Uruguay

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB−
Short-Term IDR	F3

Local Currency

Long-Term IDR	BBB−
Short-Term IDR	F3
Country Ceiling	BBB+

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Uruguay

(USDbn)	2016
GDP	52.4
GDP per head (USD 000)	15.2
Population (m)	3.4
International reserves	13.5
Net external debt (% GDP)	-15.4
Central government total debt (% GDP)	56.9
CG foreign-currency debt	14.4
CG domestically issued debt (UYUbn)	333.9

Related Research

Latin America Sovereign Overview 2Q17 (April 2017)

Southern Cone Welfare States Face Leaner Times (March 2017)

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Key Rating Drivers

Ratings Affirmed: The ratings are supported by strong structural features in terms of social and institutional development, a strong external balance sheet, and fiscal financing buffers. These factors are balanced by a weak record of compliance with inflation and fiscal targets, weighing on policy credibility, a high and dollarised public debt burden, and budget rigidity.

Structural Fiscal Slippage: Inertial social spending growth continues to drive structural fiscal slippage, reflecting broadened coverage of public health insurance and pressure on indexed pension benefits. Revenues have risen despite sluggish growth due to tariff adjustments that have boosted public utilities' tax and dividend contributions to the treasury. These factors lifted the central government deficit to 3.7% of GDP in 2016, from 2.8% in 2015.

Targeting Consolidation: The authorities have already enacted a fiscal adjustment package of 0.9pp of GDP to support their goal to lower the public-sector deficit by 1.4pp of GDP to 2.5% by 2019. However, achieving the target is likely to require further efforts, in Fitch Ratings' view, given existing inertia in social spending and political pressures for further hikes. How the authorities can balance their spending promises and consolidation goals is not yet clear.

Public Debt Rising: General government debt was stable in 2016 at 57% of GDP, above the 'BBB' median of 41%, as borrowing to finance the deficit was offset by peso appreciation and some asset drawdown. Fitch forecasts debt will reach 62% of GDP by 2018. A still high share of foreign-currency debt makes the projections sensitive to exchange rate risk. Risks from relative reliance on external markets are mitigated by pre-financing and contingent credit lines.

Growth Beats Expectations: The economy grew 1.5% in 2016, up from 0.4% in 2015, beating prior expectations as confidence improved on peso depreciation and lower inflation through the year. Fitch expects growth to reach 2.1% in 2017. A large pulp project could boost growth in the medium term. Prospects beyond the primary sector depend on success in leveraging human capital and institutional strengths given cost competitiveness constraints.

Inflation Falls to Target: Inflation has fallen rapidly to 6.7% in March, within the target range (5%+/−2pp) for the first time in seven years. A strong peso and base effects have driven disinflation in recent months, and expectations remain above target, so it is not yet clear how structural in nature this trend is. Wage guidelines for the private sector seek to scale back inflation mechanisms, and have mostly been followed with some modest relaxation.

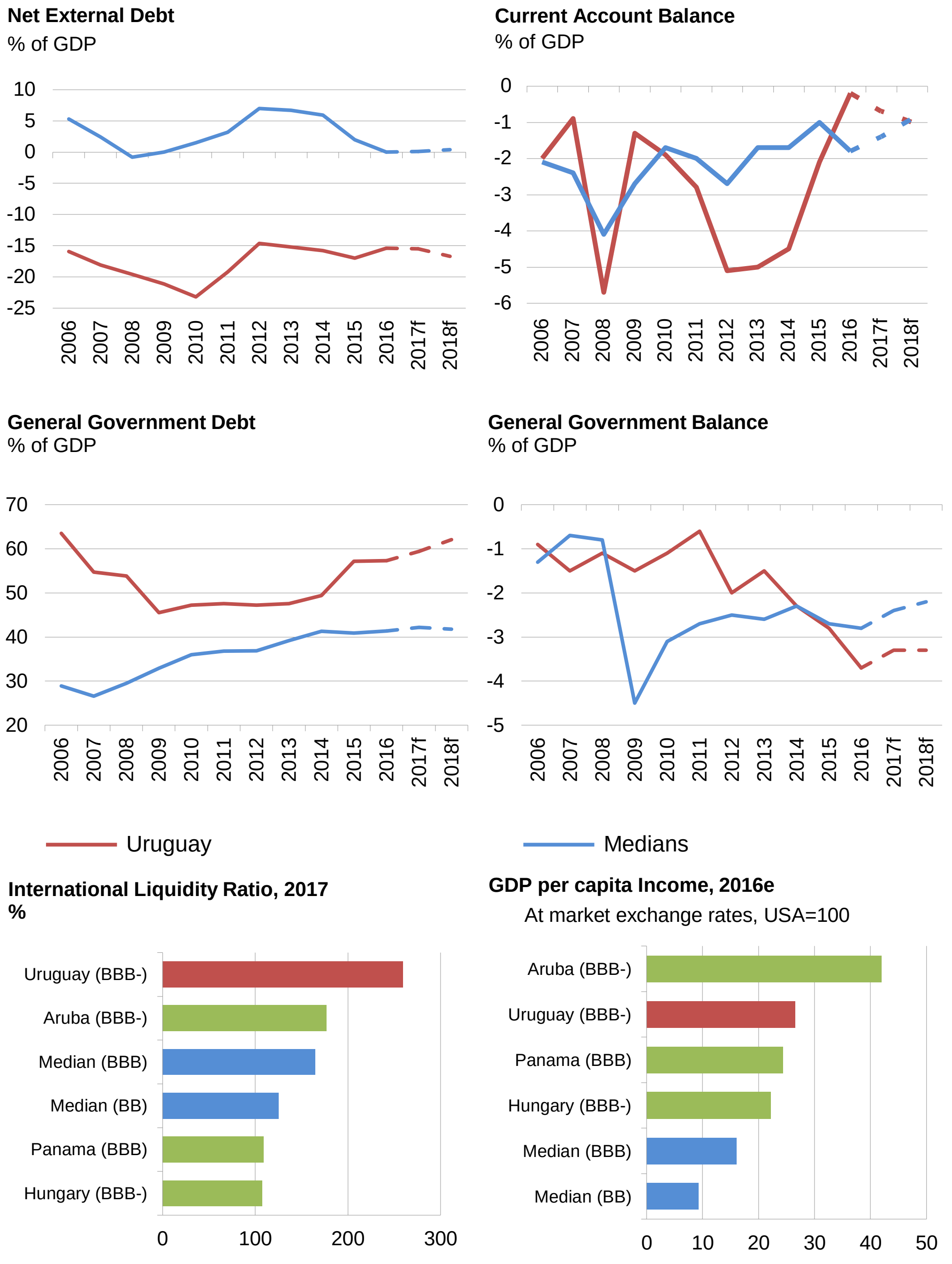
Improving External Finances: The current account deficit fell to just 0.2% of GDP, as lower exports were more than offset by a drop in energy and capital imports. International reserves have fallen on deposit outflows from Argentina's tax amnesty, but the central bank's net FX position has improved on market intervention, and the external liquidity has risen to a record-high 300%. Resilience to Argentine deposit outflows is a noteworthy contrast to the 2002 crisis.

