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5 July 2016

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RATINGS

Uruguay

	Foreign Currency	Local Currency
Gov. Bond Rating	Baa2/NEG	Baa2/NEG
Country Ceiling	A2	A2
Bank Deposit Ceiling	Baa2	A2

TABLE OF CONTENTS

1
OVERVIEW AND OUTLOOK 1
RATING RATIONALE 2
Economic Strength: Moderate 2
Institutional Strength: High (-) 5
Fiscal Strength: Moderate (-) 8
Susceptibility to Event Risk: Low 12
Rating Range 15
Comparatives 16
Chart Pack 17
Rating History 20
Annual Statistics 21
Moody's Related Research 22
Related Websites and Information Sources 22

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Government of Uruguay - Baa2 Negative

Annual Credit Analysis

OVERVIEW AND OUTLOOK

Uruguay's Baa2 sovereign rating is supported by a strong institutional framework that reinforces political and social stability and makes the country an attractive destination for foreign direct investment (FDI). Comparatively large fiscal reserves and external buffers, moderate central government debt burden and very strong liability management practices also support creditworthiness. These factors are balanced by credit challenges that include a relatively high, albeit decreased, share of foreign currency government debt and financial system dollarization. Persistently high inflation and a deterioration of fiscal balances have weighed on policy credibility.

Over the next 12 to 18 months, we will evaluate the progress achieved on fiscal consolidation against the backdrop implementation risks related to weaker-than-anticipated economic growth, a factor that may diminish the effectiveness of the adjustment measures, in assessing the possibility of changing the outlook to stable.

Although unlikely given the negative outlook, upward rating pressure could result from (1) a significant strengthening of the government balance sheet through a reduction of the sovereign's debt and interest burden; (2) a reduction in vulnerabilities through a significant decrease of government debt dollarization; and (3) addressing structural rigidities in the economy to achieve a higher level of potential growth.

Conversely, downward rating pressure could result from (1) consolidation measures falling short of achieving the authorities' targets to arrest a continued increase in debt ratios; (2) a continued deterioration of structural fiscal balances and a weakening of the government balance sheet; or (3) a sustained and material erosion of external and financial buffers.

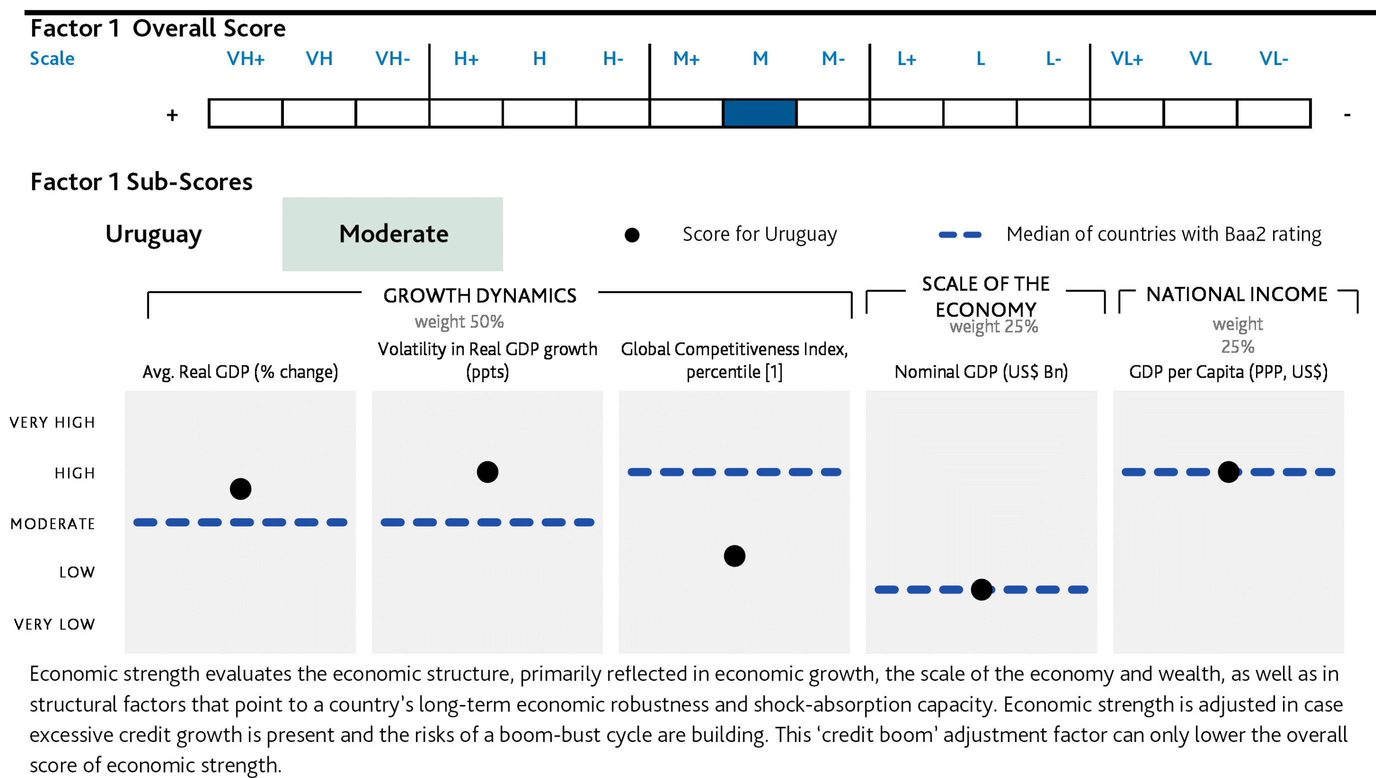
This Credit Analysis elaborates on Uruguay's credit profile in terms of Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, which are the four main analytic factors in Moody's Sovereign Bond Rating Methodology.

This Credit Analysis provides an in-depth discussion of credit rating(s) for Government of Uruguay and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

RATING RATIONALE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information please see our Sovereign Bond Rating Methodology.

Economic Strength: Moderate

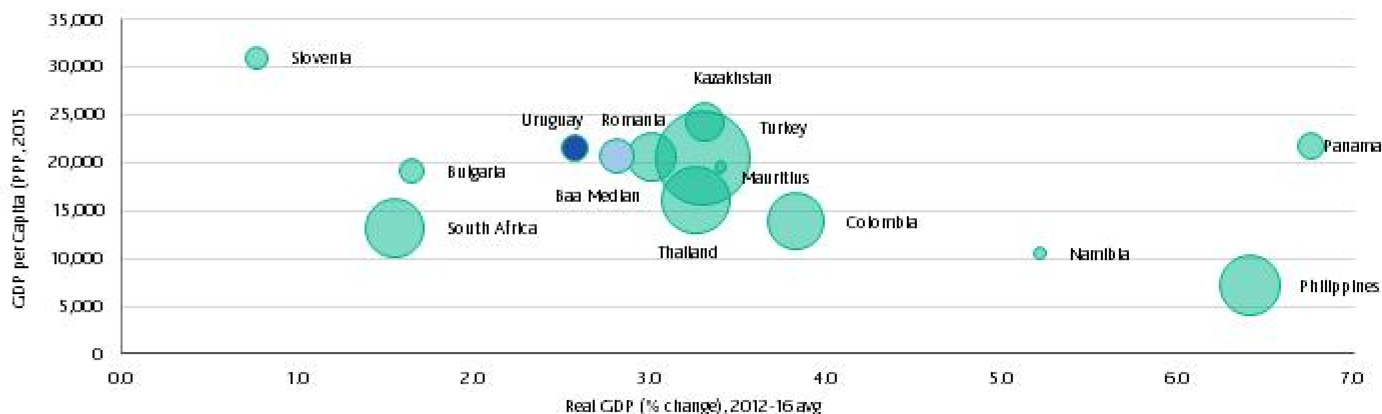


Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Economic strength is adjusted in case excessive credit growth is present and the risks of a boom-bust cycle are building. This 'credit boom' adjustment factor can only lower the overall score of economic strength.

Uruguay's sovereign ratings incorporate our 'Moderate' economic strength assessment on a global basis reflecting robust growth dynamics and a relatively high income per capita, counterbalanced by the low scale of the economy (see Exhibit 2). Uruguay's $56.5 billion economy is comparable in size to that of Bulgaria (Baa2, $51.1 billion), Panama (Baa2, $60.5 billion) and Slovenia (Baa3, $44.8 billion), but smaller than the $104.7 billion 'Baa' median. Uruguay's $21,506 per capita income on a purchasing power parity basis remains in line with peers ($20,601 'Baa' median). Potential growth of 3% as estimated by the authorities and the International Monetary Fund (IMF) also support economic strength. However, economic prospects face external headwinds. The 'Moderate' economic strength ranking is shared by Mauritius (Baa1 stable), Romania (Baa3 positive) and Morocco (Ba1 stable).

Exhibit 2

Uruguay's economic strength is supported by relatively high income levels and economic dynamism
Size of the bubble = Nominal GDP (US$ Bil., 2015)



Source: Haver Analytics and Moody's Investors Service

Growth slowed more than expected, and economic performance will likely remain weak

Uruguay's real GDP growth slowed to 1.0% in 2015 from 3.2% in 2014. Economic performance was weaker than our 1.8% growth forecast and below potential growth of around 3%. Domestic demand was the main drag on activity even though the external environment remains unfavorable due to the regional economic downturn. The lacklustre economic performance and continued external headwinds prompted a revision to our 2016 growth projection to 0.5% from 1.5%, and we forecast subdued growth of 1.9% for 2017. The worsening macroeconomic environment has had a negative effect on government finances given that fiscal performance is highly dependent on economic growth.

