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Oriental Republic of Uruguay

Primary Credit Analyst:
Joydeep Mukherji, New York (1) 212-438-7351; joydeep.mukherji@standardandpoors.com

Secondary Contact:
Roberto H Sifon-arevalo, New York (1) 212-438-7358; roberto.sifon-arevalo@standardandpoors.com

Table Of Contents

Oriental Republic of Uruguay

Major Rating Factors

Sovereign Credit Rating
BBB-/Stable/A-3

Strengths:

- A stable political system with strong institutions and predictable economic policies supported by a broad political consensus
- Favorable medium-term growth prospects thanks to several current and planned investment projects
- A smooth government debt amortization profile that significantly reduces the sovereign's vulnerability to exchange rate risks over the next five years

Weaknesses:

- Relatively high government debt in the context of a still highly dollarized economy
- Limited fiscal flexibility, derived from a rigid expenditure structure
- An economy still dependent on commodities and vulnerable to regional trends

Rationale

The ratings on the Oriental Republic of 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 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 $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 (FDI) could contribute to both economic growth and diversification.

The share of dollar-denominated assets and liabilities in the financial system (dollarization) 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, although 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 the level of dollarization, could result in a higher rating. 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 lower rating.

Table 1

Uruguay's Selected Indicators

	—Year ended Dec. 31—										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013f**	**2014f**	**2015f**	**2016f**
GDP per capita (US$)	5,880	7,011	9,075	9,004	11,531	13,741	14,855	16,064	16,136	16,918	17,635
Real GDP (% change)	4.1	6.5	7.2	2.2	8.9	6.5	3.9	3.0	3.2	3.5	3.5
Real GDP per capita growth (% change)	3.9	6.3	7.0	1.9	8.6	6.2	4.5	3.0	3.2	3.5	3.5
General government balance/GDP (%)	(0.5)	(0.9)	(0.8)	(1.3)	(1.4)	(0.7)	(2.1)	(2.1)	(2.4)	(2.4)	(2.5)
Net general government debt/GDP (%)	61.1	48.1	51.3	50.4	50.4	46.3	45.8	47.3	46.6	45.8	45.2
General government interest/revenue (%)	12.4	10.7	8.3	7.8	8.1	7.7	6.9	7.1	7.1	7.0	6.9
Financial-sector credit to the private sector and nonfinancial public-sector enterprises/GDP (%)	26.2	24.3	28.6	22.4	23.7	24.5	24.9	25.5	26.4	27.2	28.2
Inflation (average annual growth of CPI, % change)	6.4	8.1	7.9	7.1	6.9	8.6	7.5	7.0	5.8	5.8	5.0
Gross external financing needs/current account receipts and usable reserves (%)	136.7	128.1	136.9	124.3	108.5	106.1	99.6	82.3	81.3	80.5	78.9
Current account balance/GDP (%)	(2.0)	(0.9)	(5.7)	(1.3)	(1.9)	(2.9)	(5.3)	(3.8)	(3.4)	(3.0)	(3.0)
External debt net of liquid assets/current account receipts (%)	67.2	52.6	26.4	13.5	(3.7)	(11.7)	(14.9)	(48.7)	(49.7)	(50.8)	(46.9)
Net banking-sector external debt/current account receipts (%)	(33.7)	(30.6)	(17.5)	(30.6)	(44.1)	(35.8)	(27.2)	(59.6)	(59.1)	(58.9)	(56.4)

f--Forecast.

Political Analysis: Stable Political System With Predictable Policies

- We expect continuity in policies following national elections in 2014.
- An increasingly prosperous and middle-class society augur well for long-term stability.
- Political relations with Argentina are likely to remain under strain, largely because of the spillover of economic policies and developments in the neighboring country.

Uruguay's stable political system provides a strong anchor for economic stability. We expect economic policy to remain stable and predictable after the next presidential and legislative elections scheduled for October 2014. The consensus on pursuing macroeconomic stability was tested in 2005 with the arrival of the first administration of the Frente Amplio, a center-left coalition of political parties. It was further reinforced in 2010 after the election of President Jose Mujica, from the political left within the coalition.

The Frente Amplio, which displaced the country's two traditional political parties in 2005, has managed to maintain its unity despite consistent internal tensions between different factions over economic and social policies. Vice President Danilo Astori and his ally, the finance minister, have had tensions with more leftist members of the Cabinet, including the head of the presidential office of planning and budget. These tensions are likely to persist during Mujica's term. In general, President Mujica has pursued cautious economic policies to maintain stability and attract investment while promoting various social laws. Former Frente Amplio president Tabare Vasquez (2005-2010) may run in next year's presidential elections and is likely to be the favorite candidate. Tensions between the comparatively more centrist members of the Frente Amplio and more leftist members are likely to persist but not undermine the coalition's ability to govern.

Uruguay is a largely middle-class society with a relatively strong social contract and social cohesion. The country ranks highly in international scores for governance, low perceived corruption, and institutional strength. Recent years of good GDP growth and improving living conditions and social indicators have solidified the consensus on current economic policies, reducing the risk of major changes under future governments. However, the need to seek consensus also imposes political limits on fiscal policy, restricting the government's ability to implement a more flexible fiscal budget and generate more favorable outcomes during recent years of rapid economic growth.

Over the past eight years, different governments were able to pass important changes to the tax structure by introducing a personal income tax for the first time in 2007, a bankruptcy law in 2008, a capital market law in 2009, and a payment systems law and the capitalization of the central bank in 2010. Successive reforms have improved financial regulation and supervision for financial institutions. The government has gradually increased the coverage of the health care system, expanding social, pension, and unemployment benefits. Much public debate has centered on social issues such as legalizing gay marriage, the consumption of marijuana, and abortion. Mujica has continued to promote foreign investment as a key element of his growth strategy, and his administration passed a new law to promote public-private partnerships in 2012.

The Uruguayan government has maintained good formal ties with neighboring Brazil, as well as with center-left governments throughout Latin America, though its relations with Argentina have been strained for many years. This strain reflects mainly economic stresses and the consequences of very distinctive economic policies Argentine governments have pursued. Recently, Uruguay has suffered from trade frictions caused by protectionist measures taken by Argentina, as well as currency controls. Such steps have already started to hurt tourism from Argentina, as well as trade, although the effects so far have been marginal on the overall economy. A recent incident of President Mujica unknowingly expressing frustration with Argentine president Cristina Kirchner in front of an open microphone further soured bilateral ties.

