MOODY'S
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ISSUER IN-DEPTH
26 July 2018

RATINGS

Uruguay

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

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Contacts

Renzo Merino +1.212.553.0330
AVP-Analyst
renzo.merino@moodys.com

Calyn Gelinas +1.212.553.5195
Associate Analyst
calyn.gelinas@moodys.com

Mauro Leos +1.212.553.1947
Associate Managing Director
mauro.leos@moodys.com

Yves Lemay +44.20.7772.5512
MD-Sovereign Risk
yves.lemay@moodys.com

Government of Uruguay – Baa2 Stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of Uruguay (Baa2 stable) reflects 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, a moderate central government debt burden and very strong liability management practices also support creditworthiness. We expect that government measures to reduce the fiscal deficit will contribute to the stabilization of the government's debt metrics.

Credit challenges include structural rigidities in the government's expenditure composition, and a relatively high, albeit decreased, share of foreign-currency government debt and financial system dollarization. High inflation and a deterioration of fiscal balances have weighed on policy credibility.

The stable outlook indicates balanced credit risks. Upward rating pressure would result from a significant strengthening of the government's balance sheet through a reduction of the sovereign's debt and interest burden, and if there were a reduction in vulnerabilities through a significant decrease of government debt dollarization. Addressing the structural rigidities in the economy to achieve higher potential growth would also be credit positive.

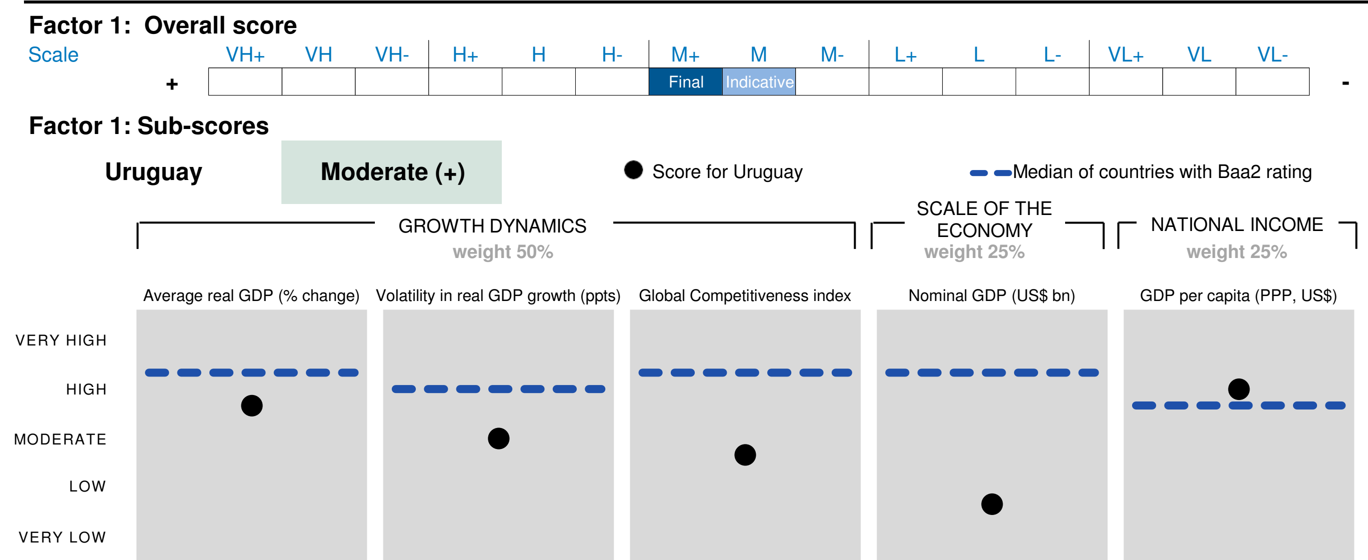
Downward rating pressure would result if consolidation measures fall short of contributing to the authorities fiscal targets, leading to an increase in debt ratios, and if there were a continued deterioration in the structural fiscal balances and a weakening of the government balance sheet. A sustained and material erosion of external and financial buffers would also be negative for the ratings.

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 our Sovereign Bond Rating methodology.

CREDIT PROFILE

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.

Note: In case the Indicative and Final scores are the same, only the Final score will appear in the table above.

We set Uruguay's economic strength score at "Moderate (+)," above the indicative "Moderate," because we think the implied GDP growth volatility, which covers the 2008-17 period, overstates the potential volatility that the economy will display over the coming years. Uruguay's economic strength assessment takes into consideration moderate growth dynamics with respect to all rated sovereigns, a high level of income with GDP per capita of $22,371 in 2017 on PPP terms, and a relatively small economy on a global basis ($59.2 billion in 2017). Other sovereigns with a similar score for economic strength include Oman (Baa3 negative), Romania (Baa3 stable) and Slovenia (Baa1 stable).

Exhibit 2

Peer comparison table factor 1: Economic strength

	Uruguay Baa2/STA	M+ Median	Oman Baa3/NEG	Romania Baa3/STA	South Africa Baa3/STA	Slovenia Baa1/STA	Panama Baa2/POS	Bulgaria Baa2/STA
Final score	M+		M+	M+	M+	M+	H-	M
Indicative score	M		H-	H-	H-	M+	H-	M+
Nominal GDP (US$ bn)	59.2	91.6	73.1	211.9	348.9	48.8	61.8	56.8
GDP per capita (PPP, US$)	22,371.3	26,076.3	45,156.9	24,508.4	13,544.6	34,407.1	25,351.3	21,686.6
Average real GDP (% change)	2.7	3.2	2.8	4.2	1.9	2.9	5.6	3.0
Volatility in real GDP growth (ppts)	2.3	2.9	3.3	4.3	1.5	3.7	2.8	2.6
Global Competitiveness Index	4.2	4.3	4.3	4.3	4.3	4.5	4.4	4.5

Source: Moody's Investors Service

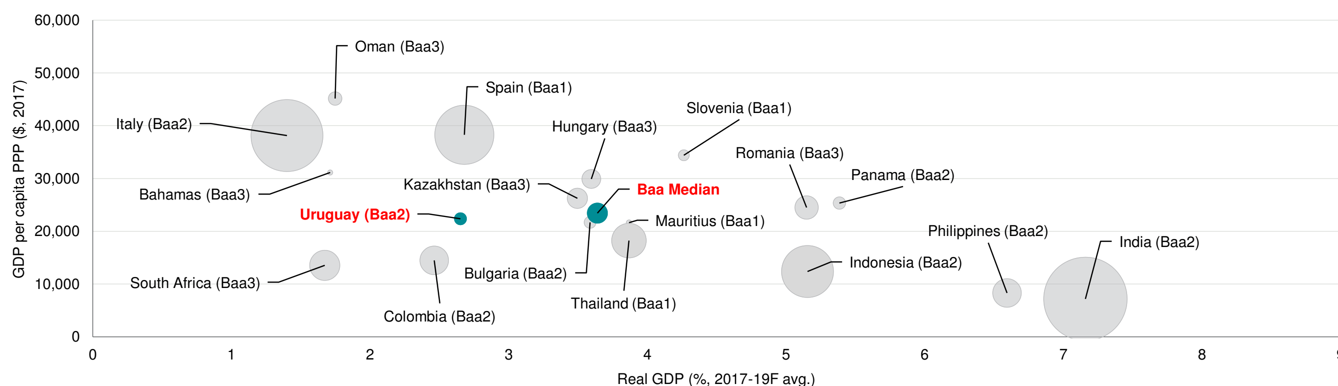
Growth performance to lag most peers; wealth level near median for Baa-rated sovereigns

Although Uruguay's economy is recovering from the 2015-16 slowdown, we expect that its growth rate will underperform most Baa-rated peers in 2017-19 (see Exhibit 3). In terms of its size, Uruguay's economy is smaller than the median for Baa peers, ranking sixth out of 19 Baa-rated sovereigns. The size of its economy is similar to that of Panama (Baa2 positive), with a nominal GDP of $59.2 billion in 2017. Uruguay's wealth level is slightly shy of the Baa median of $23,440 in PPP terms.