Rating Sensitivities

Failure to Consolidate: Uruguay's ratings could be negatively impacted by failure to achieve fiscal consolidation that improves the government debt trajectory, deterioration in growth prospects, or erosion of liquidity buffers.

Lower Debt, Higher Growth: The ratings could be positively impacted by fiscal consolidation consistent with a declining public debt trajectory, investments or productivity gains that lift growth prospects, or a track record of lower inflation and improved anchoring of expectations.

Peer Comparison



Related Criteria

Sovereign Rating Criteria (July 2016)
Country Ceilings (August 2016)

Peer Group

Rating	Country
BBB	Andorra
	Colombia
	Kazakhstan
	Oman
	Panama
	San Marino
BBB−	**Uruguay**
	Aruba
	Bulgaria
	Hungary
	India
	Indonesia
	Morocco
	Namibia
	Philippines
	Romania
	Russia
BB+	Azerbaijan
	Bahrain
	Portugal
	South Africa
	Turkey

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
22 Jul 16	BBB−	BBB−
7 Mar 13	BBB−	BBB
14 Jul 11	BB+	BBB−
27 Jul 10	BB	BB+
27 Jul 07	BB−	BB
07 Mar 05	B+	BB−
29 Mar 04	B	B+
17 Jun 03	B−	B
19 May 03	D	B
10 Apr 03	C	CCC−
12 Mar 03	CCC−	CCC−
07 Jan 03	B−	B
30 Jul 02	B	B
28 May 02	B+	BB−
13 Mar 02	BB+	BBB−
19 May 00	BBB−	BBB+
23 Jan 97	BBB−	NR
26 Oct 95	BB+	NR

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Weakness	Weakness	Neutral	Strength
Trend	Stable	Negative	Positive	Stable

Note: Relative to 'BBB' Category
Source: Fitch

Strengths

- Uruguay's per-capita income is well above the 'BBB' median. Strong social development and governance indicators underpin creditworthiness and support policy continuity.
- The external balance sheet is strong: the net external creditor position and liquidity ratio are among the highest in the 'BBB' category. Banks and corporates have sizeable net external creditor positions, and the sovereign retains a strong liquidity position despite being a net external debtor. The stock of foreign reserves has declined in recent years, but coverage metrics have improved given the concomitant fall in liquid external liabilities including non-resident holdings (6% of the total in February 2016, down from 25% at end-2015) and non-resident deposits (16% to 11% in the same period).
- Proactive public debt management has reduced refinancing risks. Debt maturities in the coming years are low, and an average maturity around 14 years is one of the highest among 'BBB' peers. Financing flexibility is supported by a pre-financing policy (at least 12 months of debt service), proven market access and precautionary multilateral credit lines.

Weaknesses

- Despite a recent moderation, five-year average inflation of 8.8% is the highest among investment-grade sovereigns. Prevalent indexation adds inertia to inflation, although the authorities are working on scaling back such mechanisms. High financial dollarisation hinders the efficacy of monetary policy, but has become less of a constraint on exchange-rate flexibility given narrower currency mismatches on private balance sheets.
- Government debt ratios are above the 'BBB' medians and rising, due to pressure from primary deficits, subdued growth and high local-currency funding costs. A still relatively high share of debt denominated in foreign currency (around half in 2016) renders the sovereign balance sheet vulnerable to exchange-rate risk, as observed in late 2015.
- A rigid spending profile and limited fiscal savings constrain scope for counter-cyclical policy, although revenue volatility is low. Frequent underperformance of fiscal targets and relaxation of the legal limits on net debt in past years weigh on fiscal credibility.
- Commodity dependence is relatively high, but broad macro risks are mitigated by improved exchange-rate flexibility and export diversification in terms of both markets and soft agricultural products. Uruguay's status as an oil importer provides a natural terms-of-trade hedge, but lower oil prices have only provided a limited offsetting economic boost amid the shock to the export sector. An oil hedge programme mitigates price risk going forward.