Economic Analysis: Higher Investment Should Sustain Long-Term Growth

- GDP growth is likely to remain stable at about 3% in 2013.
- Recent years of good GDP growth primarily reflect an increase in investment, auguring well for future economic expansion.
- Success in attracting FDI into large infrastructure projects would sustain GDP growth over the medium term.

Strong GDP growth rates in recent years, combined with very low population growth, have led to a substantial increase in the country's GDP per capita. We expect GDP per capita to approach $16,000 in 2013 from just over $5,000 in 2005. The economy grew 3.9% in 2012, down from 6.5% in the previous year, and is likely to expand 3% in 2013 (the 11th year of continued economic expansion). Domestic demand played a bigger role in overall growth in late 2012 as external demand weakened toward the end of the year. However, manufacturing was up only 1.6% in 2012 and decelerated rapidly in the last quarter of the year.

Uruguay has had an average per capita growth rate of 5% since 2006, and we expect that it will decline moderately over the next three years toward 3%-4% annually. GDP growth should be sustained by a stronger macroeconomic policy framework and large scale investment projects, despite the uncertain global and regional environment. The good growth record of recent years reflects substantial investment in agro-business, logistics, and forestry industries, which have boosted both the capital stock and overall productivity in the economy (higher productivity may have accounted for about half of the GDP growth in recent years). Over the past decade, an increasing share of investment has gone to sectors such as food and beverages, tourism, transport and logistics, and commerce and made the economy more export-oriented.

Continued growth has helped keep unemployment low while salaries and wages have increased in inflation-adjusted terms. The unemployment rate was 6.1% at the end of 2012, similar to its level a year earlier. The poverty rate fell to 12.4% of the population in 2012 from 13.7% in the previous year (the rate has been falling steadily since 2006). Income inequality has also declined in recent years. The Gini coefficient (a measure of inequality, with zero being perfect equality and one being perfect inequality) fell to 0.379 in 2012 from 0.457 in 2007, based on government data.

Continued investment in existing projects, plus the recent rise in real wages, should sustain both investment and consumption in 2013. Continued large-scale investment projects will likely sustain real GDP growth of 3%-4% over the medium term. The good growth rate primarily reflects a structural improvement in investment levels in recent years, rather than a fortunate improvement in export prices. The country's terms of trade (prices of exports divided by prices of imports) have barely improved over the last decade, and the improvement has been much less than in Brazil or Argentina. However, Uruguay has grown faster than its regional trade partners in the past eight years despite the lesser gain in terms of trade. Gross fixed capital formation has averaged 19.1% of GDP during 2006-2011 in Uruguay, substantially higher than in earlier years (it was less than 16% of GDP during the 1990s). Gross capital formation reached 22% of GDP in 2012 from 19.4% in 2011.

Uruguay's ability to keep attracting FDI, especially for large new projects, is key for long-term growth. The country's savings rate remains low, leading it to depend on external financing for a substantial share of its recently high level of investment.

The government has ambitious plans for new investment in roads, a new port, a new LNG terminal, and trains to enhance the country's infrastructure and facilitate the growth of agriculture, forestry, and mining. Over the long term, the government plans more projects for redeveloping and rehabilitating railroads (only half the existing network of rails still functions) as well as six more roads. Successful implementation of a planned $1 billion new deep sea port on the eastern shore would facilitate shipments of grains and minerals, boosting both investment and GDP growth. The government signed oil exploration contracts in late 2012 with four companies (BP, British gas, Total, and Tullow Oil) for commitments to spend up to $1.6 billion in off-shore exploration. The country's first public-private partnership projects are slated to begin in 2013, starting with construction of a jail and followed by a project to rehabilitate and develop two roads (estimated investment of $280 million).

A recent real appreciation of the exchange rate, continued inflationary pressures, disruptions in trade with Argentina, and possible external shocks pose downside risk to our growth forecast. Moreover, unlike most Latin American countries, Uruguay will not enjoy a demographic dividend to boost labor supply (and GDP growth) in coming years as its population is older and growing more slowly than most of them.

Table 2

Uruguay's Economic And Monetary Indicators

	—Year ended Dec. 31—										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013f**	**2014f**	**2015f**	**2016f**
GDP growth (% change)	4.1	6.5	7.2	2.2	8.9	6.5	3.9	3.0	3.2	3.5	3.5
Per capita GDP (US$)	5,880	7,011	9,075	9,004	11,531	13,741	14,855	16,064	16,136	16,918	17,635
Exports of goods and services/GDP (%)	30	29	30	28	27	27	26	26	26	26	26
Current account balance/GDP (%)	(2)	(1)	(6)	(1)	(2)	(3)	(5)	(4)	(3)	(3)	(3)
Net FDI/GDP (%)	8	5	7	5	6	5	5	5	5	5	5
Consumer prices (average % change)	6	8	8	7	7	9	7	7	6	6	5
Financial-sector credit to the private sector and nonfinancial public-sector enterprises (NFPEs)/GDP (%)	26	24	29	22	24	24	25	25	26	27	28
Growth of financial-sector credit to the private sector and NFPEs (% change)	20	8	36	(16)	21	19	15	13	13	13	13
Nominal GDP (bil. US$)	19.6	23.4	30.4	30.2	38.8	46.4	49.9	54.0	54.2	56.9	59.3

f--Forecast.

External Analysis: Greater Resilience Against Shocks

- Uruguay's external liquidity position remains moderate, with gross external financing requirements projected to represent 80%-90% of current account receipts through 2016.
- We expect FDI flows to continue to exceed current account deficits over the medium term.
- Rising foreign exchange reserves, plus the availability of funding from several contingency credit lines from multilateral lenders, should sustain external liquidity in the event of a crisis.

The relatively favorable external environment prevailing for Uruguay over recent years, combined with the improvement in its domestic economy and credit profile, has resulted in a significant improvement in its external debt and liquidity indicators. In 2012, Uruguay's external assets exceeded its external debt liabilities, declining substantially from a debtor position equivalent to 100% of current account receipts in 2004. Foreign exchange reserves increased to $13.5 billion in 2012, improving Uruguay's net external debt position.