Exhibit 3

Uruguay's economic strength is supported by relatively high income levels

Size of bubble = Nominal GDP (US$ billion, 2017)



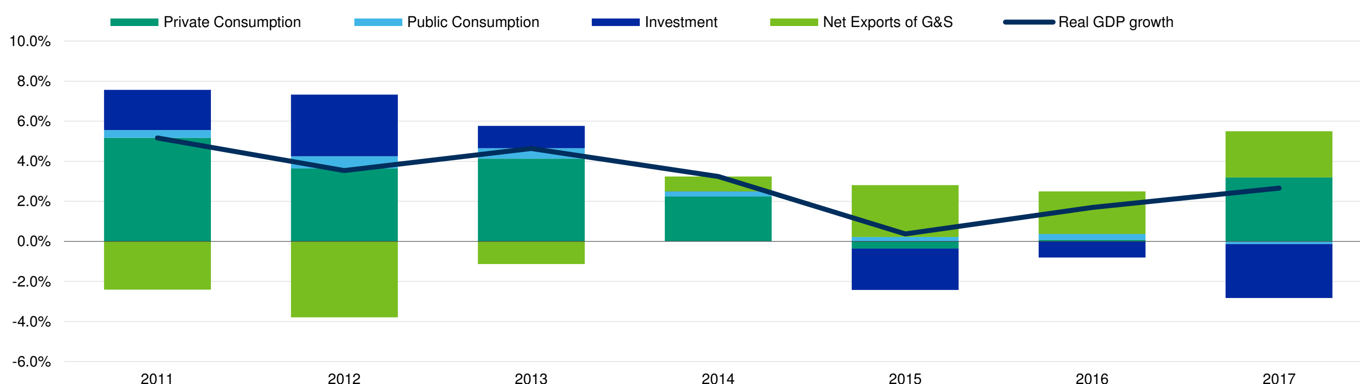
Source: Moody's Investors Service

After slowing down to 0.4% in 2015, in the context of the commodity price shock and recessions in neighboring Argentina (B2 stable) and Brazil (Ba2 stable), Uruguay's economic recovery continued in 2017 with real GDP expanding 2.7% (see Exhibit 4). Contributing to this trend last year was stronger private consumption as lower inflation and a stable exchange rate led to an increase in household's purchasing power in real terms. Record tourism flows and lower imports of goods explained net exports' positive contribution to growth. Meanwhile, investment posted its third consecutive year of negative contributions.

Exhibit 4

Economic slowdown driven by a fall in domestic demand

Percentage point contributions to real GDP growth



Sources: Central Bank of Uruguay, Moody's Investors Service

For 2018-20, we expect growth to remain in the 2.0%-3.0% range – below the Baa median. Growth in 2018 will be supported by the resumption of Administracion Nacional de Combustibles' (ANCAP, Ba2 stable, b3) refinery but negatively affected by lower exports because of the drought in the first half of the year and recent developments in Argentina, which will likely impact tourism flows and FDI as well. The depreciation of the peso by 9% in the second quarter, and the subsequent impact on inflation, will likely weigh on private

consumption. These negative trends will likely lead to a rebound in headline growth numbers in 2019, but we expect GDP expansion to remain close to Uruguay's 3% potential.

Moreover, we see potential upside risks to our forecasts stemming from the construction of a third large pulp mill plant in the country, which could have a positive impact on overall economic activity. The project, which will be led by Finland’s UPM (Baa2 stable), is valued at $3.3 billion or 5.4% of GDP (this figure includes $1 billion related to transport infrastructure that will benefit the broader economy). The agreement has a formal deadline for March 2020 bt the be government expects to finalize it in 2019, such that construction would start the next year. Given past experience with large-scale projects, the project could add 1.5 percentage points to growth once it begins construction.

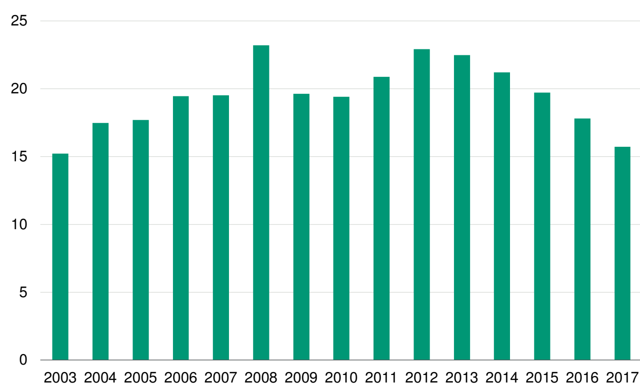
Despite economic recovery, low investment and employment to weigh on medium-term prospects

According to the International Monetary Fund (IMF), growth in Uruguay over the past decade has been largely driven by total factor productivity (TFP), which can result from sector-specific productivity improvements or favorable terms-of-trade shocks. A likely factor explaining the improvement in productivity in some sectors over the past two decades is related to the inflow of FDI, particularly to the forestry and agricultural industries, which brought more advanced technologies to the country. This, in turn, contributed to a disparity in productivity growth not only across sectors but also between large, FDI-related enterprises and small- and medium-sized companies. Additionally, the increase in the price of agricultural exports over the past decade also helps explain the boost in TFP through 2014 as Uruguay's terms-of-trade improved. Thereafter, the decrease in the price of these exports during the commodity price shock episode (2015-16) would have also weighed on TFP growth.

The IMF also highlights that this strong TFP growth can result from an underinvestment in capital. Although it is difficult to isolate the effect of the construction of the country's two pulp mill plants over the past decade and a half, given their large magnitudes relative to the size of Uruguay's economy, their construction phases pushed the investment-to-GDP ratio to peaks of about 23% in 2008 and 2012-13 (see Exhibit 5). Since 2013 this ratio has decreased, driven by volatile public gross fixed capital formation (GFCF) – affected by the government's fiscal consolidation efforts – and contracting private GFCF (see Exhibit 6). This points to some degree of dependence in FDI to boost growth and build up the capital stock in the country, which makes Uruguay more susceptible to shifts in external demand and global economic conditions.

Exhibit 5

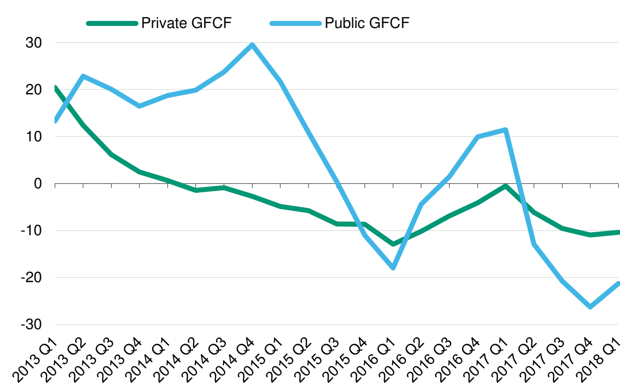
Investment has declined in recent years...
% of GDP



Sources: Central Bank of Uruguay via Haver Analytics, Moody's Investors Service

Exhibit 6

...driven by lower private gross fixed capital formation
% change year-on-year, 4-quarter rolling average



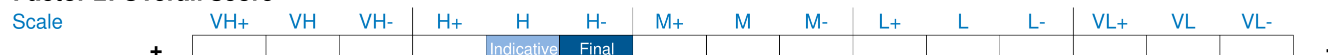
Sources: Central Bank of Uruguay via Haver Analytics, Moody's Investors Service

The investment cycle has also coincided with weaker labor market dynamics. Since the second quarter of 2014 – the highest point in terms of labor participation – 46,800 jobs have been lost. This, in turn, pushed the unemployment rate to 8% from about 6% in 2012-13. According to the IMF, Uruguay's labor market may have a sub-optimal allocation of workers, with workers moving from sectors with high labor productivity (i.e. capital-intensive sectors such as manufacturing) to others with lower productivity. The new wage-setting guidelines promoted by the government favor higher wage growth in more productive sectors. However, this poses challenges for companies that are less productive within each sector by increasing their labor input costs based on sectoral averages.