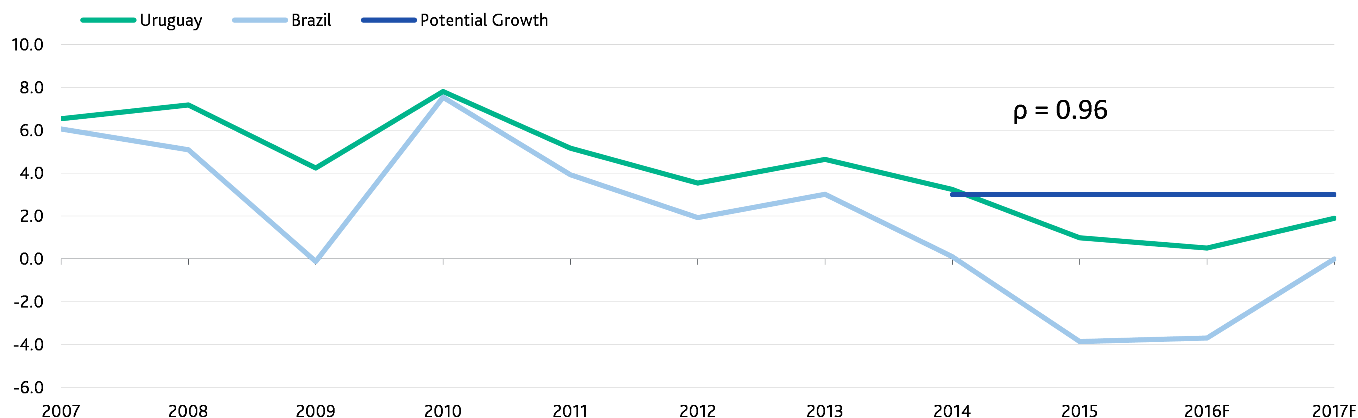
Aggregate consumption grew by only 0.3% as private expenditure remained flat, while government consumption increased 2.6%, according to official statistics. Favorable net exports partially offset the fall in domestic demand given that total exports contracted less than imports, -1.2% and -7.4%, respectively. Private investment also contracted, mainly due to the completion of a large paper mill. Unemployment rose to 8.06% in April 2016 (compared to an average of 7.5% during 2015). Declining consumer and business confidence, weaker credit growth for both firms and households, and falling real wages will continue to drive the economic slowdown.

External conditions also remain unsupportive, despite relatively muted effect on Uruguay's terms of trade. Lower energy prices have offset the decrease in agricultural export prices such that Uruguay has not suffered the terms of trade shocks that have been felt throughout most of Latin America and by other emerging market economies. Moreover, the current account deficit fell to 3.6% of GDP in 2015 from 4.6% the previous year, helping to moderate the deterioration in the country's external liquidity and indebtedness.

Nevertheless, weak demand from key trading partners - Argentina (B3 stable) and Brazil (Ba2 negative) - will continue to weigh on the economy. The Uruguayan economy's links with these countries are weaker than in the past, but we believe that it will still suffer from the regional recession.

Although spillovers from Argentina have historically had the largest impact, with the country accounting for more than half of Uruguay's tourism receipts, we note there is a very high degree of synchronization between the Brazilian and Uruguayan business cycles (see Exhibit 3). There is a beneficial elasticity in favor of Uruguay given that unlike Brazil's economy the Uruguayan economy has not contracted. This has led to higher cumulative growth over the period displayed in Exhibit 3.

Exhibit 3
Uruguay's and Brazil's economy are highly synchronized
(Real GDP growth, % year-on-year)



Source: Haver Analytics and Moody's Investors Service

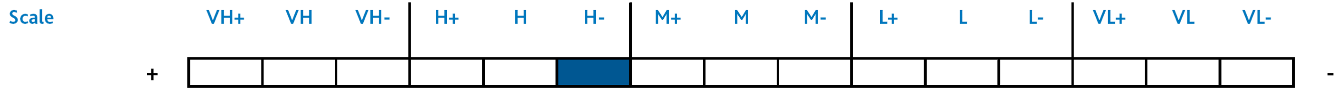
Nevertheless, Brazil's economy is likely to contract again this year by nearly 4% and is likely to continue to be a drag on Uruguay's growth through 2017. Brazil imports approximately 15% of Uruguay's merchandise exports (three times more than Argentina), but these are predominantly commodities for which alternative markets have been found.

We expect that the structural changes taking place in Argentina will support activity in Uruguay starting in 2017. The previous Argentine administration's policies had hindered trade and financial flows to Uruguay. These restrictions varied from limits to a number of export products and the use of Uruguayan ports by vessels that would then navigate to Argentina, to the capital controls that constrained investment flows and the amount of money Argentine tourists could spend abroad.

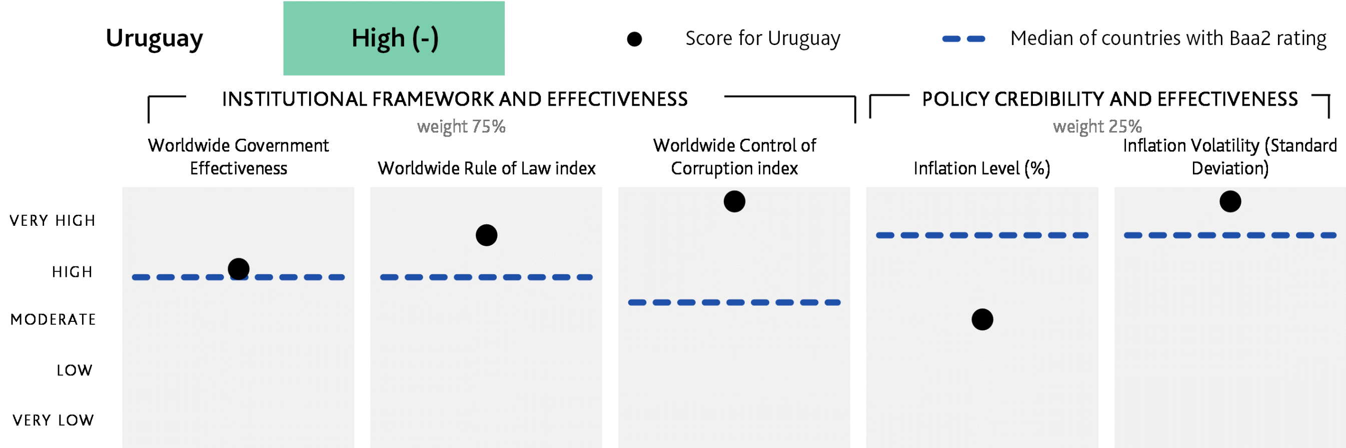
Beyond 2016, the government has stated that it will support higher investment in order to prop up potential growth. Given its increasingly limited fiscal space, the government's strategy will rely more on public-private partnerships. Another potential support for growth going forward would come from large, private investment projects given the economy's propensity to attract large FDI inflows.

Institutional Strength: High (-)

Factor 2 Overall Score



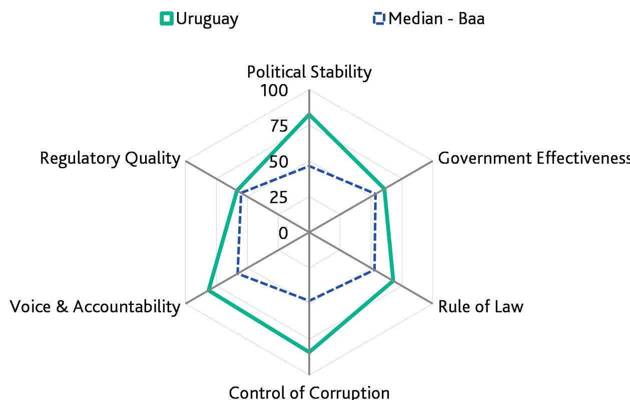
Factor 2 Sub-Scores



Institutional strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect of institutional strength is the capacity of the government to conduct sound economic policies that foster economic growth and prosperity. Institutional strength is adjusted for the track record of default. This adjustment can only lower the overall score of institutional strength.

We rank Uruguay's institutional strength as 'High (-)'. The assessment balances a strong institutional framework that reinforces policy predictability with still evolving capabilities to effectively and credibly conduct these policies. Political and social stability is illustrated by the country's very favorable scores on the World Bank's governance indicators (see Exhibit 5) that provide a supportive institutional foundation and a cohesive environment for developing and implementing economic policy. Social indicators, including those measured by the Human Development Index, also support these findings. Nevertheless, the authorities face challenges to meet policy goals, as exemplified by stubbornly high inflation rates that remain above the official target range and a mixed track-record of fiscal management. Other sovereigns that share a similar assessment of 'High' institutional strength include Thailand (Baa1 stable), South Africa (Baa2 negative) and Romania (Baa3 positive).

Exhibit 5
High government effectiveness indicators outperform 'Baa'-rated peers
(Percentile rank among rated sovereigns)

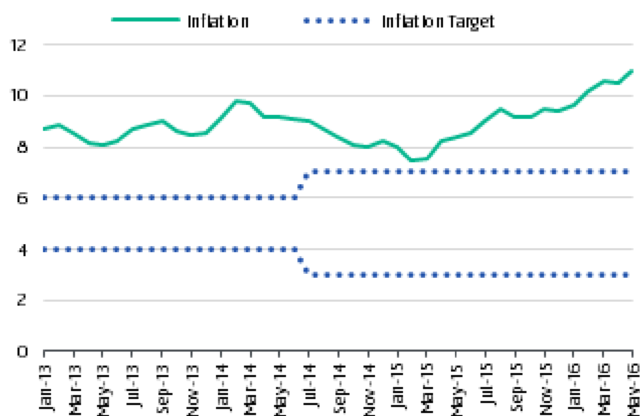


Source: Worldwide Governance Indicators and Moody's Investors Service

Monetary credibility hampered by relatively high inflation and low policy effectiveness

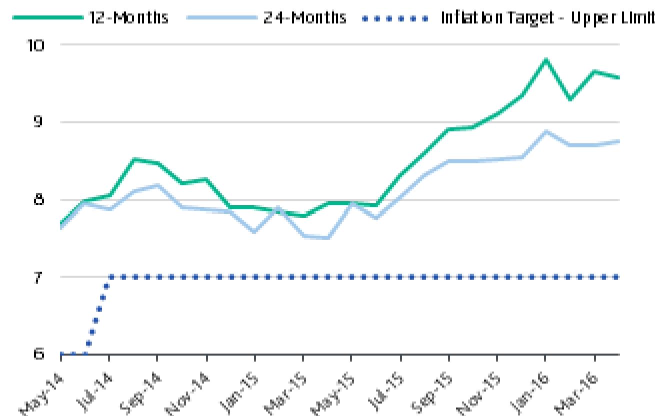
Despite sluggish economic activity, inflation and inflation expectations remain entrenched above the central bank's target. Twelve-month inflation through May rose to 11%, the highest level since November 2003 and four percentage points above the upper end of the central bank's target range. Last year marked the fourth consecutive year in which inflation exceeded the upper limit of the Central Bank of Uruguay (BCU) target range of 3%-7%, despite measures implemented to curb inflation (see Exhibit 6).