Local-Currency Rating

Uruguay's Long-Term Local-Currency IDR is in line with the Long-Term Foreign-Currency IDR. Public finances do not represent a strength relative to external finances, and there is no track record of preferential treatment of local-currency creditors vis-à-vis foreign-currency creditors.

Country Ceiling

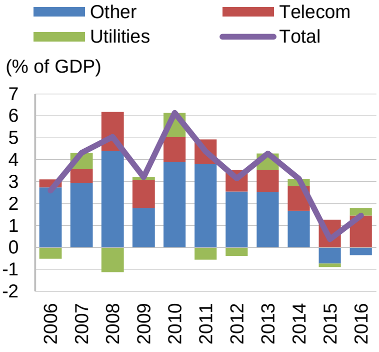
Uruguay's Country Ceiling of 'BBB+' reflects the absence of capital controls or current account restrictions that could lead to transfer/convertibility risks. Vulnerability to external pressures is reduced by increased XR flexibility, strong bank supervision and a high liquidity position.

Strengths and Weaknesses: Comparative Analysis

2016	Uruguay BBB−	BBB Median[a]	BB Median[a]	Panama BBB	Aruba BBB−	Hungary BBB−
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.6	3.2	3.4	6.5	0.7	1.9
Volatility of GDP (10yr rolling SD)	2.4	2.7	2.3	3.2	4.3	3.0
Consumer prices (5yr average)	8.8	2.7	3.6	2.6	-0.4	1.8
Volatility of CPI (10yr rolling SD)	0.9	1.9	2.8	2.6	3.6	2.7
Unemployment rate (%)	7.9	6.6	9.9	4.4	7.0	5.3
Type of exchange rate regime	Managed float	n.a.	n.a.	Dollarised	Peg (USD)	Free float
Dollarisation ratio (% of bank deposits)	75.9	32.4	22.7	100.0	16.0	23.7
REER volatility (10yr rolling SD)	4.1	4.6	5.2	3.7	2.6	5.0
Structural features						
GDP per capita (USD, mkt exchange rates)	15,215	9,701	5,058	13,826	24,062	12,713
GNI per capita (PPP, USD, latest)	20,220	18,290	12,525	19,630	-	23,830
GDP (USDbn)	52.4	n.a.	n.a.	55.2	2.7	124.9
Human development index (percentile, latest)	71.6	66.6	58.8	67.9	-	77.0
Governance indicator (percentile, latest)[b]	78.3	58.0	50.1	59.2	88.0	68.3
Broad money (% GDP)	51.2	69.7	67.0	71.3	87.6	60.1
Default record (year cured)[c]	2003	n.a.	n.a.	1996	-	-
Ease of doing business (percentile, latest)	52.7	72.4	56.2	63.3	-	78.8
Trade openness (avg. of CXR + CXP % GDP)	22.8	44.1	50.2	55.7	98.9	100.8
Gross domestic savings (% GDP)	19.9	24.1	18.0	41.4	16.2	31.2
Gross domestic investment (% GDP)	18.7	22.2	20.5	41.0	26.4	21.8
Private credit (% GDP)	28.1	62.1	57.3	84.1	64.3	34.3
Bank systemic risk indicators[d]	bb/1	n.a.	n.a.	bbb/2	-/1	bb/1
Bank system capital ratio (% assets)	16.7	15.5	15.6	14.8	26.5	20.9
Foreign bank ownership (% assets)	54.1	29.0	28.4	48.4	100.0	80.0
Public bank ownership (% assets)	45.9	15.0	26.7	13.1	0.0	15.9
External finances						
Current account balance + net FDI (% GDP)	1.6	0.9	0.5	3.3	5.6	3.5
Current account balance (% GDP)	-0.2	-1.8	-3.1	-5.9	-1.9	2.7
Net external debt (% GDP)	-15.4	0.5	19.2	27.6	-0.5	25.9
Gross external debt (% CXR)	220.8	122.6	130.8	304.3	72.6	130.7
Gross sovereign external debt (% GXD)	60.7	32.4	38.3	17.5	59.2	31.6
Sovereign net foreign assets (% GDP)	-3.0	2.9	-0.7	-18.3	-7.0	-12.6
Ext. interest service ratio (% CXR)	6.3	4.8	3.4	6.5	4.8	2.9
Ext. debt service ratio (% CXR)	16.3	15.3	12.8	17.4	9.6	17.5
Foreign exchange reserves (months of CXP)	13.5	6.6	4.2	1.9	4.2	2.6
Liquidity ratio (latest)[e]	259.2	154.7	150.3	108.7	177.0	107.5
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	54.7	21.4	19.4	16.8	12.0	12.1
Sovereign net foreign currency debt (% GDP)	2.2	-8.1	-0.9	17.5	-10.8	-2.7
Public finances[f]						
Budget balance (% GDP)	-3.7	-2.6	-3.4	-3.2	-2.0	-1.7
Primary balance (% GDP)	-1.0	-0.6	-0.8	-1.4	2.5	1.5
Gross debt (% revenue)	205.3	152.4	189.1	190.0	252.9	150.7
Gross debt (% GDP)	57.3	40.9	51.1	38.3	67.0	73.9
Net debt (% GDP)	51.1	33.1	41.8	17.5	64.8	70.8
Foreign currency debt (% total debt)	48.6	37.2	50.7	100.0	36.3	24.9
Interest payments (% revenue)	9.6	7.3	8.8	9.0	17.3	6.4
Revenues and grants (% GDP)	27.9	29.9	29.7	20.2	26.5	49.0
Volatility of revenues/GDP ratio	0.7	6.7	5.4	7.0	9.1	3.3
Central govt. debt maturities (% GDP)	1.2	4.4	5.7	3.0	6.1	19.3