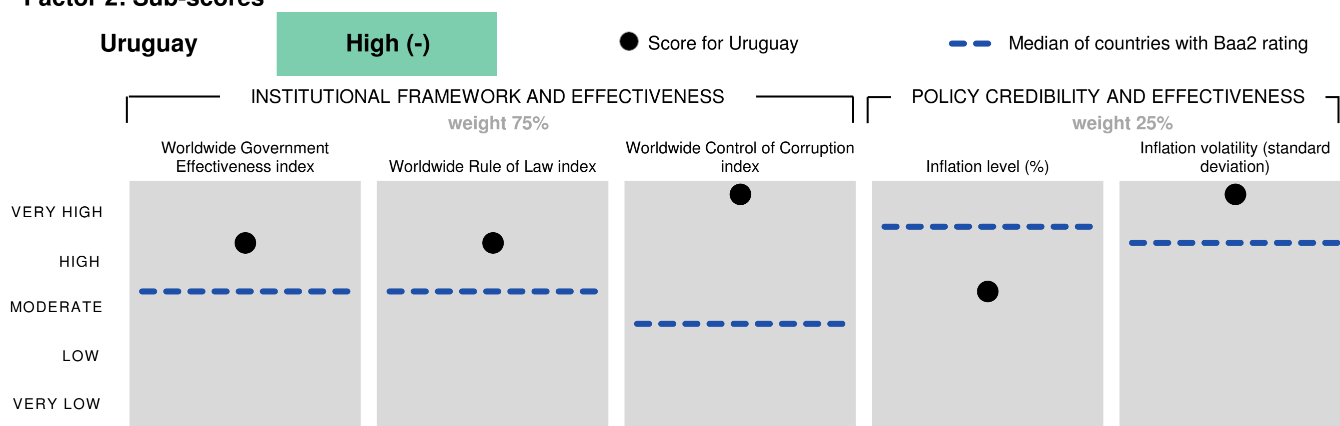
In early 2018, the authorities announced a set of measures to provide greater incentives for both domestic and foreign investment, with an emphasis on job-creation and greater incentives for small- and medium-sized enterprises. Anecdotal evidence points to a positive effect from these measures as the value of projects that have been presented for government approval has increased. Moreover, investment, and related hiring decisions will continue to be determined by businesses' expectations for profit, which are in turn affected by the volatility of the price of their product – in particular exports – and the rigidity of input costs. Over the medium to long term, these issues would likely constrain Uruguay's growth potential and its economic strength.

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.
Note: In case the Indicative and Final scores are the same, only the Final score will appear in the table above.

Uruguay's institutional strength score is set at "High (-)," below the indicative "High." This assessment balances Uruguay's strong institutional framework, which reinforces policy predictability, with still-evolving capabilities to effectively and credibly implement these policies. Authorities have faced challenges to meet policy goals, as exemplified by stubbornly high inflation rates that remained above the official target range and a mixed track-record of fiscal management. Uruguay shares this score for institutional strength with Hungary (Baa3 stable) and Thailand (Baa1 stable).

Exhibit 8

Peer comparison table factor 2: Institutional strength

	Uruguay Baa2/STA	H- Median	Hungary Baa3/STA	Thailand Baa1/STA	Malta A3/POS	Philippines Baa2/STA	Bulgaria Baa2/STA	Bahamas Baa3/NEG
Final score	H-		H-	H-	H	M+	M+	M+
Indicative score	H		H+	H-	VH	M	M+	VH-
Gov. Effectiveness, percentile [1]	66.1	60.9	62.4	59.3	70.6	42.1	57.8	67.6
Rule of Law, percentile [1]	67.6	62.0	65.4	50.3	78.9	27.8	48.1	56.3
Control of Corruption, percentile [1]	84.2	60.9	57.1	33.0	72.1	27.0	48.1	80.4
Average inflation (%)	7.6	2.2	1.8	1.5	1.5	2.9	0.8	1.7
Volatility in inflation (ppts)	1.1	2.3	2.4	2.1	1.1	2.4	3.9	1.3

[1] Moody's calculations. Percentiles based on our rated universe.

Source: Moody's Investors Service

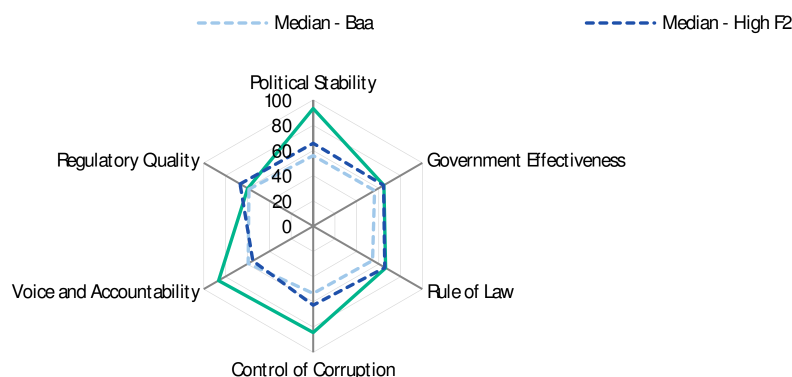
Strong institutional framework relative to rating peers

According to the Worldwide Governance Indicators (WGI), Uruguay scores higher than most Baa-rated peers in terms of government effectiveness, rule of law and control of corruption (see Exhibit 9). As per the 2016 WGI scores, Uruguay ranks in the 64th percentile for government effectiveness, compared to the Baa median in the 56th percentile; for rule of law Uruguay is in the 66th percentile while the Baa median is in the 54th; and for control of corruption Uruguay is in the 84th percentile, much higher than the 53rd for the Baa median. These institutional features provide Uruguay with 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.

Exhibit 9

Government effectiveness and rule of law indicators in line with 'Baa'-rated peers

Percentile rank among Moody's rated sovereigns, 2016



Sources: Worldwide Governance Indicators, Moody's Investors Service

Monetary policy credibility hampered by persistently high inflation

For most countries, we gauge the credibility and effectiveness of macroeconomic policymaking by looking at the evolution of inflation – both in terms of levels and volatility – because monetary policy can address inflationary pressures, while loose fiscal policy could push prices up. Uruguay has an inflation targeting regime, which aims to maintain inflation within a band. The band is set by the Macroeconomic Coordination Committee (CCM) composed of the Central Bank of Uruguay (BCU) and the Ministry of Finance, and is currently 3.0%-7.0%. While Uruguay's inflation metrics point to very high policy credibility and effectiveness, our analysis also considers the track record of monetary policy relative to the inflation target.

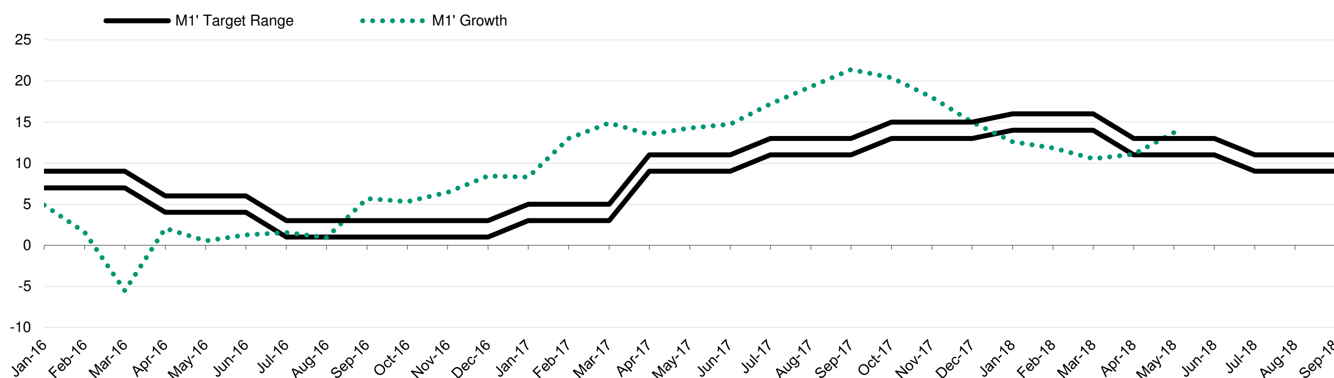
Inflation ended 2017 at 6.6%, within the target band for the first time since 2010. However, given an increase in food prices because of the drought, and higher tradable goods costs following the peso depreciation, inflation will likely end 2018 around 7.5%-8.0%. At the end of June, inflation reached 8.1%. Barring any new shocks, inflation should begin to converge with the target range in 2019.

There are several factors affecting inflation dynamics. One of them is the evolution of the exchange rate, given the high pass-through the exchange rate has because of Uruguay's high levels of economic dollarization. The relative stability seen in the exchange rate between the third quarter of 2016 and the first quarter of 2018 – as the currency experienced appreciation pressures that led the BCU to bolster its reserves through the purchase of US dollars, which were subsequently sterilized to avoid adding inflationary pressures – contributed to a deceleration in tradable goods prices. However, the depreciation seen in May and June of 2018 will likely push these prices higher during the course of the year.