Deterioration in the trade deficit was almost entirely accountable for a rise in the current account deficit to 5.3% of GDP in 2012 from 3% in 2011. The public sector was forced to import more fuel because of a drought that reduced electricity generation, contributing to a 14% rise in imports. Exports grew 6.8%, led by agricultural products such as soya and meat. Trade restrictions imposed by Argentina hurt the exports of textiles and auto parts. Declining service exports led to a smaller surplus in non-factor services. The closure of an airline named Pluna hurt transportation earnings, while tourism earnings and the number of tourists declined 6% and 4%, respectively, in 2012. The deficit in factor services fell slightly, largely because of lower dividend and profits outflows.

Uruguay's foreign exchange reserves rose by $3.3 billion in 2012, to reach $13.5 billion, thanks to a capital account surplus that exceeded the current account deficit. The public sector sharply increased its net inflows because of nonresident purchases of central bank debt as well as a substantial reduction in deposits held abroad by the state-owned Banco de la Republica Oriental del Uruguay (BROU). Private-sector net inflows were more stable, primarily because of FDI, which rose to $2.7 billion (5.2% of GDP) from $2.4 billion in 2011. Much of the increase in central bank reserves was the result of higher dollar deposits in the bank by the banking system, following an increase in reserve requirements. The central bank also bought dollars in the market.

A moderate fall in the trade deficit toward 4.4% of GDP in 2013 is likely to contribute to a decline in the current account deficit to 4% of GDP.

A growing diversification of exports away from both Argentina and Brazil (thanks to more exports of soya and pulp) has reduced Uruguay's vulnerability to economic setbacks in those countries. Argentina accounted for less than 6% of total exports in 2012, down from more than 12% in 2005. Argentina and Brazil combined accounted for less than 26% of total exports in 2012, compared with nearly 46% in 2005. Tourism, which accounts for about 6% of GDP, still relies heavily on Argentina, which provides 60% of all tourists, compared with only 14% from Brazil.

The Uruguayan government recently imposed import restrictions on its citizens who regularly cross the border for shopping in Argentina in response to growing economic distortions caused by price controls and other economic policies imposed by its neighbor. Such trade tensions are likely to continue with Argentina in the coming year but should have a limited impact on the Uruguayan economy, much less than in previous decades.

Inflows of FDI have averaged almost 6% of GDP since 2005, exceeding the current account deficit. Such inflows were less than 1% of GDP, on average, in the previous two decades. We expect that FDI should be 4%-5% of GDP in the next couple of years, largely funding the current account deficit and, thereby, containing external indebtedness.

Gross external financing needs (current account deficit plus amortization of short-, medium-, and long-term debt) to current account receipts plus reserves decreased to 100% as of year-end 2012 from 165% as of year-end in 2005. We expect it to stabilize at 80%-90% over the next three years.

The government has sought greater external liquidity in recognition of the country's vulnerability to external shocks.It has obtained credit lines from multilateral development banks, including $400 million from CAF, $470 million from FLAR, $520 million from the World Bank, and $550 million from the IADB (totaling 3.9% of GDP). Moreover, we believe that Uruguay could quickly qualify for the IMF's Flexible Credit Line facility, which would provide additional external liquidity.

Table 3

Uruguay's External Indicators

	—Year ended Dec. 31—										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013f**	**2014f**	**2015f**	**2016f**
(% of nominal GDP)											
Current account balance	(2)	(1)	(6)	(1)	(2)	(3)	(5)	(4)	(3)	(3)	(3)
Merchandise trade balance	(3)	(2)	(6)	(2)	(1)	(3)	(5)	(4)	(4)	(4)	(3)
Current account receipts	34	34	34	31	29	29	28	27	29	29	29
Total external debt	71	62	63	52	48	41	40	43	42	42	42
Net foreign direct investment (FDI)	8	5	7	5	6	5	5	5	5	5	5
(% of current account receipts, unless noted otherwise)											
Current account balance	(6)	(3)	(17)	(4)	(7)	(10)	(19)	(14)	(12)	(11)	(11)
Net external liabilities (net of external assets)	10	24	18	20	19	31	16	13	20	25	35
Total external debt	206	199	160	193	162	135	153	148	145	143	145
Narrow net external debt (net of liquid assets)	67	53	26	13	(4)	(12)	(15)	(49)	(50)	(51)	(47)
Gross external financing needs/current account receipts plus usable reserves (%)	137	128	137	124	109	106	100	82	81	81	79

f--Forecast.

Fiscal Analysis: Low Fiscal Deficits And Improved Debt Profile

- A favorable debt maturity profile offsets the relatively high government debt levels and dollarization in the financial sector.
- Liability management aimed at reducing exposure to foreign currency-denominated debt has reduced external vulnerability.

The consolidated public sector ran a fiscal deficit of 2.8% of GDP in 2012 (exceeding the target of 1.7%), compared with 0.9% in the previous year. The government estimates that higher spending related to a drought led to fiscal slippage of 1.2% of GDP. Central government revenues declined 0.4% of GDP in 2012, mainly because of lower transfers from public-sector entities. Tax revenues were largely stable as a share of GDP, but revenues of the public-sector social security agency BPS (Banco de Prevision Social) rose 0.6%, largely as a result of greater contributions for medical insurance and other programs. However, noninterest spending by the public sector increased by 1.9% of GDP, in part because of higher social transfers. Spending also rose by 0.4% of GDP as the government paid for the settlement of a legal case related to a bank that closed in 2002, as well as costs incurred from the liquidation of Pluna, an airline in which it held a 25% stake.

The public sector is likely to run a deficit of 2% of GDP in 2013 and the following year. We estimate that general government debt is likely to increase about 2%-3% of GDP on average in the coming years. Revenues should remain largely stable as a share of GDP in 2013 while spending might decline marginally following the extraordinary items in 2012. However, fiscal pressures and uncertainties about revenues associated with external vulnerabilities may delay the implementation of an earlier decision to lower value-added tax rates by 2% to 20% for final purchases of goods and services made using a credit or debit card. Shortfalls in the public-sector pension system will likely account for most of the public sector's overall deficit in coming years.