Exhibit 6
Inflation remains above target and rising...
Inflation (CPI growth, % year-on-year)



Source: Haver Analytics and Moody's Investors Service

Exhibit 7
...as do expectations for 2016-17
Inflation expectations 12- & 24-months forward (%)



Source: Haver Analytics and Moody's Investors Service

The monetary policy committee (COPOM) decided to reduce the target growth rate of nominal money supply — its main monetary policy instrument to curb inflation levels. The target growth rate range was cut from 7.0%-9.0% to 4.0%-6.0% for the second quarter of 2016. However, the recent trend in medium-term inflation expectations is at odds with the monetary authority's measures (see Exhibit 7). According to the central bank survey on inflation expectations, market participants forecast that inflation will reach 10.0% by end-2016 and 9.1% by end-2017, above the upper limit of the central bank's target range.

A strong pass through from exchange rate depreciation will continue to have a negative effect on price levels within the economy. The Uruguayan peso depreciated 23% in 2015 and has further weaken by 2.9% as of May. In addition to adverse effects from currency weakness, we note that financial dollarization (nearly 76% of all deposits are in dollars) will continue to limit the effectiveness of monetary policy measures.

Inflation in Uruguay has historically been high, with consumer prices increasing 7.9% on average per year over the past decade, compared with a median 4.2% increase for 'Baa'-rated sovereigns over the same time period. The high incidence of financial dollarization in the economy is also a challenge to monetary policy management and reining in price increases. Persistently high inflation rates weaken confidence in the Uruguayan peso, which itself curbs the economy's propensity to de-dollarize.

More importantly, there are clear fiscal costs to high inflation in Uruguay. A large proportion of wages for the public and private sectors were usually determined in bi-yearly contract negotiations in which past and expected inflation played a central role in the negotiations. In turn, pension increases are tied to wage raises, both of which add rigidity to fiscal expenditures. There seems to be a pervasive cycle related to inflation and wage increases given that most collective wage agreements include clauses stipulating ex-post corrections for the deviation of actual from expected inflation. Such wage indexation partly explains why lagged inflation remains a particularly important driver of inflation.

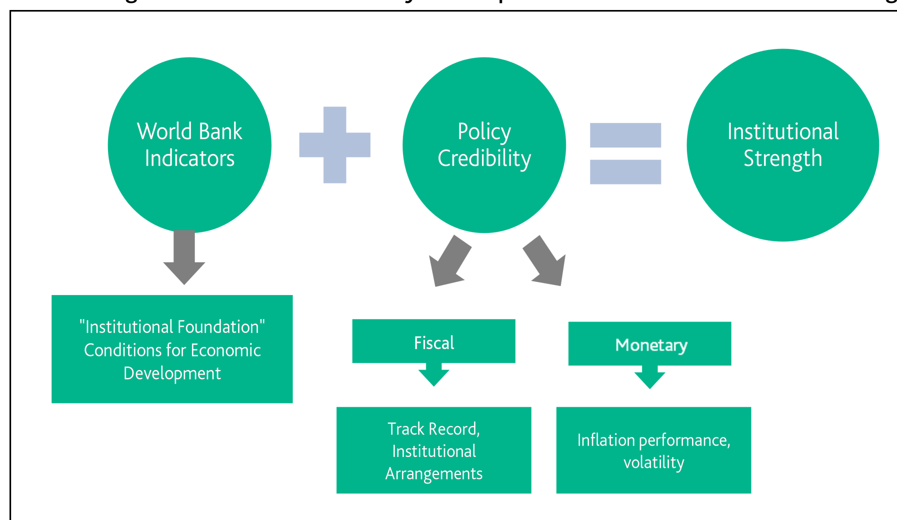
Nevertheless, the government adopted new guidelines for wage increases set in nominal terms that will apply different increases to each sector of the economy based on growth performance. This marks an important change relative to previous wage negotiations where the vast majority of agreements set increases in real terms. We believe that the sectoral differentiation of the increases will help harmonize productivity and limit competitiveness losses stemming from the wage hikes. Moreover, the guidelines help address wage inequality while including measures to avoid real wage loss via correction mechanisms that consider accumulated inflation after two years. These guidelines will likely also help counter inflation persistence.

A mixed track record of fiscal management has undermined fiscal policy credibility

We believe that fiscal policy credibility is a function of both the track record of fiscal performance and the institutional arrangements that anchor it (see Exhibit 8). In this regard, the fiscal restraint exhibited through 2009 has abated and given way to a sustained weakening of structural fiscal balances reflecting expansion of social programs despite the existence of a five-year budget framework and yearly ex-post revisions to fiscal performance.

Exhibit 8

Fiscal management weakened in recent years despite the existence of institutional arrangements



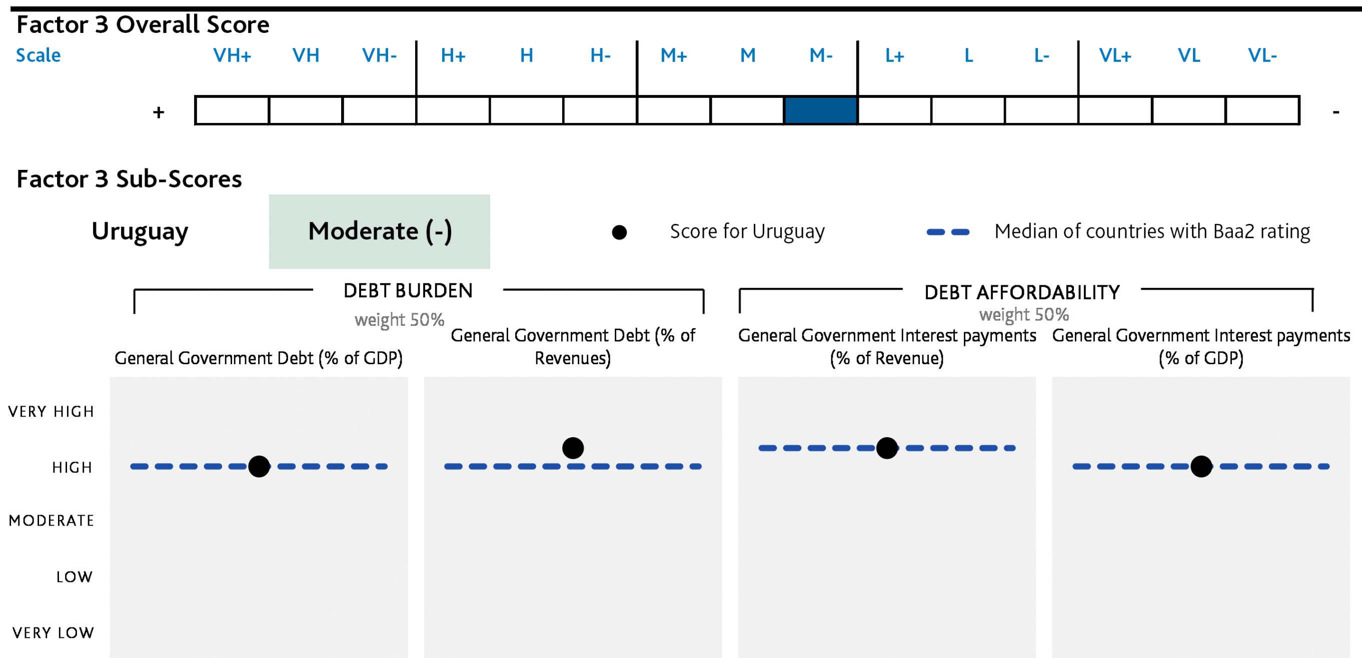
Source: Moody's Investors Service

As a result of strong (above-potential) economic growth, government revenues frequently exceeded the authorities' original projections during 2005-2011, allowing the authorities to accommodate increased spending without deviating from fiscal targets. Nevertheless, structural fiscal balances as calculated by the IMF have deteriorated on a sustained basis since 2009, with the structural deficit peaking in 2014. Headline deficits have also widened and halted the downward trend in debt metrics, despite a lengthy period of above-potential growth.

Uruguay's fiscal framework mandates that every new presidential administration that comes into office send to congress a proposed five-year budget within the first six months of its term. The budget and fiscal performance is reviewed on an annual basis. Although this institutional arrangement has helped anchor fiscal policy following the 2002 crisis, we note that the framework has some drawbacks: (1) the framework is not updated on a multi-year rolling basis, rather it guides performance only during the administration's term in office; (2) the framework lacks clear fiscal rules with strong sanction mechanisms; and (3) despite yearly ex-post reviews, there is little guidance for saving excess revenues from above-potential economic growth which fosters pro-cyclical behavior.

As a result of these weaknesses, we believe that there is currently limited scope to respond to adverse shocks with counter-cyclical policies. Fiscal easing in the current context of lower growth would lead to an increase in government debt ratios and threaten the sustainability of public finances. In this regard, the automatic stabilizers built into Uruguay's tax regime and social spending have become the main policy tool for combating negative shocks. As a result, the level of economic growth has become a more important determinant of debt dynamics and the magnitude of potential fiscal deterioration.