Monetary policy is another factor. Even though monetary policy had a tightening bias during the course of 2016, actual demand for currency was higher because of the recovery in economic activity and a more stable exchange rate, which increased demand for local currency – as shown by the M1' growth, the monetary aggregate that authorities target for monetary policy (see Exhibit 10). The monetary policy stance then became more expansionary in the second quarter of 2017, even as the M1' growth exceeded the target.

As the economy decelerated in the second half of 2017, demand for local currency moderated. Moreover, authorities have began tightening monetary policy again following the recent price shocks.

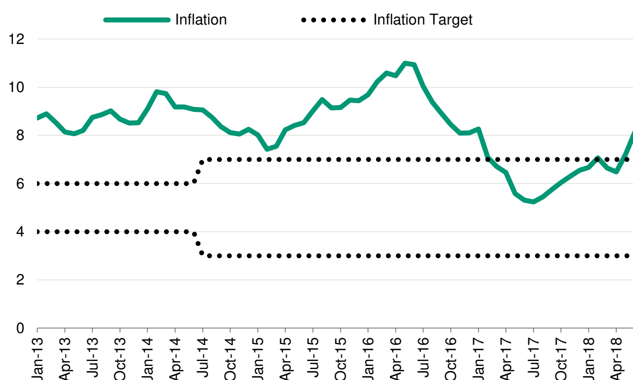
Exhibit 10
Monetary aggregate (M1`): actual vs. target
%, annual growth



M1' equals the sum of currency in circulation, sight deposits in pesos and savings funds deposits in pesos.
Sources: Central Bank of Uruguay, Moody's Investors Service

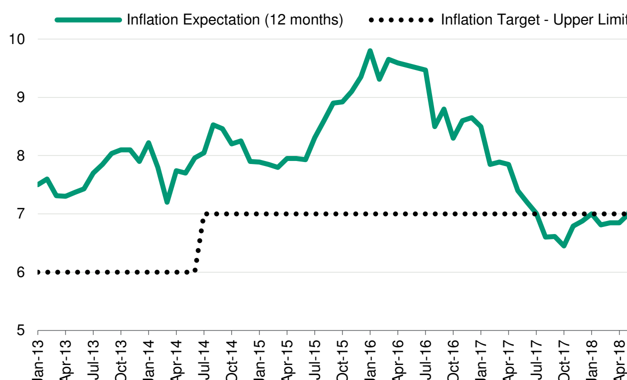
Although Uruguay's monetary authorities have a very limited track record of effectively containing inflation within the target range – with inflation ending 2017 within the target range for the first time since 2010 (see Exhibit 11) – expectations had started to converge toward the upper limit of the range (see Exhibit 12). This in part reflects more moderate increases in wages in recent years, which in turn helped contain the increase in non-tradable prices. Anchoring inflation expectations closer to the target range is especially important in the context of the ongoing round of salary negotiations for 2019-21. Authorities seek to implement once again guidelines for nominal increases in wages, rather than anchoring them to past inflation rates, to better reflect productivity and sector-specific dynamics. De-linking wages from inflation, i.e. removing an element of inflation inertia in Uruguay, could lead to a structural lower level of inflation in future years. Additionally, because pension spending – which represents about 30% of total spending for the central government – is linked to the average nominal wage growth, future wage growth will continue to be a key determinant of expenditure dynamics and fiscal consolidation.

Exhibit 11
Inflation converged with target in 2017...
%



Sources: Central Bank of Uruguay via Haver Analytics, Moody's Investors Service

Exhibit 12
... bringing down inflation expectations closer to target upper bound
%



Sources: Central Bank of Uruguay via Haver Analytics, Moody's Investors Service

A mixed track record 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. In this regard, the fiscal restraint exhibited through 2009 abated in subsequent years and gave 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.

As a result of strong (above-potential) economic growth, government revenue frequently exceeded the authorities' original projections during 2005-11, allowing the authorities to accommodate increased spending without deviating from fiscal targets. Nevertheless, structural fiscal balances have deteriorated on a sustained basis since 2009, with the structural deficit peaking in 2016. Headline deficits also widened and halted the downward trend in debt metrics, despite a lengthy period of above-potential growth.

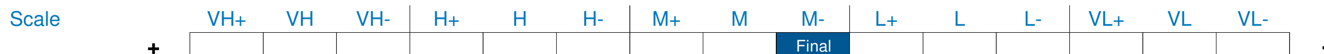
Uruguay's fiscal framework mandates that every new presidential administration that comes into office send to congress a proposed five-year budget within the first six months of its term. The budget and fiscal performance is reviewed on an annual basis in a process known as Rendicion de Cuentas, or Budget Review. 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 multiyear rolling basis, rather it guides performance only during the administration's term in office; (2) the framework lacks clear fiscal rules, other than net debt limits that have been modified over time, with strong sanction mechanisms; and (3) despite yearly ex-post reviews, there is little guidance for saving excess revenue from above-potential economic growth, which fosters procyclical behavior.

It is important to note that the fiscal framework targets the deficit at the consolidated public sector level, which, in addition to the central government and the social security (BPS), includes state-owned enterprises (SOEs), the Banco de Seguros del Estado (BSE), local governments, and the BCU. While the central government is the largest contributor to the deficit at this higher aggregate level, the BCU's deficit also adds to this imbalance. In the last Budget Review presented in June 2018, authorities pushed back the deficit target of 2.5% of GDP to 2020 from 2019 previously. This will be in good part because of the BCU's relatively high interest bill over the coming years. Over the last two years, to stem appreciation pressures caused by strong capital inflows and the current account surplus, the BCU increased its purchases of foreign currency, a decision that led to a surge in international reserves ($2.8 billion net purchases since the third quarter of 2016). To sterilize these purchases, the BCU issues notes that pay interest. As the pace of foreign currency purchases accelerated in the second half of 2017 and first half of 2018, the BCU's interest payments rose higher than expected contributing to a larger quasi-fiscal deficit. We note that this accumulation of international reserves and the subsequent depreciation of the currency will also contribute to a capital gain for the BCU, which will be reflected in its balance sheet but is not recorded in the fiscal accounts as revenue or an inflow.

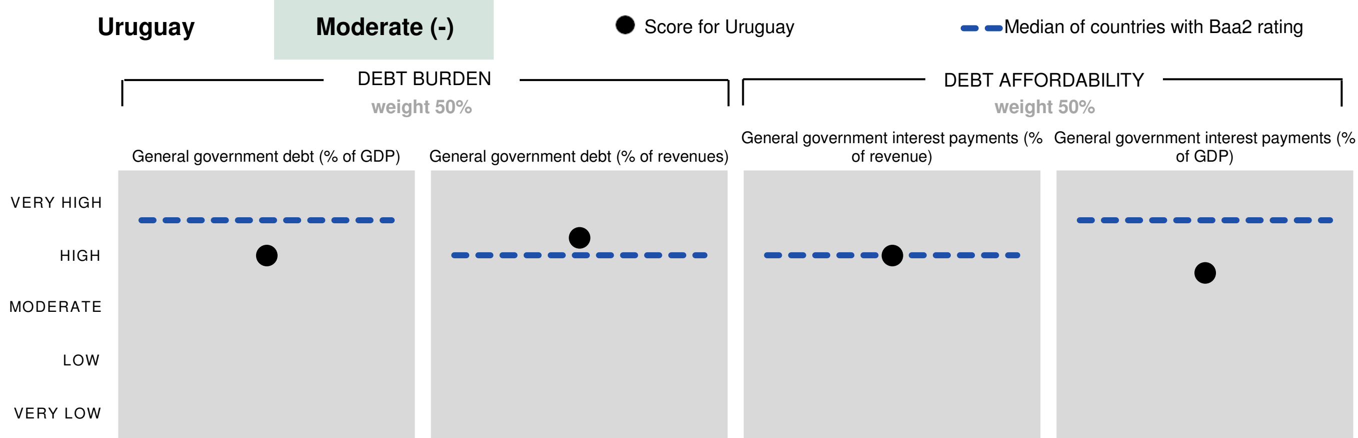
Authorities have also used the last three Budget Reviews to introduce measures that seek to reduce the deficit at the central government level. The measures have included revenue enhancing policies as well as limited increases to discretionary spending. Moreover, given the significant share of spending that is mandatory and "endogenous," the government's policy options for fiscal consolidation are somewhat limited. The authorities refer to expenses like pension payments and other social transfers as "endogenous" because annual increases are determined by constitutional mandates and/or laws that limit the government's ability to adjust the rate at which they increase. The endogenous nature of these spending items contributed to a rise in such expenditures relative to GDP.