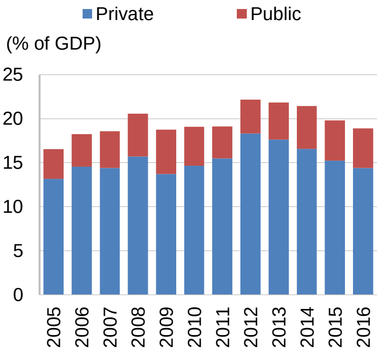
[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Uruguay concluded an exchange offer for all foreign-currency bond debt on 22 May 2003
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] Fiscal data for Uruguay capture the consolidated central government + social security bank (general government data including local governments is not available from official sources on a consolidated basis)
Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)
Source: Fitch

Real GDP Growth



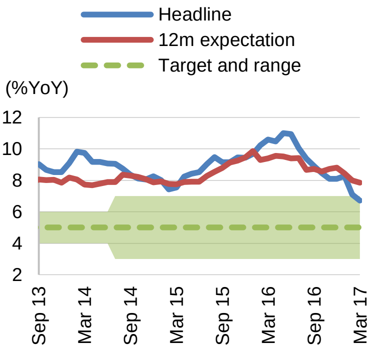
Source: BCU

Fixed Investment Trends



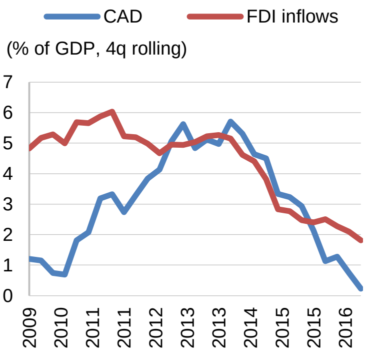
Source: BCU

Inflation



Source: BCU

Current Account and FDI



Source: BCU

Key Credit Developments

Growth Subdued but Beating Prior Expectations

Uruguay's economy grew a modest 1.5% in 2016, up from a downward-revised 0.4% in 2015, but beat the official and Fitch's mid-year forecasts of around 0.5% due to a pick-up later in the year. Weak regional growth and an ebbing private investment cycle continued to weigh on the economy. Confidence and activity were hit in 1Q16 by peso depreciation and higher inflation, but recovered later in the year as these trends stabilised and reverted. On the supply side, the positive growth outturn depended largely on an outsized contribution from the telecom sector[1], but a more broad-based recovery trend took shape by the end of the year.

Fitch expects growth to rise to 2.1% in 2017. Brazil and Argentina's recovery to lacklustre but positive growth rates should provide some tailwinds for Uruguay's economy, already visible in the strong first-quarter performance of the key tourism sector. Income tax increases (0.6pp of GDP) in 2017 could restrain the pick-up in consumption, although consumer confidence has proven relatively resilient to the announcement and implementation of these measures so far.

In the medium term, growth stands to benefit from a large pulp mill project (USD4 billion), although its execution and timing are not yet certain amid ongoing negotiations on the tax and labour regimes and infrastructure needs for the project (USD1 billion). Beyond the primary sector, Fitch believes medium-term prospects will be subdued given the moderating investment trend of recent years. Global surveys point to labour rigidities and taxes as constraints to doing business[2], and energy costs are relatively high, making Uruguay's growth prospects dependent on its ability to leverage its relative human-capital and institutional strengths.

The administration's structural agenda consists of infrastructure improvements (including several PPP projects), financial inclusion, and trade agreements (although these could face headwinds from a global protectionist trend and bureaucratic hurdles within the Mercosur block). Efforts to improve education – a key priority of the administration – have been limited to higher budget allocations so far, rather than concrete structural reforms.

Lower Inflation Provides Some Policy Relief

Inflation fell to 6.7% in March, within the target range (5%+/−2pp) for the first time in seven years and down from decade highs above 10% a year earlier. Base effects and pass-through from peso appreciation and stronger currency expectations drove the disinflation trend, visible in the sharp drop in tradables inflation. Price pressures among non-tradables have eased as well, reflecting more subdued domestic demand and tight monetary policy (short- and long-term real interest rates remain high at around 5%).

Despite the disinflation trend, market surveys and implied breakeven inflation in the local debt market expect above-target inflation in the coming years, highlighting persisting structural challenges to improving inflation-targeting credibility in Uruguay's highly indexed economy.

Ongoing wage negotiations have mostly followed executive guidelines, which seek to base wage adjustments in the private sector (but not the public sector) on expected rather than past inflation. The guidelines include backward-looking correctives only to avoid real wage losses, but no longer to ensure gains. Slower inflation has facilitated acceptance of the guidelines by resistant unions, but the executive has opted to relax them modestly in the past year by lifting the nominal wage guidance in some cases and allowing more frequent correctives.