We project that the public-sector debt burden is likely to remain stable, or decline slightly, as a share of GDP in the next three to four years, provided that GDP growth continues at 3%-4% annually. Less than 60% of central government debt is in local currency, compared with only 11% in 2004. The bulk of local currency debt (more than 80%) is indexed to inflation. The share of the total debt that amortizes within a year fell to less than 3% of the total stock in 2012 from more than 10% prior to 2006, thanks to a series of liability management operations in recent years to extend the maturity of the sovereign's debt.

The government issued a $500 million, 33-year benchmark bond (4.125%) in late 2012 to improve its debt profile, lower costs, and boost the liquidity of its external bonds. Thanks to ample prefinancing, the government has enough assets available to meet all its amortizations in 2013-2015, if needed. We estimate the central government's gross financing needs at about 4% of GDP in 2013. Currently, the central government's liquid assets exceed 300% of its amortization payments due within the next year. The strategy of prefunding and holding substantial liquid assets helps to insulate Uruguay from external vulnerabilities, but it also imposes a fiscal cost.

Total pension fund assets reached 18% of GDP, providing a growing source of funding for the sovereign in case external markets are closed in the future. Most of the funds are invested in public debt. The central bank started a market-makers program in late 2012 as part of its strategy to develop the secondary market and boost liquidity. Secondary market volumes have started to rise recently.

Table 4

Uruguay's Fiscal Indicators

	—Year ended Dec. 31—										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013f**	**2014f**	**2015f**	**2016f**
(% of nominal GDP)											
General government revenue	37	37	35	37	38	38	38	37	37	37	37
General government expenditure	37	38	36	39	39	39	40	39	39	39	40
General government balance	(0)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)
General government primary balance	4	3	2	2	2	2	0	1	0	0	0
Net general government debt	61	48	51	50	50	46	46	47	47	46	45
General government debt	71	63	63	61	57	55	54	55	53	52	52
(% of general government revenue)											
General government interest expense	12	11	8	8	8	8	7	7	7	7	7

f--Forecast.

Monetary Analysis: Dollarization Is Declining But Still Constrains Flexibility

- Uruguay is likely to experience a higher inflation rate than much of Latin America, despite considerable progress in strengthening macroeconomic stability in recent years.
- A high level of dollarization and indexation to inflation limit the effectiveness of monetary flexibility.
- The financial system remains highly liquid but is exposed to nonresident deposits.

Although inflation has been in the single digits since 2004, it remains above the central bank's target range. Inflation fell marginally in 2012 toward 7% from 8.6% in the previous year, though it remained above the central bank's target of 4%-6% for a second consecutive year. Prices in the nontradable sector rose faster than in the tradable sector, reflecting strong domestic demand. The central bank raised its policy rate to 9% in September and then to 9.25% in December 2012 to contain the inflation rate. Inflation is likely to be 7%-8% in 2013, depending in part on the outcome of wage negotiations during the year. A high level of wage and price indexation in economic contracts makes it difficult to lower the inflation rate. The central bank recently widened its inflation target band to 3%-7% and announced that it would shift toward managing money supply growth instead of relying on its short-term reference interest rate in conducting monetary policy.

Persistent inflation, along with capital inflows from abroad, continues to pose challenges for the conduct of monetary policy. Uruguay has a managed floating exchange rate. The central bank intervenes in the foreign exchange market, as well as uses macroprudential measures to influence lending decisions. The central bank raised reserve requirements on local currency deposits to 25% from 20% and on foreign currency deposits to 45% from 40% last year to contain the growth of liquidity. Nevertheless, a high level of dollarization adds complexity to the implementation of monetary policy as the central bank has to remain focused on the exchange rate even as it targets inflation.

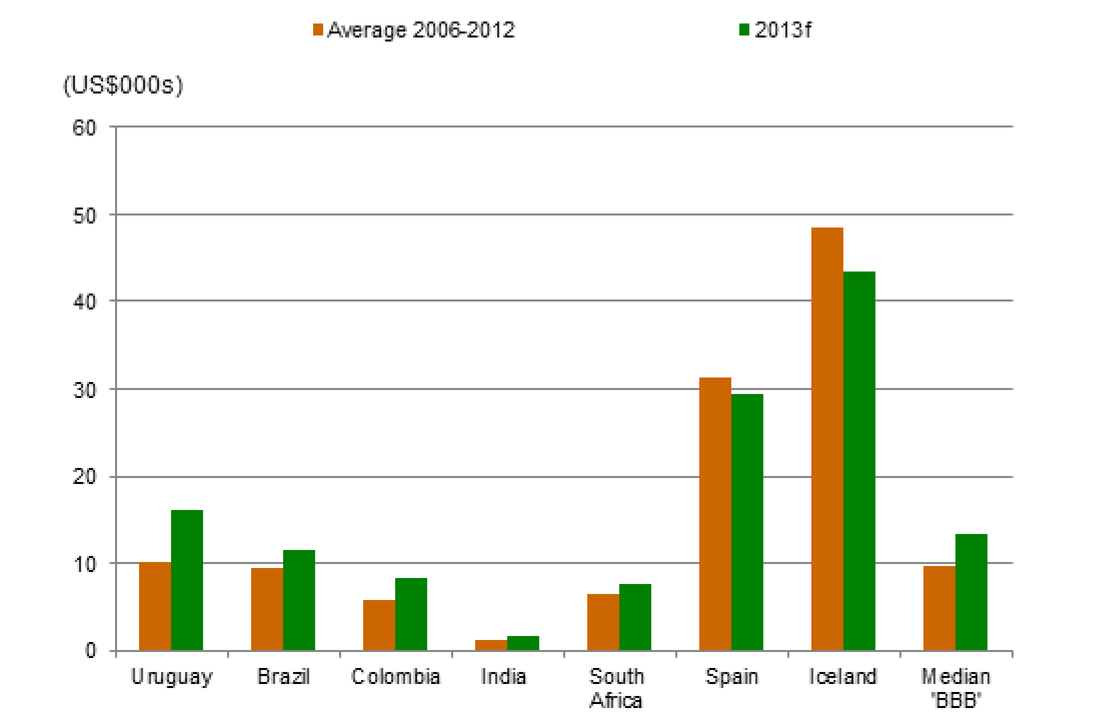
Capital inflows complicate the conduct of monetary policy because they lead the central bank to purchase dollars and issue its own debt to partially offset the impact on money supply. Foreign holdings of central bank paper more than doubled to 15% of the total stock during 2012. Similarly, foreign holdings of central government debt issued locally more than tripled to exceed 16% of the total stock by the end of 2012. The central bank raised reserve requirements on short-term external inflows in August 2012 and again in June 2013.