Fiscal strength: Moderate (-)

Factor 3: Overall score



Factor 3: Sub-scores



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.

Note: In case the Indicative and Final scores are the same, only the Final score will appear in the table above.

We assess Uruguay's fiscal strength as "Moderate (-)," balancing 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. Uruguay shares this score with Colombia (Baa2 negative).

Exhibit 13

Peer comparison table factor 3: Fiscal strength

	Uruguay Baa2/STA	M- Median	Colombia Baa2/NEG	Philippines Baa2/STA	Indonesia Baa2/STA	Mauritius Baa1/STA	Spain Baa1/STA	Italy Baa2/RUR
Final score	M-		M-	M	M	M	M	L+
Indicative score	M-		M-	M	M	M+	M+	L+
Gen. gov. debt/GDP	47.8	48.2	48.7	38.4	29.0	59.4	98.3	131.8
Gen. gov. debt/revenue	164.8	203.0	193.0	245.3	237.9	282.4	259.4	282.9
Gen. gov. interest payments/GDP	2.7	2.1	3.0	2.0	1.6	2.4	2.6	3.8
Gen. gov. int. payments/revenue	9.3	10.5	11.7	12.6	13.1	11.7	6.8	8.2

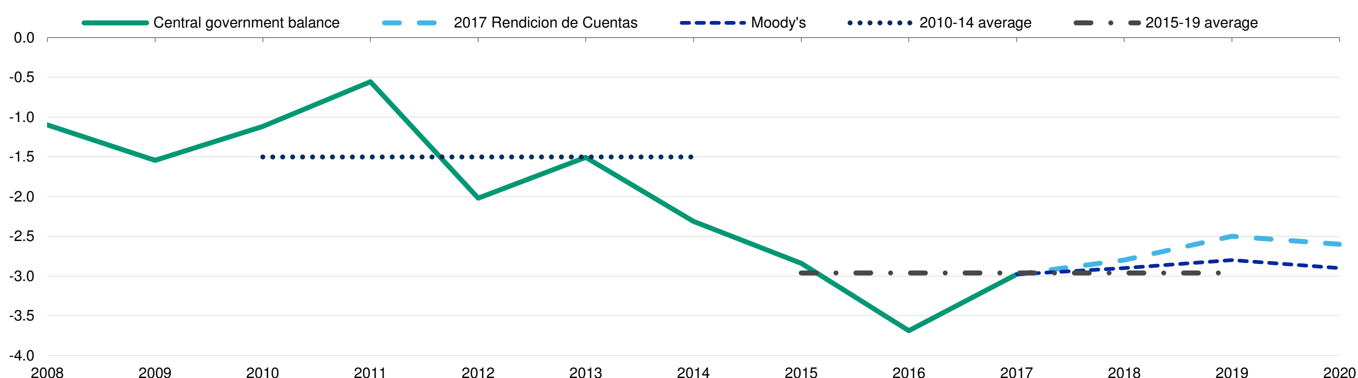
Source: Moody's Investors Service

Central government deficit will continue to narrow in 2018-19

The central government deficit gradually widened to 3.7% in 2016 from 1.5% in 2013, driven by slower economic growth and higher "endogenous" expenditures. We expect that under the current administration (2015-19) the central government deficit will come to about 3% of GDP on average, double that of the previous administration (2010-14). Importantly, although the headline deficit was narrower in 2010-14, this was largely a result of above-potential average economic growth of 4.9% during those years.[1] Since 2015, as GDP growth rapidly declined to below Uruguay's 3% potential, the authorities have found it increasingly difficult to bring down the deficit given the rigidity that characterizes government spending.

In 2017, the central government deficit narrowed to 3.0% of GDP (see Exhibit 14), supported by various revenue enhancing measures implemented by the government last year.[2] Still, a continued expansion in pension-related spending led to an overall rise in the government spending-to-GDP ratio despite the authorities' ability to rein in operating expenses. Pension spending increased by 0.5 percentage points in 2017 to 10.0% of GDP, while operating expenses (wages and non-personnel expenses) decreased by 0.1 percentage points to 8.9% of GDP.

Exhibit 14
Central government fiscal deficit has widened
% of GDP



Sources: Ministry of Finance, Moody's Investors Service

According to the Budget Review forecasts, the central government deficit will continue to narrow and reach 2.5% of GDP in 2019 on account of higher revenue and stable expenditures relative to GDP. However, we see downside risks to the government's assumptions.

We expect revenue to underperform official projections in 2018-20 because of slower economic growth than forecast by the authorities. The authorities expect revenue to benefit from an economic rebound in 2019, following the negative effect this year of the drought on agricultural exports and the likely impact of the economic deceleration in Argentina, and the resumption of dividend payments by the Banco de la Republica Oriental del Uruguay (BROU, Baa2 stable, baa3).

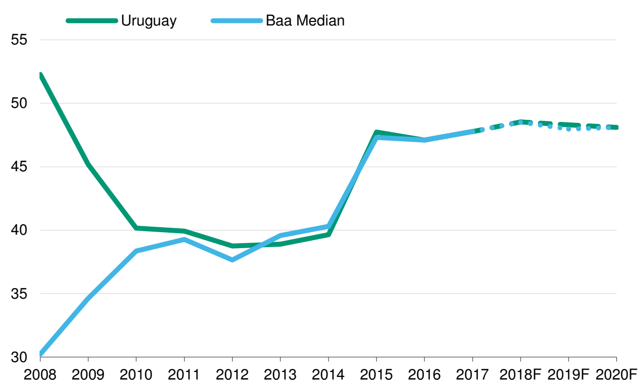
On the expenditure side, the government intends to contain spending by limiting its growth to only 0.25% of GDP in 2019. This is a relatively small increase in spending considering 2019 is an election year, and historically, expenditures report large increases during election years. The government is adamant that this time will be different because of limited fiscal space. One element that should contribute to contain spending growth involves measures implemented over the past few years to reduce the central government wage bill.

Our baseline assumes the central government deficit will remain below 3% of GDP in 2018-20, allowing Uruguay's debt ratio to stabilize at around 48% of GDP during this period (see Exhibit 15). At this level, the debt burden will be in line with the median for Baa-rated sovereigns. Still, the relatively high exposure of government finances to currency depreciation and a higher level of international interest rates implies that debt affordability – as measured by interest payments-to-revenue – will likely worsen relative to peers (see Exhibit 16).

Exhibit 15

Government debt burden increasing, still in line with 'Baa' median...

Government debt as % of GDP

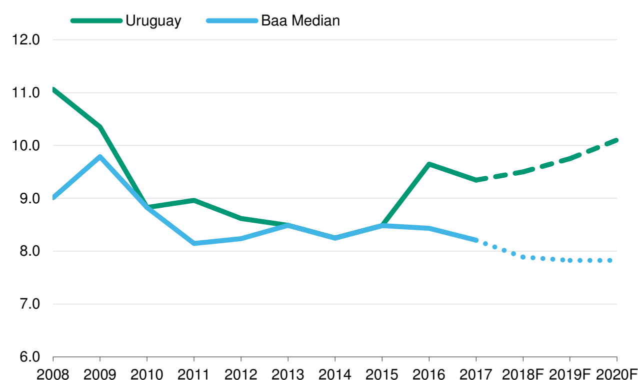


Sources: Central Bank of Uruguay, Moody's Investors Service

Exhibit 16

...but interest burden diverging from peers

Interest payments as % of government revenue



Sources: Ministry of Finance, Moody's Investors Service

Inflexible expenditure structure poses medium-term risks

The rigidity of Uruguay's expenditure structure poses important medium-term challenges to public finances. Non-investment spending accounts for 96% of the total, with the so-called endogenous expenditures, which are difficult to adjust, representing almost 58% of total spending (66% when interest payments are included).