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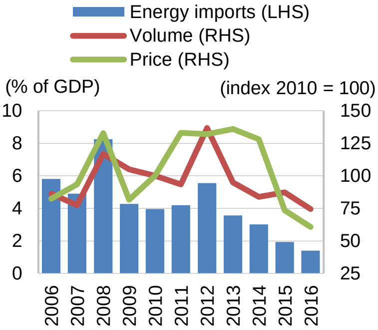
[1] The telecommunications sector represented 1.5% of nominal GDP in 2016; its growth in 2012-2016 averaged 11% in real terms and 2.6% in nominal terms, indicating a sizeable fall in its implicit price deflator.

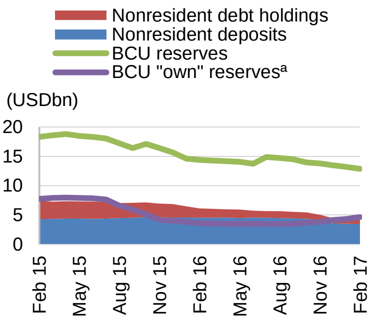
[2] In the 2017 WEF Global Competitiveness Report, Uruguay's percentile scores were 13 for labour market efficiency, 12 for "effect of taxation on incentives to work", and 45 for "effect of taxation on incentives to invest". The tax burden is around 30% of GDP according to general government figures from the Centro de Estudios Fiscales, which incorporate above-the-line revenue and expenditure data for local governments not included in official statistics.

Structurally Improved Energy Deficit



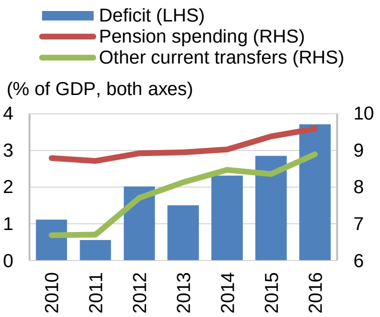
Source: BCU

External Balance Sheet



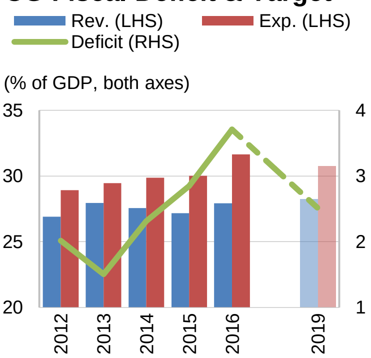
[a] Excluding public deposits and bank reserve requirements in USD
Source: BCU

Central Govt + BPS



Source: MEF

CG Fiscal Deficit & Target



Source: MEF; 2016 Rendicion de Cuentas

Resilient and Improving External Finances

Uruguay's external finances improved in 2016, highlighting several factors underpinning the external resilience of the small, dollarised, commodity-exporting economy.

Exports fell 8% mostly on price effects, while diversification in terms of markets mitigated volume impacts from weak regional demand. Imports fell by 14% on reduced import-intensive investment, lower oil prices, and structural improvement in the energy balance as a boom in generation capacity from renewables that has reduced fuel import needs. These trends narrowed the current account deficit to 0.2% in 2016, from an average of 4% in 2011-2015. Foreign direct investment inflows fell to under 2% of GDP, below half the 10-year average, due to the ebb in the commodity cycle and reduced Argentine real estate purchases.

Foreign reserves have continued to fall due to capital-account trends that do not represent a source of concern, in Fitch's view. Recent reserve declines reflect non-resident deposit outflows of around USD1 billion (and thus banks' USD reserve requirements) due to Argentina's tax amnesty. The central bank's (BCU) "own" reserves excluding these USD liabilities have risen in the past year, as it has bought FX to temper bouts of peso appreciation through spot purchases and settlement in USD of its sterilisation notes. The unwinding of non-resident positions in the local debt market (to 6% of the total in February 2017, from 25% at end-2015) has been orderly, accommodated by demand from the local investor base.

As the fall in FX reserves has corresponded to an even larger fall in non-resident deposits and debt holdings (liquid external liabilities by Fitch's definition), the international liquidity ratio has risen to a record-high 300% in 2017. Uruguay's resilience to Argentine deposit withdrawals presents a noteworthy contrast to the contagion-induced crisis of 2002. Since then, non-resident deposits have been channelled almost entirely to reserve requirements or other liquid assets, and so their fluctuations have negligible impacts on financial and external stability.

Difficult Fiscal Outlook Despite Consolidation Package

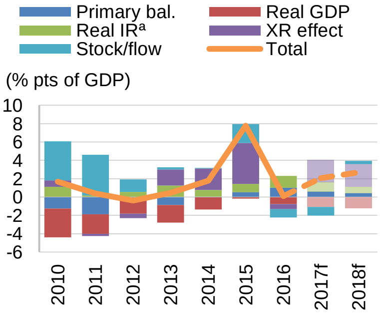
Fiscal imbalances grew in 2016 as a six-year trend of structural deterioration gained pace. The central government deficit (plus social security) rose to 3.7% of GDP from 2.8% in 2015. Spending rose by 1.6pp of GDP due to a rising interest bill, pension pressures, and a growing shortfall in the public health insurance scheme (FONASA) after expansion of its coverage to a final cohort of dependents. Revenues rose 0.8pp despite weak growth due to tariff hikes for public utilities that buoyed their transfers to the treasury, and changes in the corporate tax calculation.