A high level of dollar-denominated assets and liabilities in the banking system remains a vulnerability of the financial system. U.S. dollar-denominated loans and deposits were equivalent to 52% of total loans and 72% of total deposits, respectively, as of year-end 2012, compared with 73% and 92% in 2004. Many dollar loans go to borrowers without dollar income. More than half of all deposits by residents are in dollars. The bulk of bank lending to most sectors of the economy is in dollars, with only household credit being almost entirely in pesos. About 15% of deposits are from nonresidents (as of September 2012), and about 60% of them are from Argentina. Nonresident deposits have been slightly more than 15% of total deposits for almost a decade, and dollarization has remained stable in the past three years.

Uruguay's domestic credit to GDP was about 24% in 2012, well below the level before the 2001-2002 financial crisis but not low by regional standards. Nonperforming loans (NPLs) are about 2.5% of total loans (or 1.6% when excluding the government-owned BROU), and they are higher in consumer credit. However, loan loss provisions are more than twice the level of NPLs. Uruguay was one of the first countries to introduce dynamic loan loss provisions. The reported capital adequacy of the banking system is about 16% of risk-weighted assets. Public-sector banks account for about 45% of total assets, and two Spanish banks account for about 20% of loans in the country. The banks rely on local funding, with dollar deposits increasing slightly faster than peso deposits. FDI and other sources of equity have largely funded the recent boom in housing construction in the country. Hence, a potential fall in prices should be manageable for the banks.

Chart 1

Peer Comparison: Per Capita GDP



f--Forecast.

Chart 2

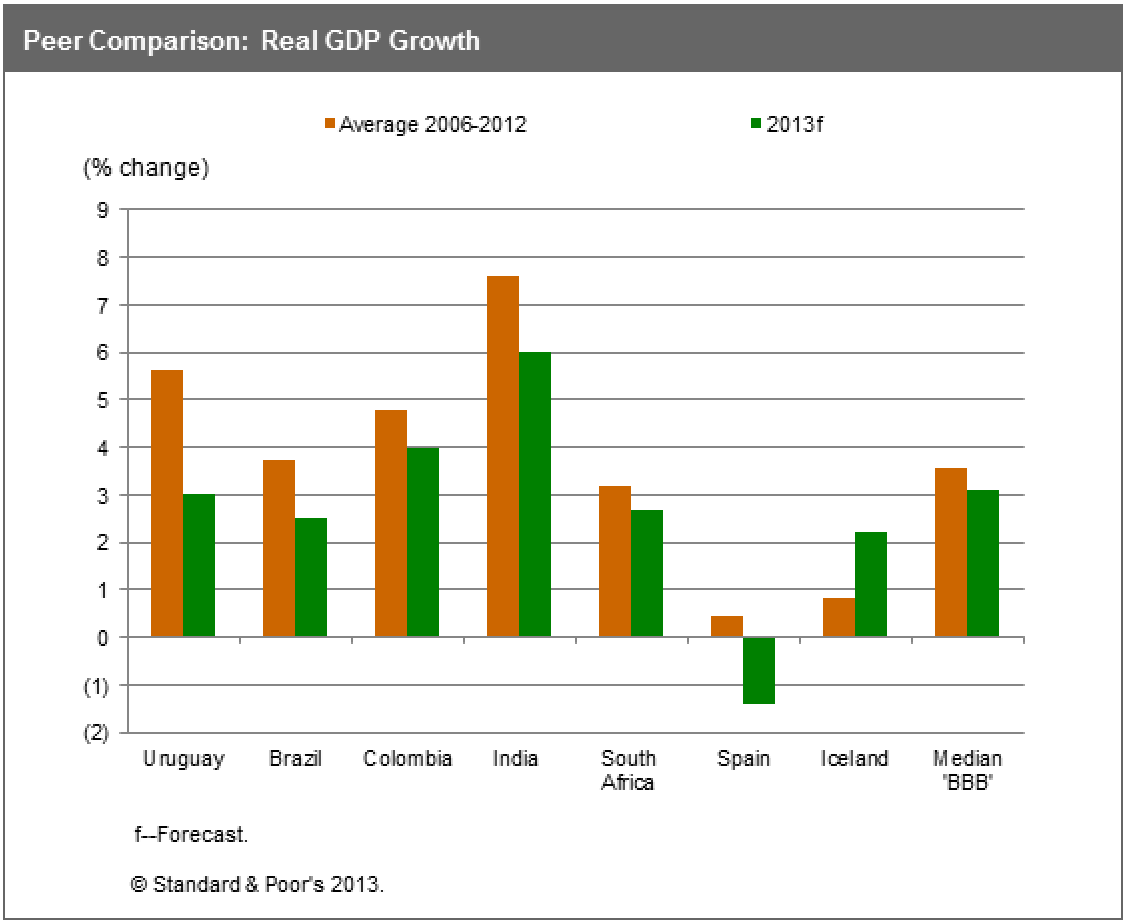
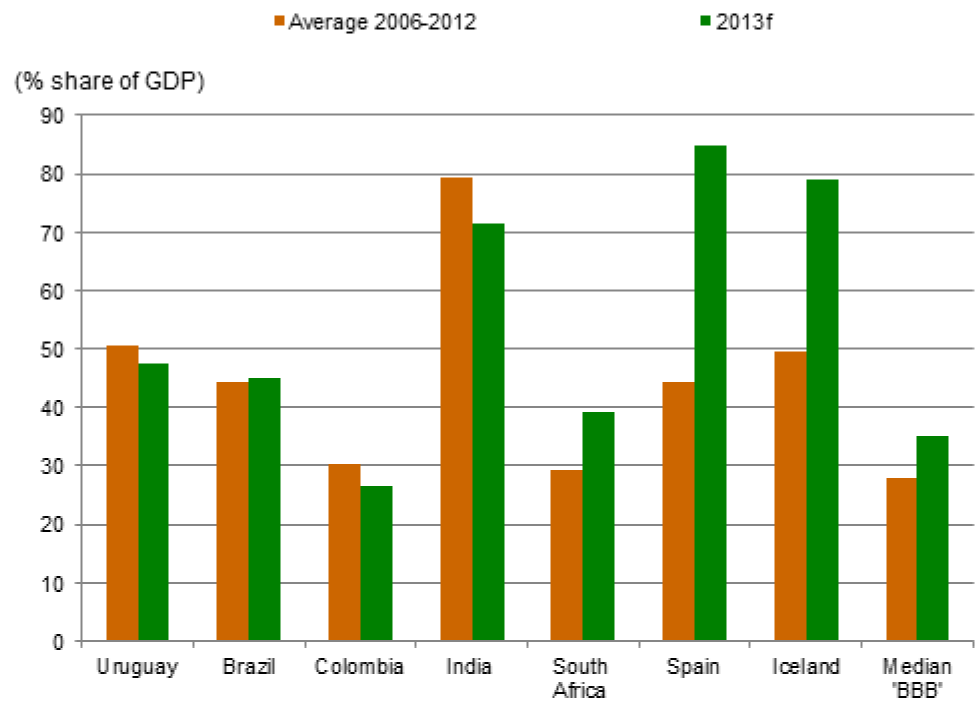