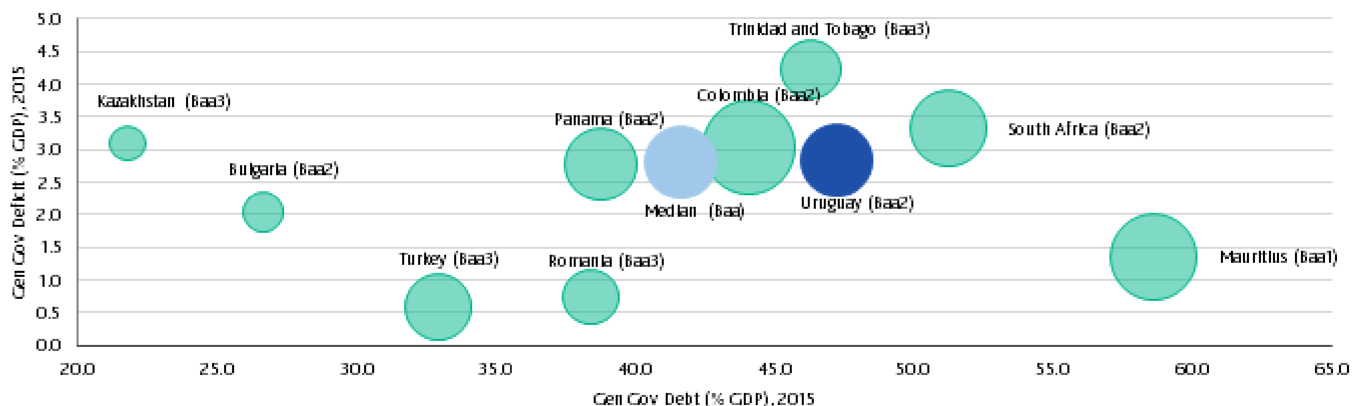
Fiscal Strength: Moderate (-)



Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor the overall score of fiscal strength can be lowered or increased.

Uruguay's 'Moderate' fiscal strength assessment balances its moderate government debt burden, very strong liability management practices and fiscal reserve assets, with lingering vulnerabilities from an elevated proportion of foreign currency debt and the recent deterioration in debt ratios. Debt ratios are higher than 'Baa' medians despite comparable debt affordability as measured by the interest payment-to-revenue ratio (see Exhibit 10). The government's 'Moderate' fiscal strength ranking is shared by sovereigns including Mauritius (Baa1 stable), Italy (Baa2 stable) and Slovenia (Baa3 Stable).

Exhibit 10
Uruguay's key fiscal metrics remain broadly in line with, albeit marginally weaker than, peers
Size of the bubble = General government interest payments-to-revenue, 2015 (%)

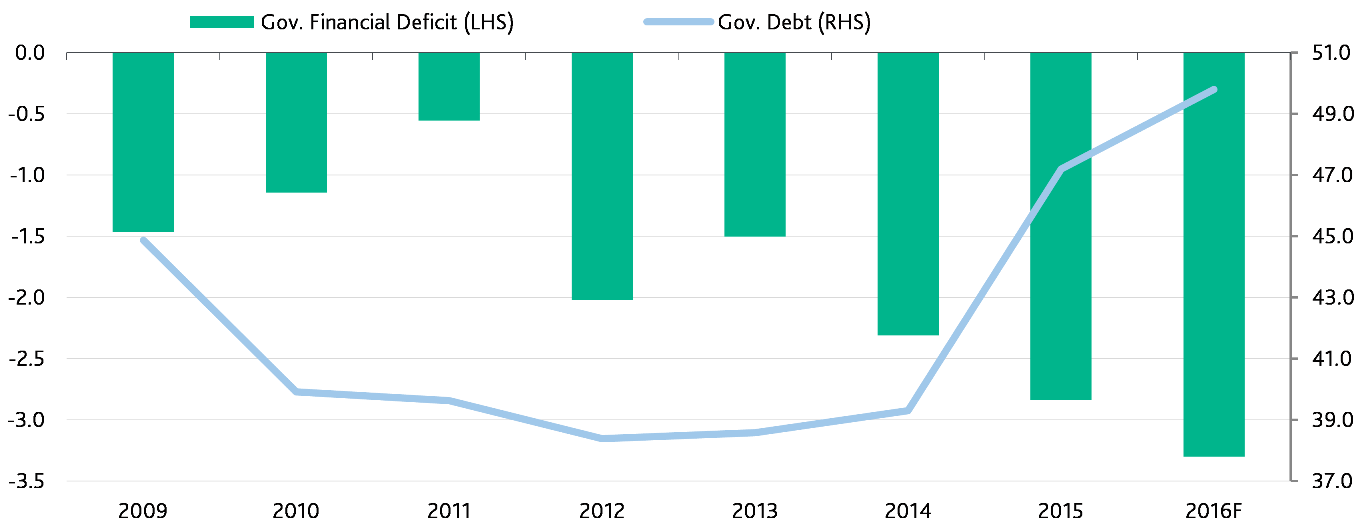


Source: Haver Analytics and Moody's Investors Service

Gradual fiscal deterioration and exchange rate weakness to push debt above 50% of GDP in 2017-18

The level of Uruguay's 2015 fiscal deficit increased by more than 15% from 2014 levels in nominal peso terms. The wider imbalance was mainly driven by large increases in pension expenditures and lower-than-expected revenues owed to the economic slowdown. The consolidated central government deficit reached 2.8% of GDP from 2.3% in 2014 (see Exhibit 11), higher than our 2.4% deficit expectation. Current fiscal spending continued to grow faster than real GDP and exacerbated the sustained deterioration in the fiscal position since 2011.

Exhibit 11
Lower fiscal revenues have led to wider deficits, pushing debt higher
(% GDP)



Source: Haver Analytics and Moody's Investors Service

Total budget revenues grew 7.9% during the year, below the government's expectations, compared to a 10.8% increase in expenditures. Because capital expenditures are only about 6% of total spending, fiscal adjustment at the central government level has been challenging because of expenditure rigidity. Pension expenditures, which are politically unfeasible to cut, increased by 14% on a yearly basis.

The fiscal restraint exhibited through 2009 has abated and given way to a sustained weakening of structural fiscal balances reflecting expansion of social programs. The weakening comes despite the existence of a five-year budget framework and yearly ex-post revisions to fiscal performance.

As a result of strong (above-potential) economic growth, government revenues frequently exceeded the authorities' original projections during 2005-2011 allowing the sovereign to accommodate increased spending without deviating from fiscal targets. Nevertheless, structural fiscal balances as calculated by the IMF have deteriorated on a sustained basis since 2009. Headline deficits have also widened and halted the downward trend in debt metrics, despite a lengthy period of above-potential growth.

The current government took office in March 2015. Its five year budget proposal was approved by congress later that year. The budget envisioned a consolidation of public finances from a deficit of 3.5% of GDP to 2.5% through 2019 such that the adjustment would be gradual and attainable. Importantly, the budget tracks the deficit at the "public sector" level, which includes the balances of the state-owned enterprises (SOEs) and the central bank. In order to preserve comparability, our figures exclude these entities and focus solely on the (consolidated) central government finances.[1]

At the time the five-year budget was adopted, the authorities planned to stabilize public finances through two key measures: (1) expenditure restraint at the central government level focused on curbing wage and pension spending growth; and (2) eventually eliminating the central bank's and SOE's deficit.

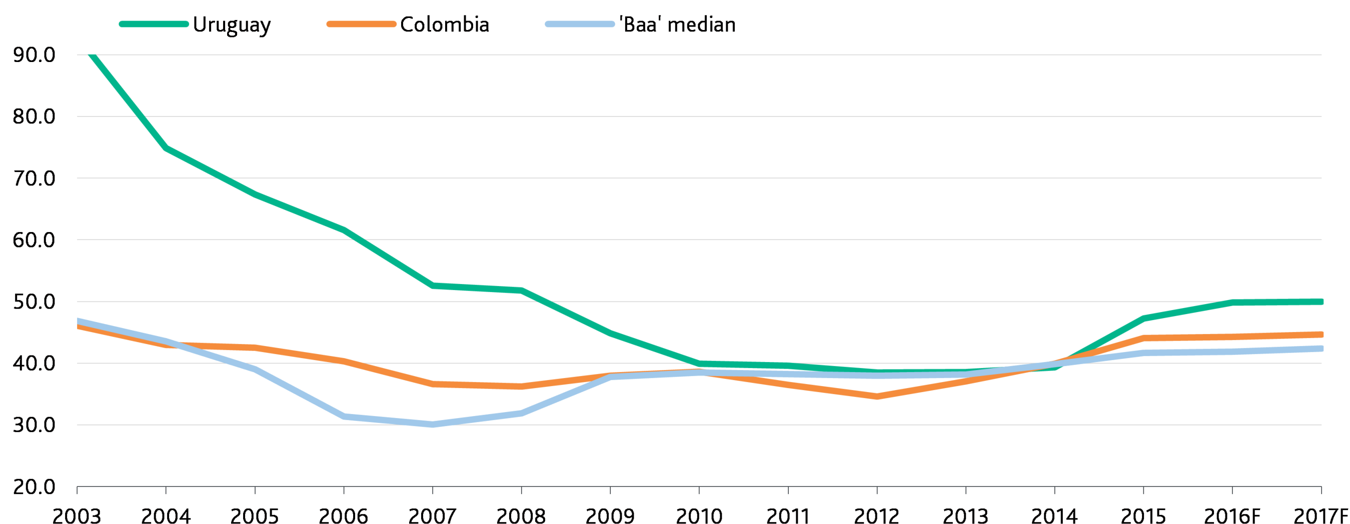
The second measure would have little effect on central government finances. This implied that the target was to maintain the central government deficit broadly stable over the five-year period (at around 2.5%-2.0% of GDP) and reach the target by having a balanced position at the central bank and the SOEs.

Although there has been a marked improvement in SOE balances, the central bank's deficit has increased due to an increase in interest payments, a transitory factor that is already being corrected in 2016. The central government position (as mentioned at the beginning of this section) has deteriorated. This has prompted the authorities to take measures to address the wider central government deficit.

Central government debt-to-GDP rose to 47.2% in 2015 from 39.3% in 2014. Although the wider deficit and lower GDP growth played a role in the increase, the brunt of the deterioration is explained by exchange rate depreciation. Because 55% of Uruguay's debt is denominated in foreign currencies (mainly dollars), this makes the debt ratio vulnerable to currency weakness. We project that debt-to-GDP will increase again this year and peak at over 50% in 2017-18.

Depreciation pressures have been contained so far this year and we expect that they will not have as strong an effect as they did in 2015 given that fundamentals point toward a more stable exchange rate in the near future. Debt metrics will, nevertheless, remain weaker than 'Baa' medians and those of close regional peer, 'Baa2'-rated Colombia (see Exhibit 12).