The global public-sector deficit targeted in the budget saw a smaller rise to 3.9%, from 3.6% in 2015, as lower BCU interest costs partly offset the slippage at the central government level.

The authorities enacted a fiscal adjustment package in late 2016 (0.9pp of GDP, mostly tax hikes) to put the public-sector deficit back on a downward path toward a target of 2.5% of GDP by 2019. Despite this effort and some relief from economic recovery, challenges to the consolidation goal are still high. Spending is set to rise in 2017 due to pension pressures triggered by indexation to high nominal wage growth last year (12%), and the full-year effect of FONASA coverage expansion in 2016. Factions in the ruling coalition are pushing for additional budget hikes, and the authorities have kept pledges for spending increases on education and "continuum of care" healthcare services. A real wage hike for teachers is slated for 2018.

Fitch projects a central government deficit of 3.3% of GDP in 2017 and 2018, which would leave the government short of achieving its 2019 goal. How the authorities will balance their spending promises with consolidation goals is not yet clear, and will be the main challenge in this year's upcoming budgeting exercise ("rendición de cuentas"). Scope to raise taxes on households is narrower after last year's hikes, and proposals to cut business tax incentives lack broad support given concerns over preserving a favourable investment climate. A highly rigid budget with an already very low share of capital spending further limits scope for consolidation.

Govt Debt Dynamics



[a] Inc. capitalised interest on debt in inflation-indexed units (UIs)
Source: BCU

Public Debt Burden Set to Rise

Uruguay's general government debt was stable in 2016 at 57.3% of GDP[3], as exchange rate appreciation and some asset drawdown offset the impacts of borrowing to finance the relatively high deficit. Fitch projects that debt will reach 62.1% of GDP by 2018[4]. The share of debt denominated in foreign currency is still relatively high at around half, rendering the debt trajectory highly sensitive to the path of the exchange rate.

Relatively high reliance on external financing sources exposes the sovereign to risk from uncertainties in global borrowing conditions, although market access remains favourable and a pre-financing policy and contingent credit lines (USD2.4 billion) serve as buffers for potential financing shocks. The government's financing strategy aims to enhance local-currency funding options in terms of depth, duration and liquidity, which could include integration with foreign markets to boost non-resident participation.

[3] Fitch's general government figures include 48.8% of GDP in central government bonds and loans, 8.5% in illiquid bonds issued to the central bank since 2010 for recapitalisation purposes, and 0.5% in debt of local governments.

[4] This assumes cancellation in 2017 of recapitalisation bonds held by the BCU (Fitch estimates around 1pp of GDP), as approved last year amid the rise in BCU equity above its legal minimum.

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Public Debt Dynamics

According to Fitch's baseline projections, general government debt will rise to 63% of GDP by 2019. This assumes the government falls short of its goal for a 0.6%-of-GDP central government primary surplus by 2019, but achieves some further progress thereafter. It also assumes above-trend growth during construction of the pulp mill in 2019-2021. The main risks to the debt trajectory are greater underperformance of fiscal targets, or a large exchange rate depreciation given a relatively high share of debt denominated in foreign currency.

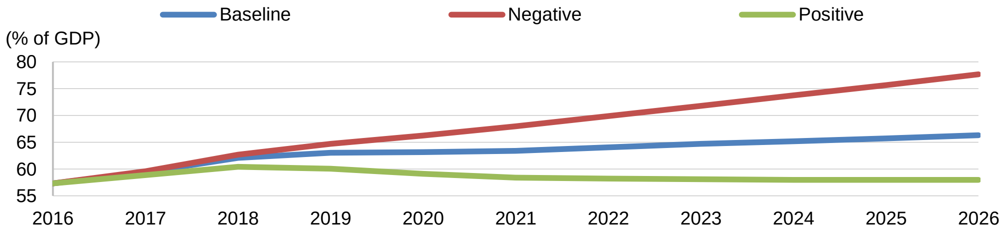
Debt Dynamics: Fitch's Baseline Assumptions

	2016	2017	2018	2019	2020	2021	2026
Gross general government debt (% GDP)	57.3	59.4	62.1	63.0	63.2	63.4	66.3
Primary balance (% of GDP)	-1.0	-0.6	-0.4	-0.2	-0.1	0.0	0.3
Real GDP growth (%)	1.5	2.1	2.4	3.2	3.5	3.5	2.8
Avg. nominal effective interest rate (%)[a]	5.1	5.0	5.0	5.0	5.0	5.0	5.1
UYU/USD (annual avg.)	30.2	30.6	33.5	35.9	37.2	38.1	43.2
GDP deflator (%)	7.0	7.4	7.6	7.6	6.9	6.3	6.0

[a] Does not capture "capitalisation interest" on bonds in inflation-indexed units (UIs), which are captured instead as stock/flow adjustments. The high share of local debt indexed to the CPI renders the debt/GDP ratio less sensitive to the GDP deflator

Sensitivity Analysis

Gross general government debt



Source: Fitch debt dynamics model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Negative	A slower recovery in growth to a lower pace of 2% per year; failure to reduce the primary fiscal deficit past 0.6% of GDP
Positive	Achievement of the goal of a 0.6%-of-GDP central government primary surplus by 2019; a structural moderation in inflation that allows a 1pp reduction in real interest rates and a slower pace of peso depreciation