Peer Comparison: Real GDP Growth
Average 2006-2012
2013f
(% change)
9
8
7
6
5
4
3
2
1
0
(1)
(2)
Uruguay
Brazil
Colombia
India
South Africa
Spain
Iceland
Median "BBB"
f--Forecast.
© Standard & Poor's 2013.

Chart 3

Peer Comparison: Net General Government Debt



f--Forecast.

Chart 4

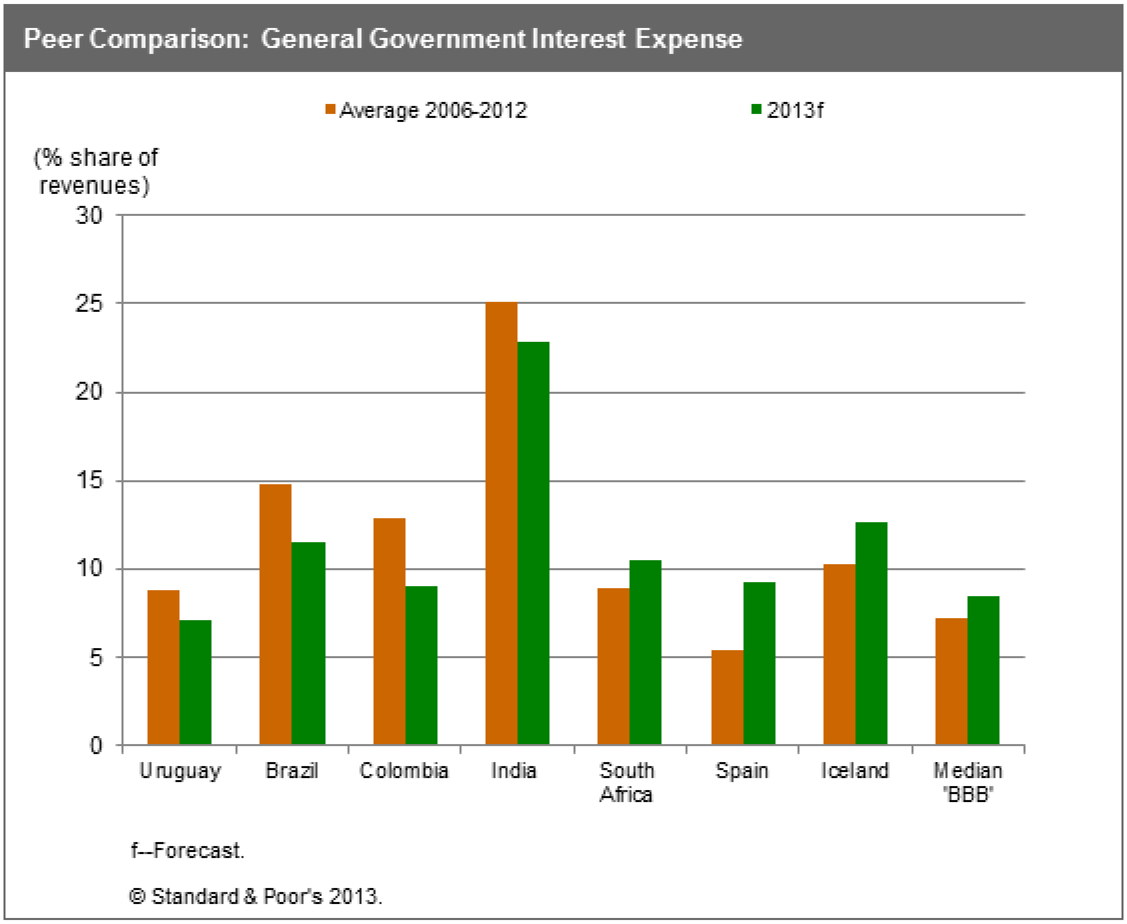

Peer Comparison: General Government Interest Expense
Average 2006-2012
2013f
(% share of revenues)
30
25
20
15
10
5
0
Uruguay
Brazil
Colombia
India
South Africa
Spain
Iceland
Median 'BBB'
f--Forecast.
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Chart 5