Exhibit 12
Government debt ratios have weakened relative to peers
(% GDP)



Source: Haver Analytics and Moody's Investors Service

The deterioration has prompted a strong shift in the policy agenda

Against the backdrop of the deteriorating macroeconomic environment, under a no-policy change scenario we estimate the central government deficit could widen to slightly over 3.5% of GDP. The speed and magnitude of the deterioration in the economic outlook has prompted the authorities to shift their view that fiscal risks are now very present and require measures beyond improving financial balances at state-owned enterprises to consolidate the fiscal balance. The authorities, who hope to let automatic stabilizers work, announced a number of measures to reduce the central government deficit. Importantly, their willingness to address central government expenditure has prompted structural (rather than transitory) measures.

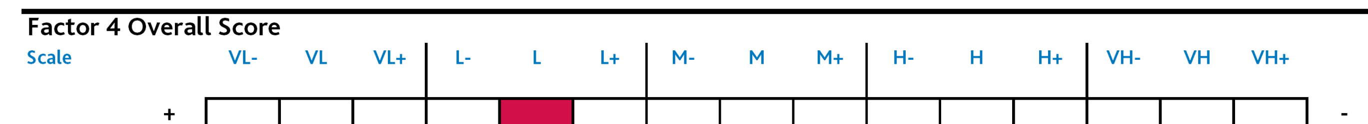
These measures would result in a 1% of GDP deficit reduction mostly at the central government level. On the revenue side the most important measures include: (1) income tax rates are being raised for the top 10% of earners; (2) the VAT rate on non-cash purchases will be reduced 2 percentage points as an incentive to formalize and capture more tax from a broader base that was more prone to evasion; (3) simplifying tax compliance. These (and other complementary) measures are estimated to bring in $350 million or 0.7% of GDP.

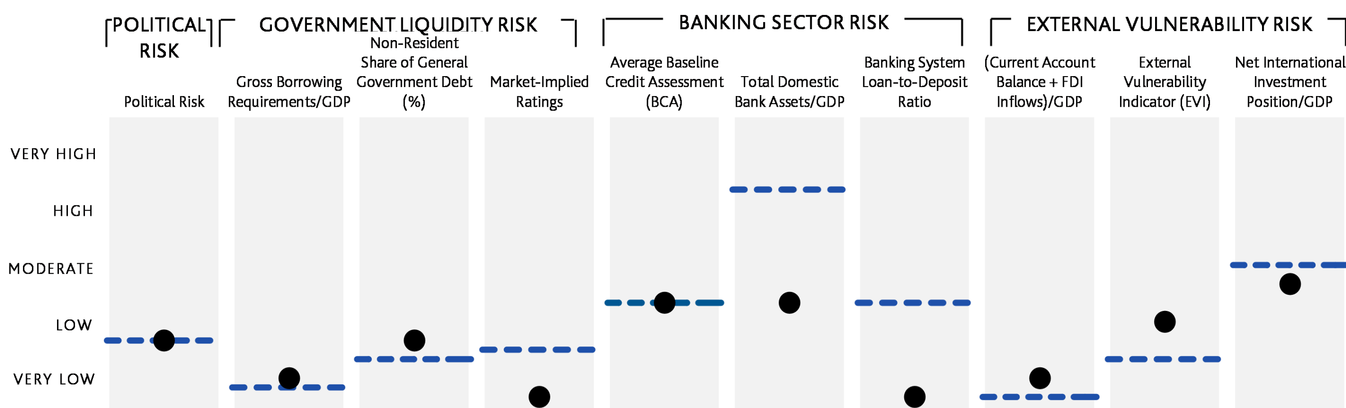
On the expenditure side the measures include: (1) a portion of the budgeted expenditure increase for 2016-17 is being postponed; (2) public sector undisbursed salaries (5% of wage bill) are being cancelled permanently; (3) a reduction in the public payroll by replacing only two employees for every three that retire, leave or are dismissed; (4) a public expenditure review committee to audit central government social expenditures to identify savings and graft. These measures would result in $150 million (0.3% GDP) in savings.

Additionally, structural measures that will yield medium-term benefits are being adopted. These include fixing wage increases to nominal targets, effectively abandoning the backward-looking mechanism of increases set in real terms (adjusting for past and expected inflation), and a reform of military pension payouts. Military pensions cost $400 million (0.8% of GDP) each year. The new wage-setting guidelines set in mid-2015 and reduced military pension outlays (via parametric adjustments) will reduce wage inertia that contributed to persistent inflation and result in fiscal savings, while increasing the sustainability of first pillar pensions, respectively.

The measures try to strike a balance between consolidation and allowing automatic stabilizers to soften the effect of the slowdown on the population. The fiscal measures will be submitted to congress (where the ruling Frente Amplio holds a majority) by the end of June and will likely be approved by November. Measures that require congressional approval will be implemented in 2017, but others (some expenditure cutting measures) can begin to be implemented in the second half of 2016.

Susceptibility to Event Risk: Low





Susceptibility to Event Risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of Event Risk is a constraint which can only lower the preliminary rating range as given by combining the first three factors.

We assess Uruguay's susceptibility to event risk as 'Low'. Uruguay shares the ranking with Mauritius (Baa1 stable), Philippines(Baa2 stable), and Romania (Baa3 positive), among others. Event risk takes into consideration (1) political risks, both domestic and geopolitical; (2) government liquidity risk; (3) banking sector risks involving the crystallization of contingent liabilities on the sovereign's balance sheet; and (4) external vulnerability, reflecting balance of payments risks and exposure to sudden stops.

T rack record of policy continuity underpins very low domestic political risk

Political event risk is considered to be very low because of the policy continuity that has been maintained by different governments throughout the political spectrum. Credit risks resulting from political events are very low given that successive administrations have repeatedly endorsed principles that have led to conservative economic policies and the maintenance of macroeconomic stability.

President Vazquez's administration took office on 1 March 2015, marking the president's second non-consecutive term in office. Macroeconomic policies will remain broadly similar to those pursued by the previous administration, with a continued emphasis on social development (including healthcare, education and social transfers), but a greater focus on administrative efficiency. Main policy challenges include narrowing the fiscal deficit in a context of lower output growth, reducing inflation and pursuing reforms to add dynamism to economic activity.

Low borrowing requirements and financial buffers support low government liquidity risk

A favorable maturity profile translates into low rollover risks. Given Uruguay's extended debt maturity, the government faces modest refinancing requirements over the medium term given yearly principal payments of 1%-2% of GDP over the next 5 years.

Combined with moderate fiscal deficits, the modest amounts of maturing debt result in fairly low gross financing needs. The sovereign's gross financing needs are likely to remain below 5% of GDP every year through 2019, among the lowest in the region for sovereigns rated 'Baa' and above.

The government's debt management strategy continues to be a key credit strength and has focused on (1) reducing the share of foreign currency-denominated debt, (2) extending average debt maturity, and (3) building up financial buffers through precautionary liquidity reserves and contingent credit lines.

Liability operations by the debt management office have yielded a favorable maturity profile that currently stands at over 15 years, which is among the longest for sovereigns rated by Moody's. The sovereign's lengthy average maturity of debt greatly decreases rollover risk and allows the authorities to take a very opportunistic approach for issuing debt at favorable terms.

The sovereign holds fiscal reserves (in cash) that cover over 12 months of debt service, including interest and principal that significantly reduce rollover risk derived from market closure events. Additionally, precautionary contingent credit lines have become an integral part of Uruguay's sovereign credit profile providing an additional financial buffer that further reduces credit risk and complements the sovereign's own cash reserves. The sovereign has access to contingent credit lines with multilateral development banks (WB, IADB, CAF, and FLAR) that are available on call, and that when added to cash reserves would cover 24 months of debt service.

Despite elevated financial dollarization, banking sector risk is low

Banking sector risk is deemed to be low. Key strengths of the banking system include: (1) high asset quality, with non-performing loans (NPLs) contained at under 2% of gross loans; (2) limited risk to the sovereign's balance sheet given the small size of the system (total loans are under 40% of GDP); and (3) relatively high liquidity with the sector's loan-to-deposit ratio remaining under 80%.

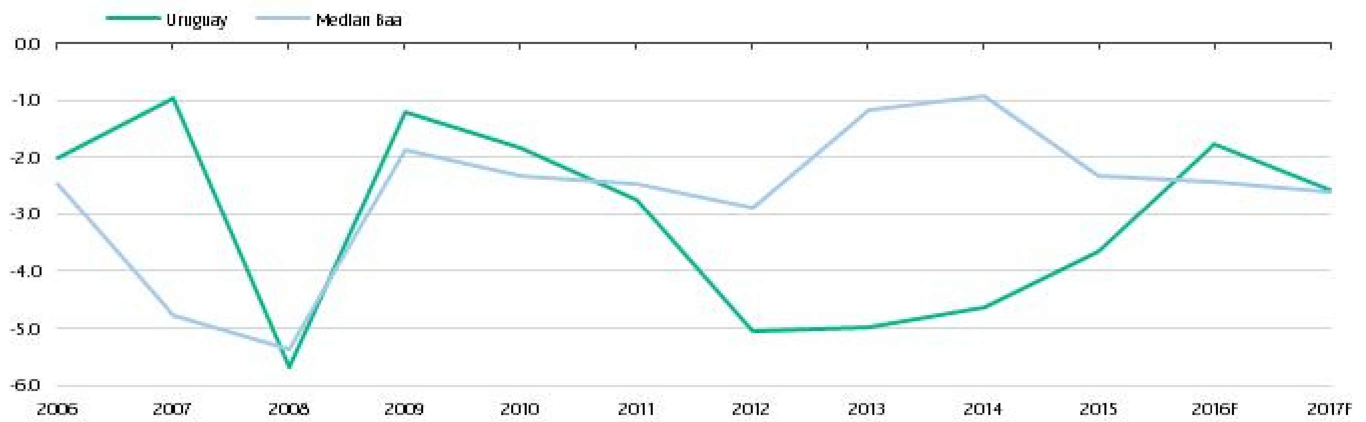
These strengths offset lingering concerns about the elevated level of financial dollarization, especially in terms of deposits. Foreign currency-denominated deposits account for over 75% of the total, while dollar-denominated loans remain high at approximately half of the system's lending portfolio.

Current account deficit will continue to narrow and converge with peers

Changes in Uruguay's current account deficit largely reflect oil import dynamics and movements in the services balance. The external imbalance has been covered by FDI since 2005. The benefits from lower energy prices have helped to offset the negative effect on Uruguay's terms of trade from lower commodity prices for agricultural and other key exports. The economic slowdown and improvements in the services balance from stronger tourism inflows from Argentina will help maintain the narrowing of the external imbalance.