Forecast Summary

	2012	2013	2014	2015	2016	2017f	2018f
Macroeconomic indicators and policy							
Real GDP growth (%)	3.5	4.6	3.2	0.4	1.5	2.1	2.4
Unemployment (%)	6.5	6.6	6.6	7.9	7.9	7.9	7.5
Consumer prices (annual average % change)	8.1	8.6	8.9	8.7	9.6	8.1	8.0
Short-term interest rate (bank policy annual avg) (%)	9.4	11.4	14.4	13.5	13.5	13.2	12.2
General government balance (% of GDP)	-2.0	-1.5	-2.3	-2.8	-3.7	-3.3	-3.3
General government debt (% of GDP)	47.2	47.6	49.4	57.2	57.3	59.4	62.1
UYU per USD (annual average)	20.31	20.48	23.25	27.33	30.16	30.63	33.50
Real effective exchange rate (2000 = 100)	115.6	123.3	121.2	125.6	130.9	129.6	129.6
Real private sector credit growth (%)	5.3	16.0	7.4	11.8	-5.1	4.3	4.1
External finance							
Current account balance (% of GDP)	-5.1	-5.0	-4.5	-2.1	-0.2	-0.7	-1.0
Current account balance plus net FDI (% of GDP)	-0.2	0.2	-0.7	0.3	1.6	1.2	1.3
Net external debt (% of GDP)	-14.6	-15.2	-15.8	-17.0	-15.4	-15.5	-16.7
Net external debt (% of CXR)	-53.4	-61.8	-64.0	-71.6	-67.9	-69.5	-72.2
Official international reserves including gold (USDbn)	13.6	16.3	17.6	15.6	13.5	12.7	13.2
Official international reserves (months of CXP cover)	9.8	11.5	12.6	13.6	13.5	11.7	11.5
External interest service (% of CXR)	4.2	5.3	5.2	6.5	6.3	6.0	6.0
Gross external financing requirement (% int. reserves)	35.2	32.5	27.0	14.1	8.3	12.9	10.4
Real GDP growth (%)							
US	2.2	1.7	2.4	2.6	1.6	2.2	2.6
China	7.9	7.8	7.3	6.9	6.7	6.3	5.7
Eurozone	-0.9	-0.3	1.1	2.1	1.6	1.4	1.4
World	2.5	2.4	2.5	2.6	2.5	2.9	2.9
Oil (USD/barrel)	112.0	108.8	98.9	53.0	45.1	52.5	55.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2013	2014	2015	2016	2017f	2018f
General government						
Revenue	**28.0**	**27.6**	**27.2**	**27.9**	**28.7**	**28.8**
Expenditure	**29.5**	**29.9**	**30.0**	**31.6**	**32.0**	**32.1**
O/w interest payments	2.4	2.3	2.3	2.7	2.7	2.9
Primary balance	0.9	0.0	-0.5	-1.0	-0.6	-0.4
Overall balance	**-1.5**	**-2.3**	**-2.8**	**-3.7**	**-3.3**	**-3.3**
General government debt	**47.6**	**49.4**	**57.2**	**57.3**	**59.4**	**62.1**
% of general government revenue	170.4	179.3	210.7	205.3	207.2	215.6
Central government deposits	4.6	5.8	7.1	6.4	5.2	4.0
Net general government debt	42.8	43.3	49.5	51.1	54.0	57.9
Central government						
Revenue	**20.7**	**20.0**	**19.7**	**20.4**	**21.2**	**21.3**
O/w grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**22.2**	**22.3**	**22.5**	**24.1**	**24.5**	**24.6**
O/w current expenditure and transfers	18.4	18.7	19.0	20.1	20.4	20.4
- Interest	2.4	2.3	2.3	2.7	2.7	2.9
O/w capital expenditure	1.4	1.4	1.2	1.4	1.4	1.3
Current balance	-0.1	-1.0	-1.6	-2.3	-2.0	-2.0
Primary balance	0.9	-0.1	-0.5	-1.0	-0.6	-0.4
Overall balance	**-1.5**	**-2.3**	**-2.8**	**-3.7**	**-3.3**	**-3.3**
Central government debt	47.2	48.9	56.7	56.9	59.0	61.7
% of central government revenues	228.4	244.8	287.8	278.5	278.7	289.7
Central government debt (UYUbn)	**556.0**	**650.6**	**825.3**	**899.9**	**1,022.5**	**1,178.7**
By residency of holder						
Domestic	251.1	288.0	362.7	455.4	507.9	578.8
Foreign	304.9	362.7	462.6	444.6	514.6	599.9
By currency denomination						
Local currency	346.2	388.4	439.0	479.2	505.9	575.2
Foreign currency	209.8	262.3	386.2	420.7	516.6	603.6
In USD equivalent (eop exchange rate)	9.8	10.8	12.9	14.4	16.1	17.2
Average maturity (years)	10.8	14.4	14.4	13.8	-	-
Memo						
Nominal GDP (UYUbn)	1,178.3	1,330.5	1,455.8	1,581.1	1,733.3	1,909.5

