedom Index.

The basic pillars of macroeconomic and social policy enjoy broad support across the political spectrum. Uruguay held elections for the presidency and the General Assembly last year. Former president Tabaré Vázquez of the Broad Front (2005-2010) took office for a second term in March 2015 after securing 57% of the popular vote in the second round run-off against National Party candidate Luis Alberto Lacalle Pou. Despite the administration's social welfare expansion policies, DBRS does not expect deviation from the stable macroeconomic policy continuity of the last decade.

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Uruguay: Selected Indicators
For the year ended December 31

(US$ billions unless otherwise noted)	2009	2010	2011	2012	2013	2014
Public Sector Debt						
Pubic Sector Debt	23.0	23.9	27.0	31.1	33.1	33.3
% GDP	71.9%	59.3%	56.4%	60.5%	57.5%	58.5%
Non-Financial Public Sector Debt	18.3	17.8	20.8	23.5	23.8	23.5
% GDP	57.2%	44.2%	43.4%	45.6%	41.4%	42.7%
Net Public Sector Debt	11.2	12.3	13.2	13.7	13.3	12.9
% GDP	35.0%	30.5%	27.5%	26.6%	23.1%	21.0%
Domestic Debt						
Public Sector	9.8	10.7	12.6	14.5	15.1	14.2
% GDP	30.8%	26.6%	26.3%	28.1%	26.2%	24.7%
External Debt						
Public Sector	13.1	13.2	14.4	16.7	18.0	19.1
% GDP	41.1%	32.7%	30.1%	32.4%	31.4%	33.2%
Private Sector	4.9	5.2	3.9	4.5	4.8	5.2
% GDP	15.2%	13.0%	8.2%	8.7%	8.4%	9.0%
Total External Debt	18.0	18.4	18.3	21.1	22.9	24.3
% GDP	56.3%	45.7%	38.3%	41.0%	39.7%	42.2%
Fiscal Balances (% GDP)						
Revenues	27.7%	29.1%	28.1%	27.7%	29.5%	29.0%
Expenditures	26.9%	27.5%	26.4%	27.9%	29.1%	29.3%
Interest Payments	2.8%	2.9%	2.8%	2.5%	2.7%	2.8%
Interest Payments (% Revenues)	10.0%	10.1%	10.1%	9.1%	9.2%	9.8%
Public Sector Primary Balance	1.1%	1.9%	2.0%	-0.2%	0.4%	-0.5%
Overall Public Sector Balance	-1.7%	-1.1%	-0.9%	-2.7%	-2.4%	-3.3%
Balance of Payments & Liquidity						
Current Account Balance	-0.4	-0.7	-1.4	-2.7	-2.9	-2.6
% GDP	-1.2%	-1.8%	-2.9%	-5.2%	-5.1%	-4.6%
Trade Balance (% GDP)	1.6%	1.6%	0.2%	-2.5%	-2.1%	-1.6%
Net Foreign Direct Investment (% GDP)	4.7%	5.8%	5.2%	4.9%	5.1%	4.8%
External Liquidity Ratio (%)	208.1%	198.5%	163.8%	140.6%	140.7%	151.4%
International Reserves	8.0	7.7	10.3	13.6	16.3	17.6
International Investment Position	-3.2	-2.5	-4.8	-7.2	-7.9	NA
% GDP	-10.0%	-6.1%	-10.0%	-14.1%	-13.7%	NA
External Assets	26.9	28.8	29.1	33.4	36.7	NA
External Liabilities	30.1	31.3	33.9	40.6	44.6	NA

Source: Ministry of Economy and Finance, Central Bank of Uruguay, National Statistics Institute, Haver, DBRS.
Note: Public sector includes the central government, public companies, local governments, and the Central Bank of Uruguay. Non-financial public sector includes the central government, public companies, and local governments. Net public sector debt is gross public sector liabilities minus liquid financial assets. External liquidity ratio = (International reserves + Exports of goods, services and income + Net transfers) / (Amortizations + Short-term external debt + Imports of goods, services and income).

Oriental Republic of Uruguay

Report Date:
May 29, 2015

Ratings History

Issuer	Debt Rated	Current	2014	2013	2012
Uruguay, Oriental Republic of	Long-Term Foreign Currency Debt – Issuer Rating	BBB (low)	BBB (low)	BBB (low)	BB (high)
Uruguay, Oriental Republic of	Long-Term Local Currency Debt – Issuer Rating	BBB (low)	BBB (low)	BBB (low)	BB (high)
Uruguay, Oriental Republic of	Short-Term Foreign Currency Debt – Issuer Rating	R-2 (middle)	R-2 (middle)	R-2 (middle)	R-3
Uruguay, Oriental Republic of	Short-Term Local Currency Debt – Issuer Rating	R-2 (middle)	R-2 (middle)	R-2 (middle)	R-3

Notes:
All figures are in US Dollars unless otherwise noted.

This rating is endorsed by DBRS Ratings Limited for use in the European Union.