We expect the current account deficit will narrow to 1.8% of GDP in 2016 from 3.6% in 2015, maintaining the external adjustment that began in 2013 and convergence with peers (see Exhibit 14). We forecast a marginal widening of the current account in 2017 driven by recovering domestic demand and an increase in energy prices. However, the deficit will continue to be mostly covered by non-debt creating FDI inflows and see negligible macroeconomic risks from external finances.

Exhibit 14
External adjustment proceeding apace
(% GDP)



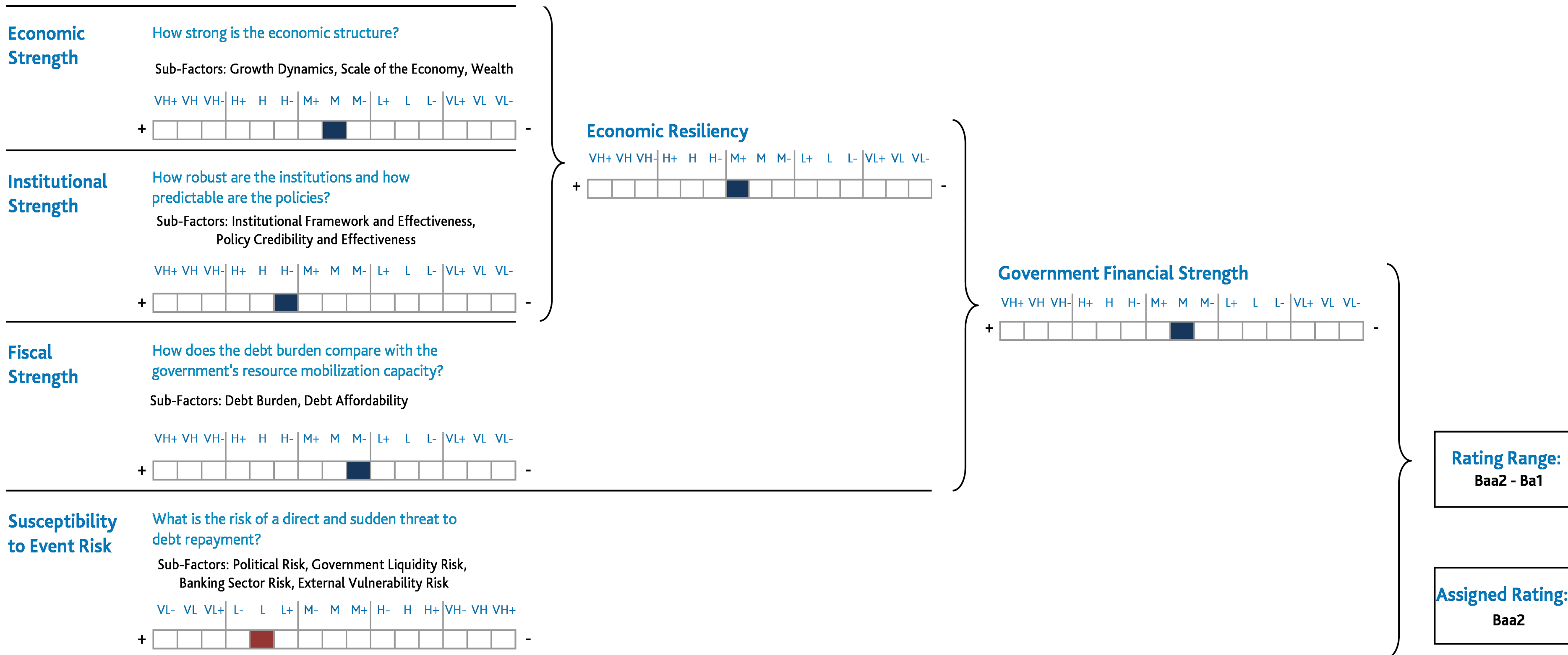
Source: Haver Analytics and Moody's Investors Service

Rating Range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Sovereign Bond Rating Methodology.

Exhibit 15

Sovereign Rating Metrics: Uruguay



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Uruguay with other sovereigns rated by Moody's Investors Service. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

Exhibit 16

Uruguay Key Peers

	Year	Uruguay	Kazakhstan	Slovenia	Panama	Trinidad and Tobago	Colombia	Baa2 Median	Latin America & Caribbean Median
Rating/Outlook		Baa2/STA	Baa3/NEG	Baa3/STA	Baa2/STA	Baa3/NEG	Baa2/STA	Baa2	Ba2
Rating Range		Baa2 - Ba1	Baa1 - Baa3	Baa2 - Ba1	A3 - Baa2	Baa2 - Ba1	Baa2 - Ba1	A3 - Baa2	Ba1 - Ba3
Factor 1		**M**	**M+**	**M**	**H-**	**L**	**H**	**H-**	**L+**
Nominal GDP (US$ Bn)	2015	53.4	173.4	42.8	52.1	25.9	292.1	53.4	42.6
GDP per Capita (PPP, US$)	2015	21,507	24,268	31,007	21,765	32,635	13,847	21,636	14,984
Avg. Real GDP (% change)	2011-2020	2.7	3.1	1.2	7.1	0.2	3.8	2.1	2.7
Volatility in Real GDP growth (ppts)	2006-2015	2.0	3.2	4.3	3.1	4.8	1.7	2.3	2.5
Global Competitiveness Index, percentile [1]	2015	35.3	61.9	46.9	54.8	24.7	46.0	55.7	29.2
Factor 2		**H-**	**L+**	**H**	**M**	**L**	**M**	**H-**	**L+**
Government Effectiveness, percentile [1]	2015	60.4	40.3	69.7	51.1	53.4	35.6	56.2	35.6
Rule of Law, percentile [1]	2015	67.4	21.7	75.1	44.9	41.8	31.7	55.8	28.6
Control of Corruption, percentile [1]	2015	84.4	17.0	67.4	37.2	24.8	34.1	48.8	34.1
Avg. Inflation (% change)	2011-2020	8.2	6.9	1.0	2.7	4.8	3.2	2.7	3.4
Volatility in Inflation (ppts)	2006-2015	0.9	3.5	1.8	2.3	2.7	1.5	1.7	2.4
Factor 3		**M-**	**VH-**	**M-**	**H+**	**H**	**L**	**M+**	**M**
Gen. Gov. Debt/GDP	2015	47.2	21.8	83.2	38.8	46.3	44.1	47.2	41.2
Gen. Gov. Debt/Revenues	2015	174.5	109.6	184.5	190.3	139.7	271.7	190.3	209.6
Gen. Gov. Interest Payments/Revenue	2015	8.5	2.0	6.6	8.2	5.4	13.9	8.7	8.9
Gen. Gov. Interest Payments/GDP	2015	2.3	0.4	3.0	1.7	1.8	2.3	2.3	2.0
Gen. Gov. Financial Balance/GDP	2015	-2.8	-3.1	-2.9	-2.8	-4.2	-3.0	-2.8	-3.0
Factor 4		**L**	**M+**	**M-**	**M-**	**VL**	**M-**	**M-**	**M-**
Current Account Balance/GDP	2015	-3.6	-3.4	7.3	-6.5	-0.2	-6.5	-2.6	-3.8
Gen. Gov. External Debt/Gen. Gov. Debt	2015	41.3	45.8	71.7	77.4	19.9	--	38.7	51.8
External Vulnerability Indicator	2017F	88.6	85.8	--	23.6	1.2	52.4	64.5	53.4