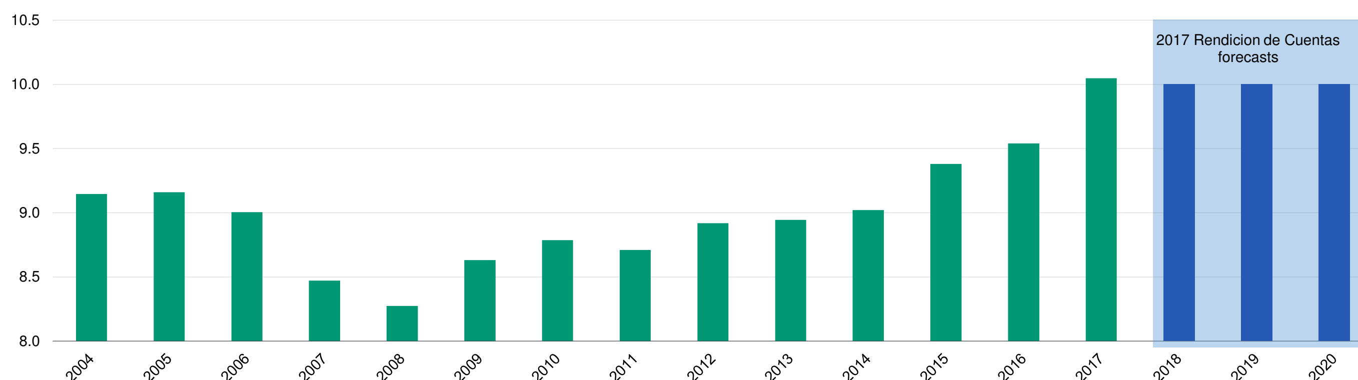
The growth of pension-related expenditures is directly linked to the evolution of the average nominal wage growth. The government has sought to de-link wage increases from past inflation by instituting guidelines that tie nominal wage increases to productivity and sector-specific dynamics. This approach, which was employed initially in wage negotiations for the 2016-18 period, will be used once again during ongoing negotiations for the 2019-21 period.

Ensuring the continuation of moderate nominal wage increases will be key for medium-term fiscal consolidation. Over the past decade, pensions have tended to grow faster than the economy itself. The decrease in inflation in 2017 combined with still-high growth in wages in 2016 of 11.7% led to an increase of 6% in real terms in pensions last year. This, in turn, contributed to a further increase in pension outlays as a share of GDP, which are now almost two percentage points of GDP higher than a decade ago (see Exhibit 17). Authorities expect pensions to grow at more a moderate rate going forward, in line with the economy.

Exhibit 17

Pensions have been growing at a faster pace than GDP

% of nominal GDP



Sources: Ministry of Finance, Moody's Investors Service

In the near term, the outcome of the ongoing wage negotiations will be key for determining if pension-related spending will report lower growth. With annual inflation reaching 8% in June, unions are likely to demand higher nominal increases than those contemplated in the government's guidelines. Because we expect inflation to continue to rise in the coming months, reflecting the effects of the drought on food items as well as the currency depreciation, the monetary authorities' ability to anchor inflation expectations at a lower level will be key to avoiding adverse feedback from higher wages to inflation and vice versa.

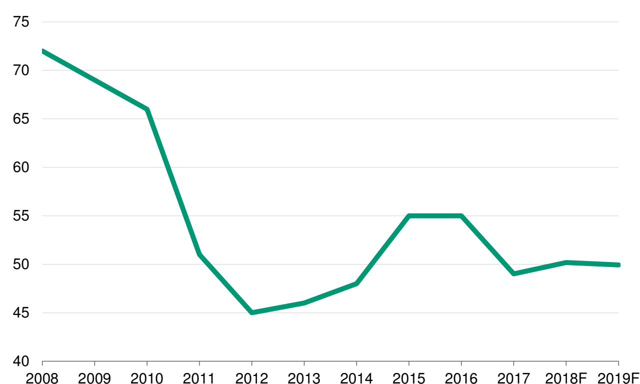
Other elements, in addition to Uruguay's aging population, have also contributed to increase pension-related pressures on the fiscal accounts in recent years and could continue to do so if left unaddressed. One such issue was the increase in the number of pensioners resulting from changes that were introduced in 2008 to make access to pensions more flexible, which, according to ECLAC, led to additional spending on pensions of $1.6-$1.9 billion in 2009-16 – the effect of this measure should dissipate over time but it has already weakened the fiscal accounts. Another element that will influence future spending pressures relates to the military pension fund, which currently requires about 1% of GDP in transfers from the government. Additionally, last year changes were approved that allow people over 50 years old to transfer from the individual defined contribution system to the public defined benefit system. While this may boost pension-related revenue in the short term, over time this measure will also lead to higher pension outlays. As such, it is difficult to see that pension payments could report an improving trend in the coming years in the absence of reform, which would likely only be addressed by the next government, which takes office in 2020.

Exchange rate depreciation would impact debt ratios, but financial buffers limit credit risks

Recent volatility in international financial markets underscores the key role that financial buffers have to stem credit risks. Uruguay's debt metrics are exposed to exchange rate shocks because a large portion of government debt is denominated in foreign currency – around 50%, although the share has come down from a peak of more than 70% in 2008 (see Exhibit 18). As such, a depreciation of the Uruguayan peso can have a material impact on government debt metrics.[3] During the first half of 2018 the peso depreciated by about 9%. We expect the exchange rate to remain at this new level of about UYU31.5/USD barring any new shocks. Consequently, the impact on debt metrics would be more contained than in previous episodes of exchange rate volatility.

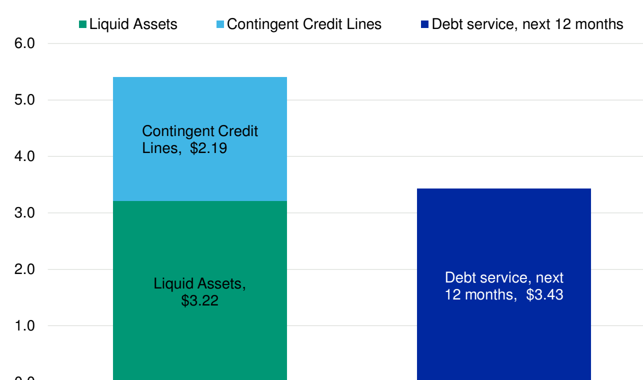
Importantly, the government has $3.2 billion (5.3% of GDP) in liquid assets – mostly held in foreign currency – and another $2.2 billion (3.6% of GDP) in contingent credit lines that would allow it to fully cover 12 months of debt service requirements (see Exhibit 19), providing sufficient buffer against heightened global market volatility. Additionally, because of the government's liability management, the government has also reduced potential risks as external debt has a longer maturity profile than domestic debt – 13.6 years compared 10.2 years, respectively. Over the next 12 months, only about 15% of principal payments due are on external debt.

Exhibit 18
Debt dollarization stabilizing around 50%
Share of foreign currency-denominated government debt, %



Sources: Ministry of Finance, Moody's Investors Service

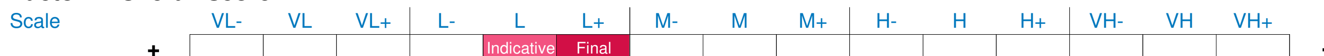
Exhibit 19
Government financial buffers provide sufficient coverage of upcoming debt service
US$ billions, as of May 2018