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2011	2012	2013	2014	2015	2016
Gross external debt	**19.9**	**24.4**	**26.8**	**28.3**	**28.8**	**26.2**
% of GDP	41.6	47.6	46.6	49.5	54.2	50.0
% of CXR	146.7	173.9	189.0	200.3	227.7	220.8
By maturity						
Medium- and long-term	13.4	19.0	21.4	22.0	22.5	21.1
Short -term	6.5	5.4	5.4	6.3	6.4	5.1
% of total debt	32.7	22.1	20.2	22.4	22.1	19.5
By debtor						
Sovereign	**12.3**	**14.3**	**16.0**	**16.6**	**16.7**	**15.9**
Monetary authorities	0.8	1.2	1.6	1.5	1.0	0.7
General government	11.5	13.1	14.4	15.1	15.6	15.2
O/w central government	11.3	12.9	14.3	14.9	15.5	15.2
Banks	**4.0**	**4.7**	**5.1**	**5.5**	**6.0**	**4.6**
Other sectors	**3.7**	**5.4**	**5.7**	**6.2**	**6.1**	**5.7**
Gross external assets (non-equity)	**29.1**	**31.9**	**35.6**	**37.4**	**37.9**	**34.3**
International reserves, incl. gold	10.3	13.6	16.3	17.6	15.6	13.5
Other sovereign assets nes	0.5	0.7	0.8	0.8	0.9	0.9
Deposit money banks' foreign assets	8.9	8.4	8.2	8.7	11.0	10.7
Other sector foreign assets	9.5	9.1	10.3	10.3	10.5	9.3
Net external debt	**-9.2**	**-7.5**	**-8.8**	**-9.0**	**-9.1**	**-8.1**
% of GDP	-19.2	-14.6	-15.2	-15.8	-17.0	-15.4
Net sovereign external debt	1.5	0.0	-1.0	-1.8	0.2	1.6
Net bank external debt	-4.9	-3.7	-3.1	-3.2	-4.9	-6.1
Net other external debt	-5.8	-3.8	-4.6	-4.1	-4.3	-3.6
Net international investment position	**9.2**	**8.6**	**9.6**	**10.0**	**9.9**	**8.1**
% of GDP	19.2	16.7	16.6	17.5	18.6	15.4
Sovereign net foreign assets	**-1.5**	**0.0**	**1.0**	**1.8**	**-0.2**	**-1.6**
% of GDP	-3.1	0.1	1.8	3.1	-0.4	-3.0
Debt service (principal & interest)	**2.2**	**1.6**	**2.3**	**2.5**	**2.2**	**1.9**
Debt service (% of CXR)	15.9	11.4	16.2	18.0	17.2	16.3
Interest (% of CXR)	4.5	4.2	5.3	5.2	6.5	6.3
Liquidity ratio (%)	171.3	225.8	228.3	229.3	236.7	259.2
Net sovereign FX debt (% of GDP)	-0.7	-7.4	-10.8	-11.3	-4.5	2.2
Memo						
Nominal GDP	48.0	51.3	57.5	57.2	53.3	52.4
Inter-company loans	1.2	1.3	1.6	1.4	1.4	1.1

Source: Central Bank, IMF, World Bank and Fitch estimates and forecasts

External Debt Service Schedule on Medium- and Long-Term Debt at 31 December 2016

(USDbn)	2016	2017	2018	2019	2020	2021	2022+
Sovereign: Total debt service	**1.1**	**0.9**	**1.3**	**0.3**	**0.5**	**1.2**	**32.3**
Amortisation	0.2	0.6	0.7	0.2	0.3	0.6	16.9
Official bilateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	0.1	0.2	0.1	0.1	0.1	0.1	1.6
O/w IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds placed in foreign markets	0.1	0.3	0.6	0.1	0.2	0.5	15.4
Interest	0.9	0.9	0.9	0.9	0.9	0.8	10.4
Non-sovereign public sector	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

Source: Ministry of Finance, Fitch

Balance of Payments

(USDbn)	2013	2014	2015	2016	2017f	2018f
Current account balance	**-2.9**	**-2.6**	**-1.1**	**-0.1**	**-0.4**	**-0.5**
% of GDP	-5.0	-4.5	-2.1	-0.2	-0.7	-1.0
% of CXR	-20.3	-18.2	-9.0	-1.0	-3.1	-4.2
Trade balance	**-1.4**	**-0.9**	**-0.2**	**0.3**	**0.0**	**-0.2**
Exports, fob	10.3	10.3	9.1	8.4	8.9	9.3
Imports, fob	11.6	11.3	9.3	8.0	8.9	9.5
Services, net	**0.2**	**0.1**	**0.5**	**0.7**	**0.9**	**0.9**
Services, credit	3.5	3.3	3.1	3.0	3.3	3.4
Services, debit	3.2	3.2	2.6	2.3	2.4	2.5
Income, net	**-1.9**	**-1.9**	**-1.5**	**-1.3**	**-1.3**	**-1.4**
Income, credit	0.3	0.3	0.3	0.3	0.3	0.3
Income, debit	2.2	2.2	1.8	1.6	1.6	1.7
O/w: Interest payments	0.8	0.7	0.8	0.8	0.8	0.8
Current transfers, net	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Capital and financial accounts						
Non-debt-creating inflows (net)	2.7	2.7	1.2	1.2	1.1	1.3
O/w equity FDI	2.7	2.7	1.2	1.2	1.1	1.3
O/w portfolio equity	0.0	0.0	0.0	0.0	0.0	0.0
O/w other flows	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	-2.9	-1.4	1.8	2.2	0.8	-0.5
Gross external financing requirement	4.4	4.4	2.5	1.3	1.7	1.3
Stock of international reserves, incl. gold	16.3	17.6	15.6	13.5	12.7	13.2

Source: IMF and Fitch estimates and forecasts

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.