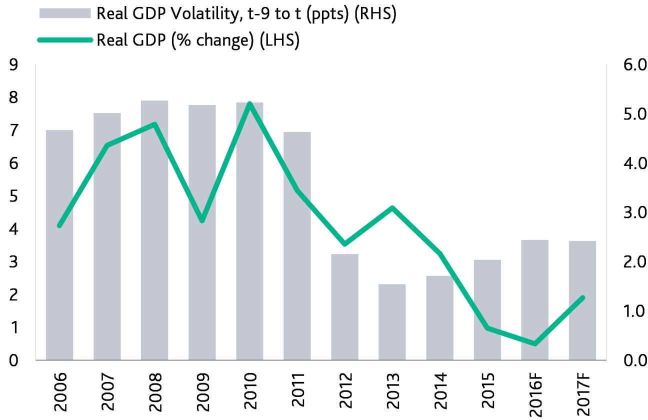
Source: Moody's Investors Service

Chart Pack

Uruguay

Exhibit 17

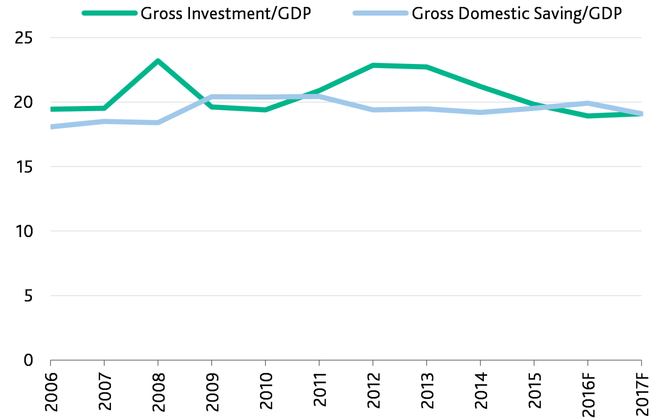
Economic Growth



Source: Moody's Investors Service

Exhibit 18

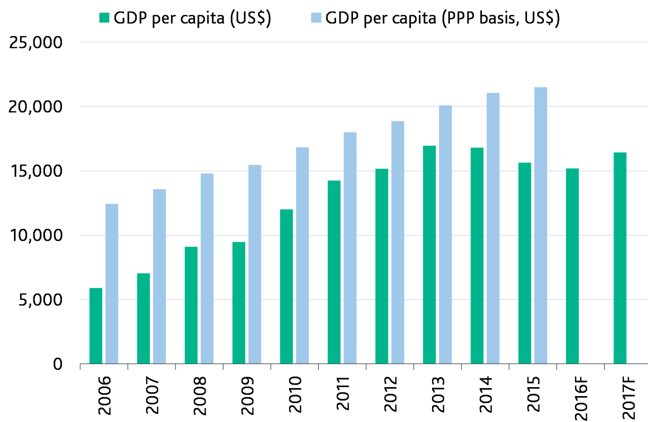
Investment and Saving



Source: Moody's Investors Service

Exhibit 19

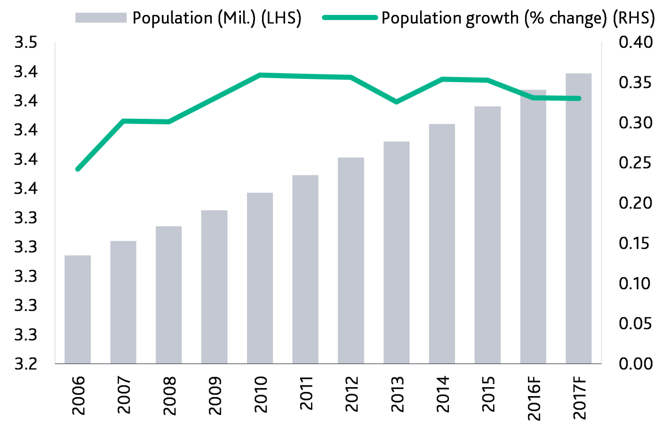
National Income



Source: Moody's Investors Service

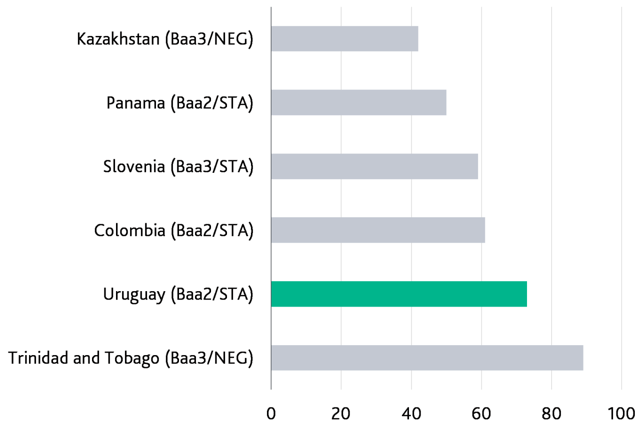
Exhibit 20

Population



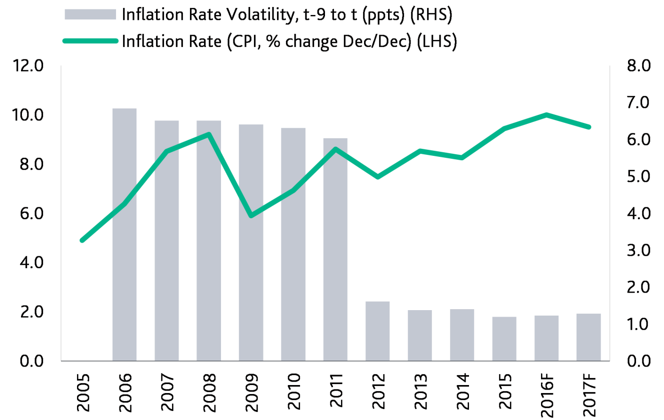
Source: Moody's Investors Service

Exhibit 21
Global Competitiveness Index



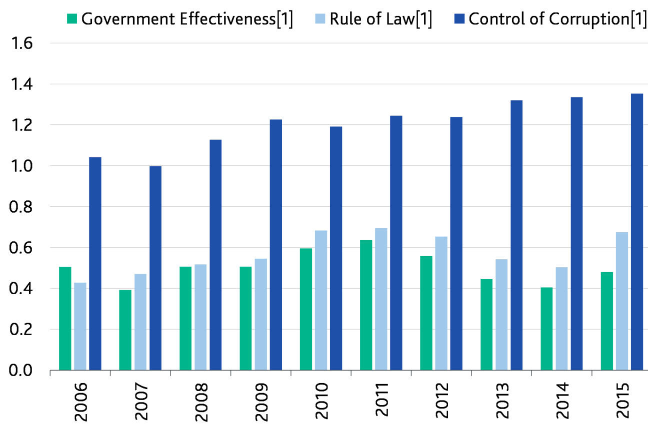
Source: Worldwide Governance Indicators

Exhibit 22
Inflation and Inflation Volatility



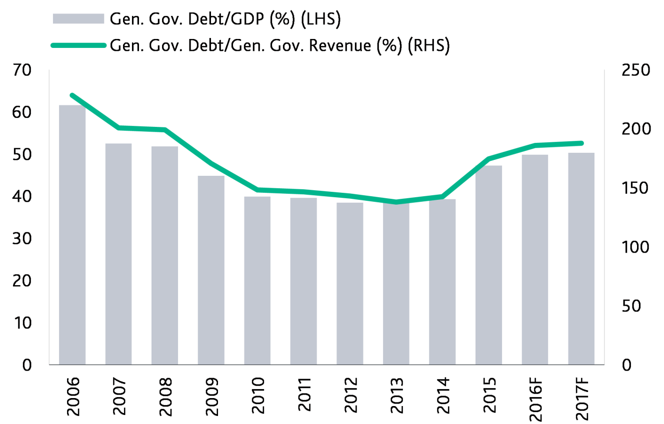
Source: Moody's Investors Service

Exhibit 23
Institutional Framework and Effectiveness



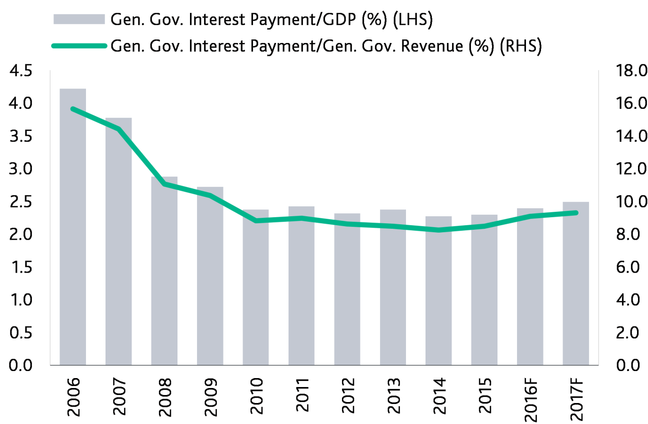
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Source: Worldwide Governance Indicators

Exhibit 24
Debt Burden



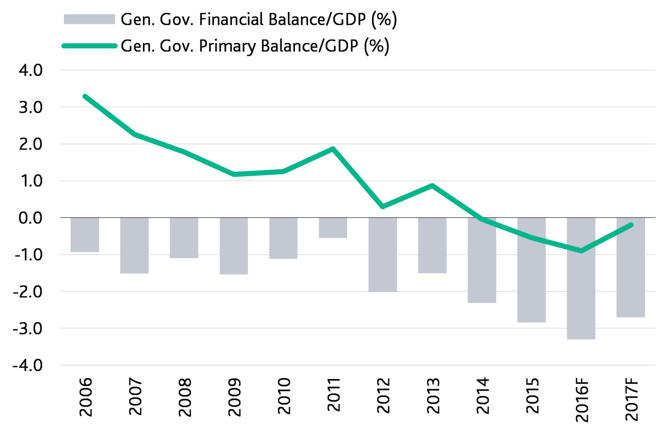
Source: Moody's Investors Service

Exhibit 25
Debt Affordability



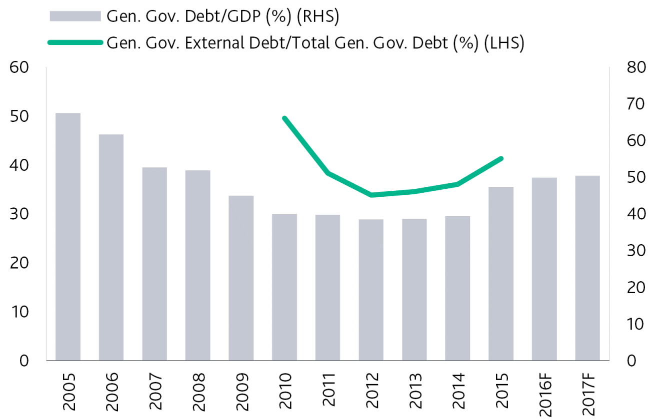
Source: Moody's Investors Service

Exhibit 26
Financial Balance



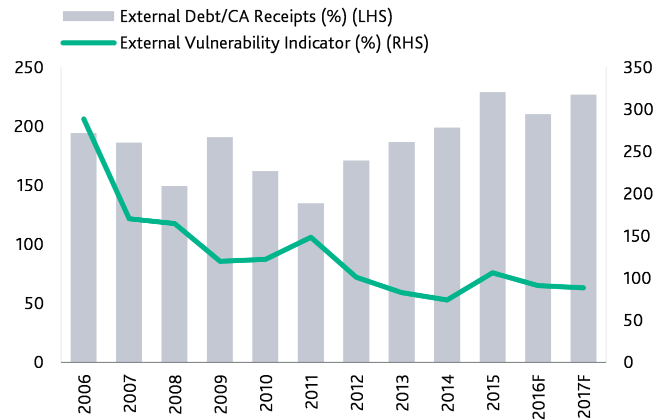
Source: Moody's Investors Service

Exhibit 27
Government Liquidity Risk



Source: Moody's Investors Service

Exhibit 28
External Vulnerability Risk



Source: Moody's Investors Service

Rating History

Exhibit 29

	Government Bonds			Foreign Currency Ceilings				Date
	Foreign Currency	Local Currency		Bonds & Notes		Bank Deposit		
				Long-term	Short-term	Long-term	Short-term	
Outlook Changed	Baa2	Baa2	Negative	A2	--	Baa2	--	June-16
Rating Raised	Baa2	Baa2	Stable	A2	--	Baa2	--	May-14
Rating Raised	Baa3	Baa3	Positive	--	--	Baa3	--	July-12
Outlook Changed	Ba1	Ba1	Positive	--	--	--	--	January-12
Rating Raised	Ba1	Ba1	Stable	Baa1	--	Ba2	--	December-10
Review for Upgrade	Ba3	Ba3	RUR+	--	--	--	--	July-10
Rating Raised	Ba3	Ba3	Stable	Ba1	--	B1	--	January-09
Review for Upgrade	B1	B1	RUR+	--	--	--	--	August-08
Rating Raised	B1	B1	Stable	Ba2	--	B2	--	December-06
Review for Upgrade	B3	B3	RUR+	--	--	Caa1	--	September-06
Rating Raised	--	--	--	B1	--	--	--	May-06
Outlook Changed	B3	B3	Stable	--	--	--	--	November-04
Rating Lowered	B3	B3	Negative	B3	--	Caa1	--	July-02
Rating Lowered	B1	B1	Negative	B1	--	B3	--	July-02
Review for Downgrade	Ba2	Ba2	RUR-	Ba2	--	Ba3	--	May-02
Rating Lowered	Ba2	Ba2	Negative	Ba2	NP	Ba3	NP	May-02
Review for Downgrade	Baa3	Baa3	RUR-	Baa3	P-3	Baa3	P-3	April-02
Outlook Changed	--	--	Negative	--	--	--	--	February-02
Rating Assigned	--	Baa3	--	--	--	--	--	October-98
Rating Raised	Baa3	--	--	Baa3	P-3	Baa3	P-3	June-97
Outlook Assigned	--	--	Stable	--	--	--	--	March-97
Rating Assigned	--	--	--	--	NP	Ba2	NP	October-95
Rating Assigned	Ba1	--	--	Ba1	--	--	--	October-93