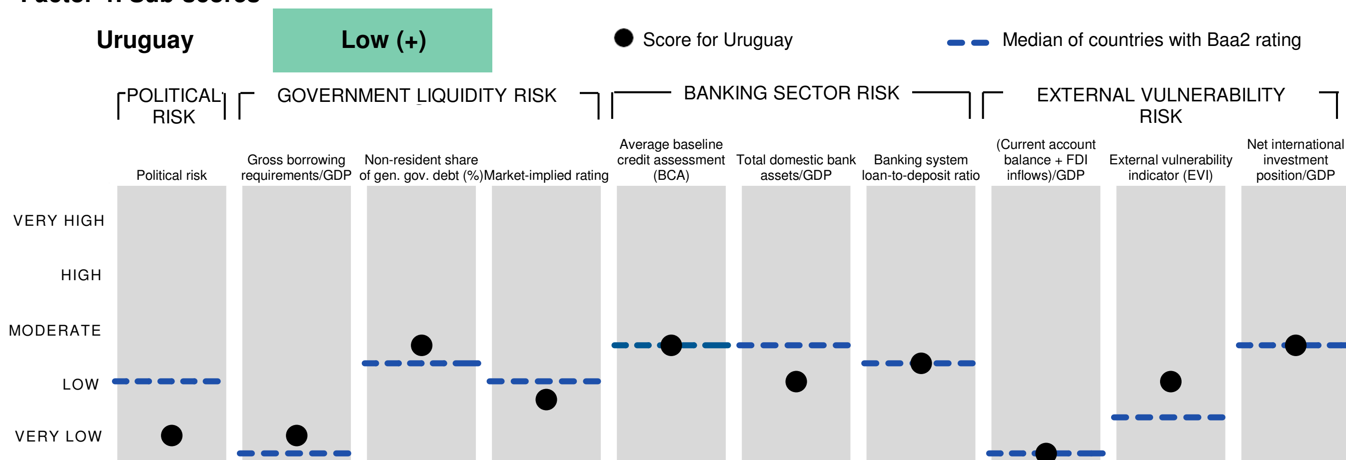
Sources: Ministry of Finance, Moody's Investors Service

Susceptibility to event risk: Low (+)

Factor 4: Overall score



Factor 4: Sub-scores



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.

Note: In case the Indicative and Final scores are the same, only the Final score will appear in the table above.

We assess Uruguay's susceptibility to event risk as "Low (+)," driven by banking sector risk. Other sovereigns with a similar overall assessment of susceptibility to event risk include Colombia, Mexico (A3 stable) and Peru (A3 stable).

Political risk: Very Low

Exhibit 20

Peer comparison table factor 4a: Political risk

	Uruguay Baa2/STA		Panama Baa2/POS	Bahamas Baa3/NEG	Mauritius Baa1/STA	Portugal Ba1/POS	Trinidad & Tobago Ba1/STA	Costa Rica Ba2/NEG
Final score	VL		VL	VL	VL	VL	VL	VL
Geopolitical risk	VL	--	VL	VL	VL	VL	VL	VL
Domestic political risk	VL	--	VL	VL	VL	VL	VL	VL

Source: Moody's Investors Service

Political event risk is "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 Tabare Vazquez's administration took office on 1 March 2015, marking the president's second nonconsecutive 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 lower output growth environment, reducing inflation and pursuing reforms to add dynamism to economic activity.

Government liquidity risk: Low (-)

Exhibit 21

Peer comparison table factor 4b: Government liquidity risk

	Uruguay Baa2/STA	L- Median	Colombia Baa2/NEG	Indonesia Baa2/STA	Mauritius Baa1/STA	Bahamas Baa3/NEG	Hungary Baa3/STA	Kazakhstan Baa3/STA
Final score	L-		L-	L-	L-	L	L	VL+
Indicative score	VL+		VL	VL-	VL-	L+	L-	VL-
Gross borrowing req./GDP	5.7	6.9	3.7	4.7	8.3	5.9	18.8	3.4
Gen. gov. ext. debt/gen. gov. debt	56.0	51.7	51.7	62.1	17.4	37.8	40.0	36.0
Market funding stress indicator	Baa1	Baa2	Baa2	Aa3	--	Ba3	Baa1	A3

Source: Moody's Investors Service

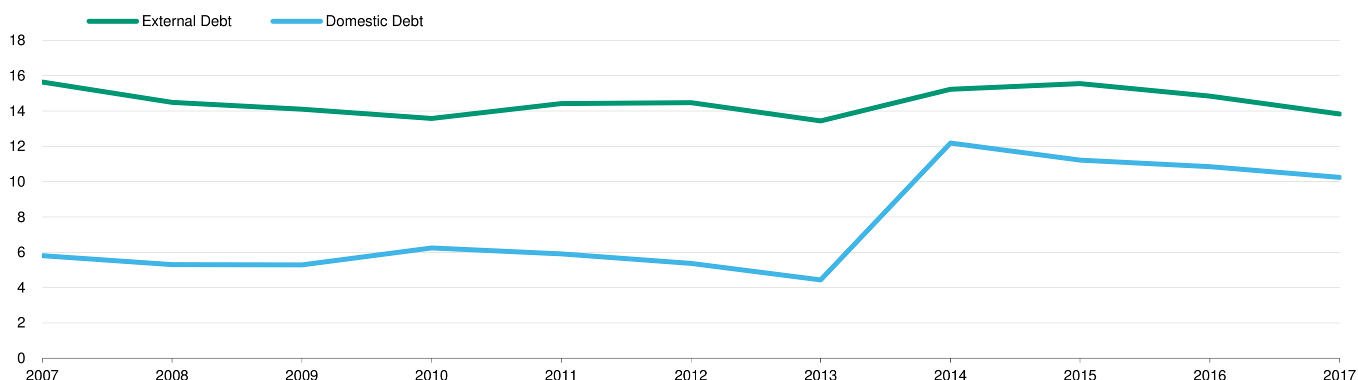
The assessment of a "Low (-)" susceptibility to government liquidity risk balances relatively low gross borrowing requirements for the government – favored by a long maturity profile – and a relatively high proportion of government external debt. Uruguay's market funding stress indicator, the bond implied rating, has oscillated in the Baa1-Baa3 range throughout 2018. This volatility can lead to changes in the indicative score, which as of publication is "Very Low (+)."

A favorable maturity profile translates into low rollover risks. To achieve this, the government has maintained a very long maturity profile for its external debt, averaging almost 15 years over the last five years, and in recent years it has been able to do the same with domestic debt (see Exhibit 22). Given Uruguay's extended debt maturity, the government faces modest refinancing requirements over the medium term, with yearly principal payments of 2.5% of GDP on average over the next 5 years.

Exhibit 22

External and domestic debt maturity profiles

Average life in years



Source: Ministry of Finance

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 for sovereigns rated in the Baa range and above.

On the other hand, according to figures by the Central Bank of Uruguay, external government debt has been on average about 64% of total government debt since 2013. This compares with a Baa median of about 44%. While this may expose Uruguay to lower investor risk appetite when there is flight to safe haven instruments, we note that the sovereign enjoys strong market access with spreads in line with Baa2-rated Colombia. Additionally, in the unlikely case that Uruguay was shut out of international markets, its liquidity policy of holding 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. The sovereign has access to contingent credit lines with multilateral development banks that are available on call, and that when added to cash reserves would cover 24 months of debt service.

Banking sector risk: Low (+)

Exhibit 23

Peer comparison table factor 4c: Banking sector risk

	Uruguay Baa2/STA	L+ Median	Bahamas Baa3/NEG	Mauritius Baa1/STA	Oman Baa3/NEG	Panama Baa2/POS	Colombia Baa2/NEG	Philippines Baa2/STA
Final score	L+		L+	L+	L+	M-	L	L+
Indicative score	L		L+	L+	M-	L+	L	L+
Baseline credit assessment	ba1	baa3	--	ba1	ba1	baa3	ba1	baa3
Total dom. bank assets/GDP	65.0	81.9	83.7	281.6	99.5	193.6	62.6	81.9
Loan-to-deposit ratio	90.1	91.8	95.4	57.9	110.3	--	94.4	73.6

Source: Moody's Investors Service

We assess banking sector risk in Uruguay to be "Low (+)." This score reflects the relatively small size of the banking system, the role of public banks in terms of lending and the likelihood that the sovereign would need to support any institution.

The banking system's assets represented 65% of GDP in 2017, of which about half were loans. Moody's rates six banks in Uruguay, which held 75% of the banking system's total deposits and almost 78% of total loans as of December 2016. The rated banks' average standalone Baseline Credit Assessment (BCA) is baa3, and the average deposit rating is Baa2.

The system is dominated by the two government-owned banks, Banco de la República Oriental del Uruguay (BROU, Baa2 stable) and Banco Hipotecario del Uruguay (BHU, Baa2 stable), which combined control 45% of the system's total loans. The remainder of the financial system is relatively fragmented, comprising nine foreign banks and a number of specialized franchises of foreign institutions. Foreign ownership of total assets in the banking system is about 51% of the total.

Overall we consider that the government would support the public banks, but that the likelihood that it would support a private institution is low. BROU and BHU received government support during the last banking crisis in 2002, unlike their privately-owned competitors. There is also a deposit insurance scheme managed by the Deposit Guarantee Corporation (Corporación de Protección del Ahorro Bancario—COPAB) that partially covers deposits in all banks.