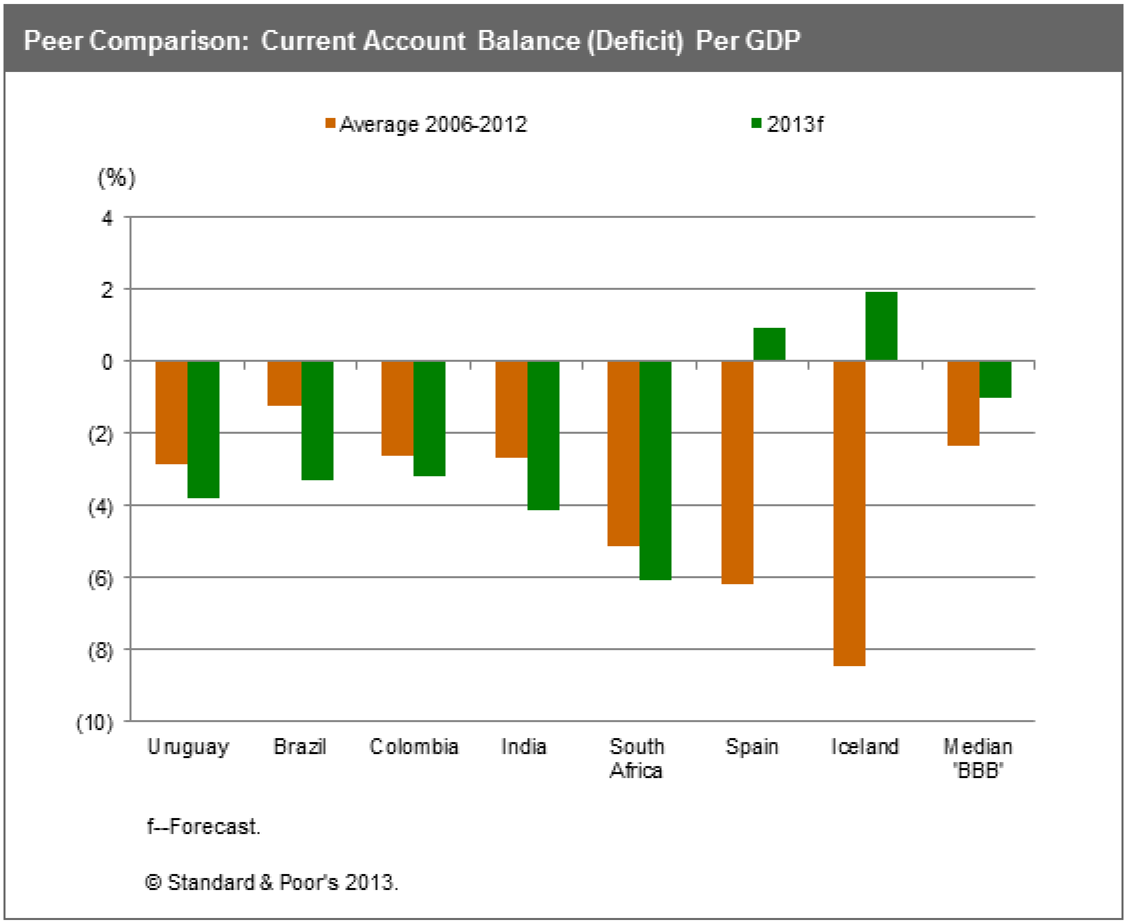

Peer Comparison: Current Account Balance (Deficit) Per GDP
Average 2006-2012
2013f
(%)
4
2
0
(2)
(4)
(6)
(8)
(10)
Uruguay
Brazil
Colombia
India
South Africa
Spain
Iceland
Median 'BBB'
f--Forecast.
© Standard & Poor's 2013.