Source: Moody's Investors Service

Annual Statistics

Exhibit 30

	2008	2009	2010	2011	2012	2013	2014F	2015F	2016F	2017F
Economic Structure and Performance										
Nominal GDP (US$, Bil.)	30.4	31.7	40.3	48.0	51.3	57.5	57.2	53.4	52.1	56.5
Population (Mil.)	3.3	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
GDP per capita (US$)	9,108	9,465	12,000	14,236	15,162	16,961	16,814	15,645	15,196	16,441
GDP per capita (PPP basis, US$)	14,780	15,473	16,826	17,995	18,869	20,084	21,055	21,507	--	--
Nominal GDP (% change, local currency)	15.8	12.3	13.1	14.6	12.4	13.2	12.9	9.8	10.5	11.4
Real GDP (% change)	7.2	4.2	7.8	5.2	3.5	4.6	3.2	1.0	0.5	1.9
Inflation (CPI, % change Dec/Dec)	9.2	5.9	6.9	8.6	7.5	8.5	8.3	9.4	10.0	9.5
Gross Investment/GDP	23.2	19.6	19.4	20.9	22.9	22.7	21.2	19.8	18.9	19.1
Gross Domestic Saving/GDP	18.4	20.4	20.4	20.4	19.4	19.5	19.2	19.5	19.9	19.1
Nominal Exports of G & S (% change, US$ basis)	34.7	-6.5	23.7	19.4	4.9	1.1	0.3	-11.5	-9.8	-2.4
Nominal Imports of G & S (% change, US$ basis)	50.7	-21.6	22.6	26.1	16.0	1.5	-3.6	-17.4	-16.0	1.0
Openness of the Economy [1]	65.2	53.4	51.7	53.3	55.1	49.7	49.1	44.9	39.4	38.5
Government Effectiveness [2]	0.5	0.6	0.6	0.6	0.4	0.4	0.5	--	--	--
Government Finance										
Gen. Gov. Revenue/GDP	26.0	26.3	26.9	27.0	26.9	28.0	27.6	27.1	26.3	26.8
Gen. Gov. Expenditures/GDP	27.1	27.8	28.0	27.6	28.9	29.5	29.9	29.9	29.6	29.5
Gen. Gov. Financial Balance/GDP	-1.1	-1.5	-1.1	-0.6	-2.0	-1.5	-2.3	-2.8	-3.3	-2.7
Gen. Gov. Primary Balance/GDP	1.8	1.2	1.3	1.9	0.3	0.9	0.0	-0.5	-0.9	-0.2
Gen. Gov. Debt (US$ Bil.) [3]	13.5	16.3	16.0	18.4	20.6	21.3	21.5	23.1	25.1	28.4
Gen. Gov. Debt/GDP [3]	51.8	44.9	39.9	39.6	38.5	38.6	39.3	47.2	49.8	50.3
Gen. Gov. Debt/Gen. Gov. Revenue [3]	199.1	170.7	148.4	146.6	143.0	138.0	142.7	174.5	189.5	187.7
Gen. Gov. Int. Pymt/Gen. Gov. Revenue	11.1	10.4	8.8	9.0	8.6	8.5	8.3	8.5	9.1	9.3
Gen. Gov. FC & FC-indexed Debt/GG Debt [3]	72.0	69.0	66.0	51.0	45.0	46.0	48.0	55.0	57.4	57.4
External Payments and Debt										
Nominal Exchange Rate (local currency per US$, Dec)	24.4	19.6	20.1	19.9	19.4	21.4	24.3	29.9	32.1	31.5
Real Eff. Exchange Rate (% change)	9.5	2.7	12.0	1.9	3.1	6.7	-1.7	3.7	--	--
Current Account Balance (US$ Bil.)	-1.7	-0.4	-0.7	-1.3	-2.6	-2.9	-2.7	-1.9	-0.9	-1.5
Current Account Balance/GDP	-5.7	-1.2	-1.8	-2.7	-5.1	-5.0	-4.6	-3.6	-1.8	-2.6
External Debt (US$ Bil.)	15.4	18.0	18.4	18.3	24.0	26.5	28.1	28.7	23.6	24.5
Public Sector External Debt/Total External Debt	71.7	73.0	71.5	78.7	82.0	82.5	82.3	82.0	79.0	80.5
Short-term External Debt/Total External Debt	27.4	27.8	28.1	21.1	20.1	21.9	22.6	22.0	22.5	22.3
External Debt/GDP	59.0	49.4	45.8	39.4	44.8	48.1	51.4	58.7	47.0	43.0
External Debt/CA Receipts [4]	149.5	190.8	162.0	134.6	170.8	186.8	198.8	228.9	210.3	226.8
Interest Paid on External Debt (US$ Bil.) [5]	0.6	0.5	0.6	0.6	0.5	0.8	0.8	0.8	0.8	0.8
Amortizations Paid on External Debt (US$ Bil.) [5]	0.8	0.4	1.2	2.2	2.3	2.1	1.6	7.2	1.4	2.0
Net Foreign Direct Investment/GDP	7.0	4.8	5.8	5.2	5.0	5.3	3.8	3.0	3.8	3.9
Net International Investment Position/GDP	-6.7	-10.1	-6.1	-10.0	-14.8	-14.7	-17.3	-19.5	--	--
Official Forex Reserves (US$ Bil.)	6.3	7.6	7.2	9.8	13.1	15.7	17.0	15.2	17.4	17.6
Net Foreign Assets of Domestic Banks (US$ Bil.)	1.7	2.8	4.9	4.8	3.7	3.0	3.0	4.8	--	--
Monetary, Vulnerability and Liquidity Indicators										
M2 (% change, Dec/Dec)	28.6	-2.6	22.1	18.0	10.0	19.2	19.3	23.8	--	--
Monetary Policy Rate (% per annum, Dec 31)	7.8	6.3	6.5	8.8	9.3	9.3	9.3	9.3	--	--
Domestic Credit (% change Dec/Dec)	61.1	-9.4	27.7	6.2	20.2	27.4	13.8	11.8	--	--
Domestic Credit/GDP	34.8	28.1	31.7	29.4	31.4	35.4	35.6	36.3	--	--
M2/Official Forex Reserves (X)	1.9	1.9	2.4	2.1	1.7	1.6	1.5	1.7	--	--
Total External Debt/Official Forex Reserves	243.0	235.1	257.0	187.9	184.0	168.7	165.1	189.2	135.8	139.4
Debt Service Ratio [5] [6]	13.1	10.2	16.0	20.8	20.2	20.0	16.7	64.2	19.1	26.0
External Vulnerability Indicator [7]	164.5	120.0	122.1	148.5	101.0	82.9	73.9	106.4	91.1	88.6
Liquidity Ratio [8]	25.0	26.5	25.9	40.6	47.9	59.1	71.5	--	--	--
Total Liab. due BIS Banks/Total Assets Held in BIS Banks	26.9	27.8	41.9	50.7	48.1	62.1	63.8	--	--	--
"Dollarization" Ratio [9]	81.9	71.2	68.6	67.2	66.9	68.8	72.4	75.7	--	--
"Dollarization" Vulnerability Indicator [10]	105.3	66.7	67.5	67.2	65.4	64.9	67.5	71.4	--	--

Notes:
[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Central government
[4] Current Account Receipts
[5] Excludes private sector before 2010
[6] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[7] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Non Resident Deposits due over one year)/Official Foreign Exchange Reserves
[8] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks.
[9] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[10] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Source: Moody's investors Service

Moody's Related Research

- **Issuer Comment**: Government of Uruguay: Navigating Fiscal Statistics and Subtleties of Debt Ratio Calculation, 17 June 2016
- **Issuer Comment**: Government of Uruguay: Economic Slowdown Likely to Intensify in 2016, Heightening Fiscal Challenges, 9 May 2016
- **Issuer Comment**: Government of Uruguay: Uruguay Reports a Wider-than-Expected Deficit, 4 February 2016
- **Issuer Comment**: Government of Uruguay: Uruguay's Persistently High Inflation Is Credit Negative, 11 January 2016]
- **Credit Opinion**: Government of Uruguay – Baa2 Negative: Update Following Rating Action, 23 June 2016
- **Rating Action**: Moody's changes outlook on Uruguay's rating to negative; affirms government bond rating at Baa2, 22 June 2016
- **Country Statistics**: Uruguay, Government of, 1 June 2016
- **Outlook**: Sovereigns – Latin America: Evolution of Fiscal Space and Implications for Policy Response, 4 May 2016
- **Outlook**: Sovereigns – Latin America: Mixed Rating Outlook Reflects Lower Trend Growth and Moderate Fiscal Space, 5 April 2016
- **Rating Methodology**: Sovereign Bond Ratings, 18 December 2015

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related Websites and Information Sources

- Uruguay's Central Bank
- Uruguay's Ministry of Finance
- Moody's Investors Service

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Endnotes

1 Please see Government of Uruguay: Navigating Fiscal Statistics and Subtleties of Debt Ratio Calculation, 17 June 2016.

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