Chart 6

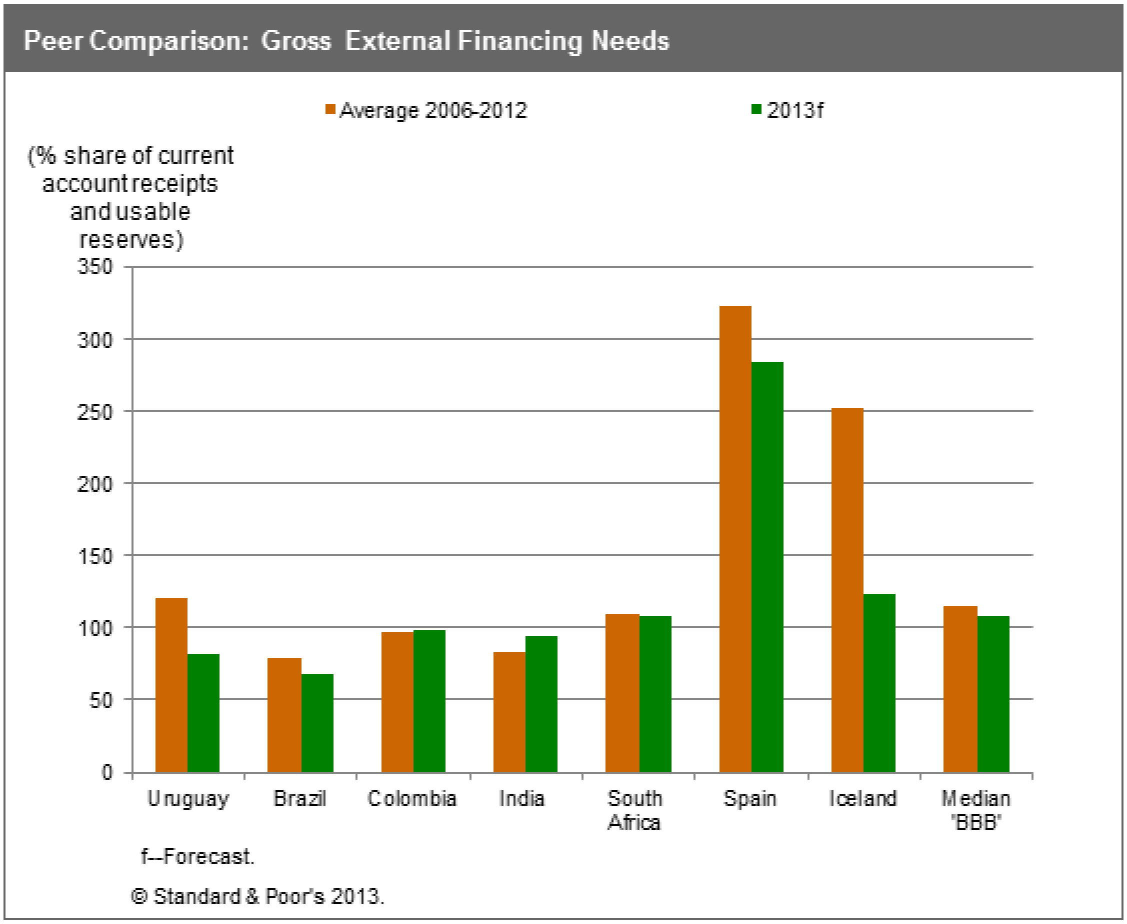
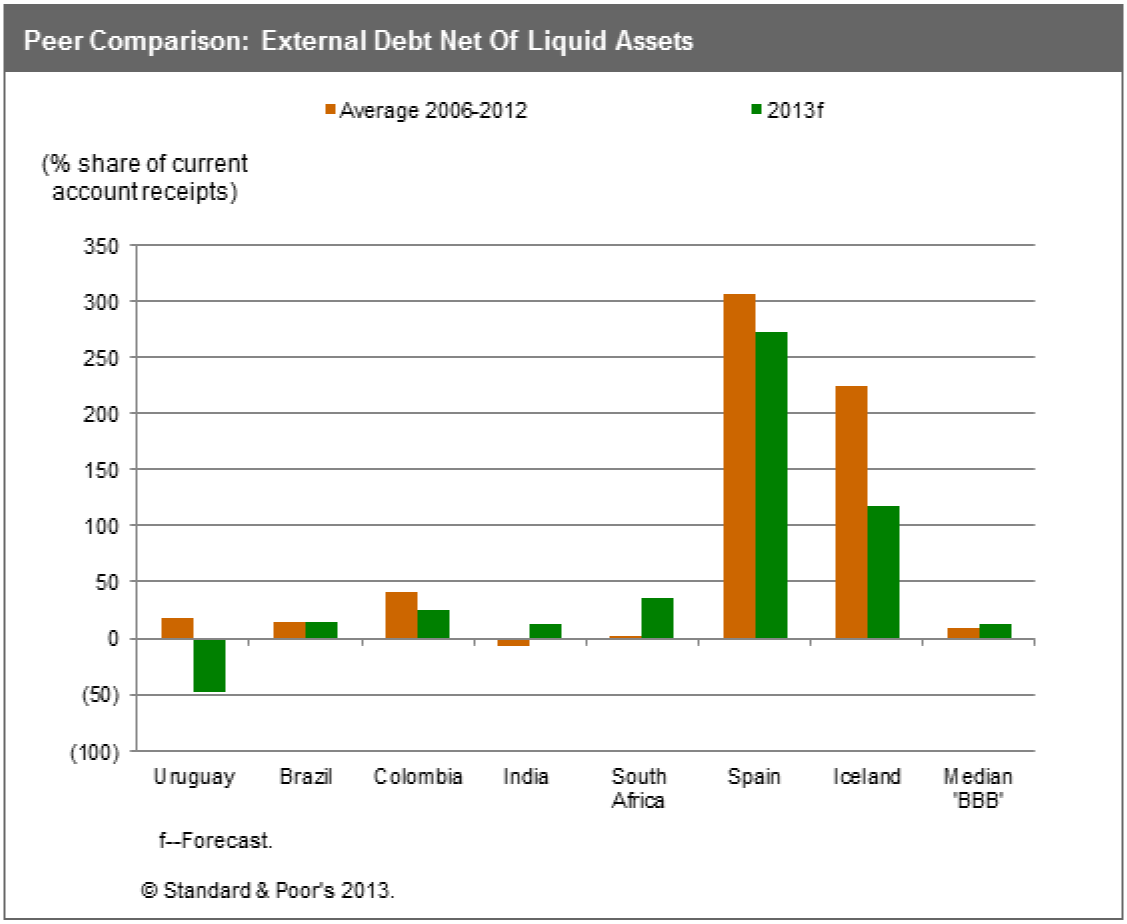

Peer Comparison: Gross External Financing Needs
Average 2006-2012
2013f
(% share of current account receipts and usable reserves)
350
300
250
200
150
100
50
0
Uruguay
Brazil
Colombia
India
South Africa
Spain
Iceland
Median 'BBB'
f--Forecast.
© Standard & Poor's 2013.

Chart 7



Local Currency Rating and T&C Assessment

Our local currency rating on Uruguay remains at the same level as the foreign currency rating because dollarization continues to restrict monetary flexibility.

The two-notch gap between the transfer and convertibility assessment and the foreign currency rating reflects Standard & Poor's view that the likelihood of the sovereign restricting access to the foreign exchange Uruguay-based nonsovereign issuers need for debt service is moderately lower than the likelihood of the sovereign defaulting on its foreign currency obligations. The foreign exchange regime in Uruguay remains fairly open. Uruguay's outward-oriented economic policies suggest a lower likelihood than more interventionist sovereigns that it would resort to such restrictions in a severe downside scenario.

Related Criteria and Research

- Oriental Republic of Uruguay, June 26, 2012
- Sovereign Government Rating Methodology And Assumptions, June 30, 2011

- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Ratings Detail (As Of July 2, 2013)	
Uruguay (Oriental Republic of)	
Sovereign Credit Rating	BBB-/Stable/A-3
Transfer & Convertibility Assessment	BBB+
Senior Unsecured	BBB-
Short-Term Debt	A-3
Sovereign Credit Ratings History	
03-Apr-2012	BBB-/Stable/A-3
25-Jul-2011	BB+/Stable/B
06-Sep-2010	BB/Stable/B
22-Jul-2008	BB-/Stable/B
Default History	
Foreign currency-denominated securities held by residents and nonresidents were included in a distressed debt restructuring in May 2003. The restructured debt totaled US$4.98 billion, US$3.13 billion of which was in Global, Brady, and Samurai bonds and US$1.51 billion of which was in locally issued U.S.-dollar-denominated bonds and letras. Previous defaults included foreign currency bank debt in 1983-1985, 1987, and 1990-1991.	
Population	3.36 million (2013)
Per Capita GDP	US$16,100 (2013)
Current Government	
President José Mujica from Frente Amplio (FA) was elected on Nov. 29, 2009, and assumed office in March 2010.	
Election Schedule	
Presidential and Legislative Last: October and November 2009 Next: October 2014	

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.