Key strengths of the banking system include: (1) good asset quality, with nonperforming loans (NPLs) at a moderate 3.1% of gross loans in June 2018, up from 2.3% in 2016; (2) limited risk to the sovereign's balance sheet given the small size of the system; and (3) relatively high liquidity with the sector's loan-to-deposit ratio remaining at or under 90%. 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.

External vulnerability risk: Very Low (+)

Exhibit 24

Peer comparison table factor 4d: External vulnerability risk

	Uruguay Baa2/STA	VL+ Median	Bulgaria Baa2/STA	India Baa2/STA	Italy Baa2/RUR	St. Maarten Baa2/NEG	Colombia Baa2/NEG	Spain Baa1/STA
Final score	VL+		VL+	VL+	VL+	VL+	L-	L-
Indicative score	L-		VL+	VL+	VL+	VL	L-	L-
(Curr. acc. bal. + FDI inflows)/GDP	1.6	0.9	7.4	0.1	3.8	0.4	1.3	2.2
External vulnerability indicator (EVI)	87.7	54.4	58.3	67.7	--	68.2	88.1	--

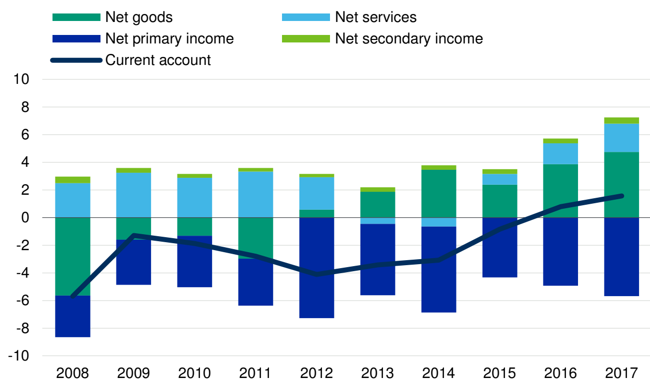
Source: Moody's Investors Service

We set Uruguay's final score for external vulnerability risk to "Very Low (+)" below the indicative score of "Low (-)" to reflect the country's sizable external buffers.

Uruguay's current account balance has been in surplus since 2016 (see Exhibit 25). The goods surplus has expanded in recent years because imports fell as oil prices declined and a lower investment – and FDI – led to a decrease in imports of capital goods. The economic recovery seen in Argentina over the past three years had benefited services exports through higher tourism flows – higher inflow of tourists from countries other than Argentina and Brazil, also contributed to this dynamic in 2017. An additional feature of

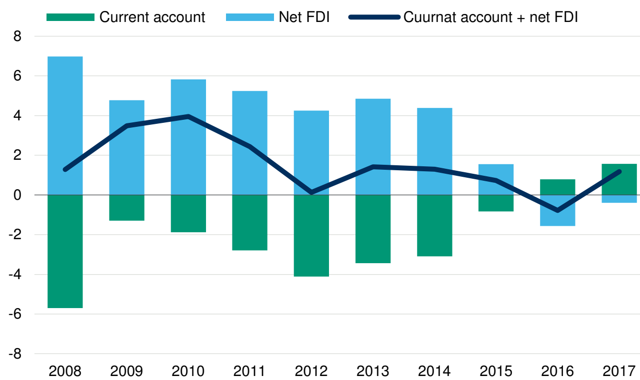
Uruguay's current account is the relatively large net income deficit, due to reinvested and repatriated profit. This reflects the important role that FDI plays in the country. Historically, net FDI flows covered the current account deficits (see Exhibit 26). However, as FDI flows have declined in recent years, the shift to a current account surplus has limited the risk of external debt accumulation.

Exhibit 25
Current account components
% of GDP



Sources: Haver Analytics, Moody's Investors Service

Exhibit 26
FDI coverage of current account deficit
% of GDP



Source: Moody's Investors Service

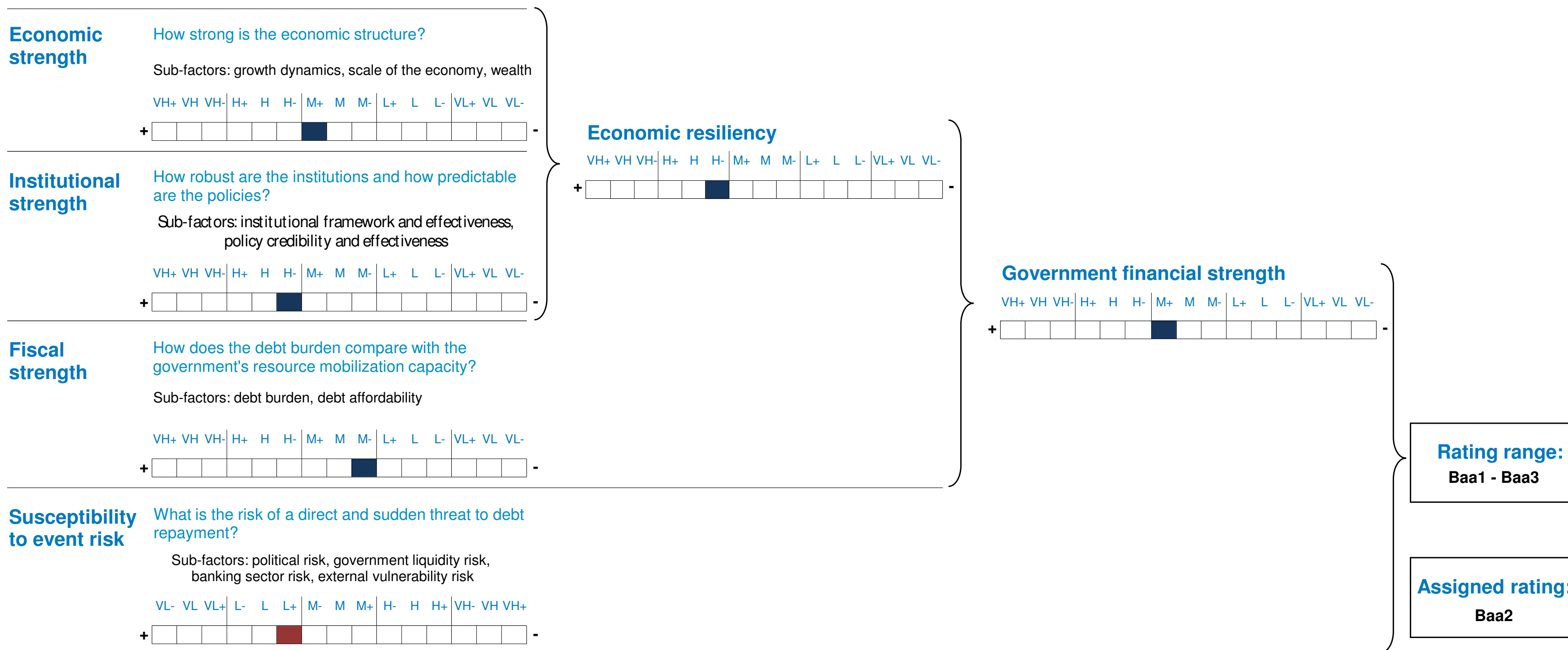
While Uruguay has a negative net international investment position – -26.5% of GDP in 2017 – about 60% of its total liabilities are related to FDI. This in turn reduces the countries vulnerabilities to shifts in capital flows. Meanwhile, international reserve assets account for about 30% of GDP, up from 20% in 2011. This buffer, in addition to the central government's own reserves, provide an important coverage for external debt service payment obligation.

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 27

Sovereign rating metrics: Uruguay



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Uruguay with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

Uruguay's economic strength somewhat lags that of similarly-rated peers mainly due to its smaller economic size, although this is somewhat compensated by its wealth levels. Relative to peers, Uruguay has a higher institutional strength, benefiting from stronger governance indicators. Its fiscal strength is in line with that of its peers, with its debt burden – i.e. debt-to-GDP – in line with the Baa median. In terms of its susceptibility to event risk, Uruguay is in line with peers.

Exhibit 28

Uruguay's key peers

	Year	Uruguay	Colombia	Philippines	Panama	Romania	South Africa	Baa2 Median	Latin America and Caribbean Median
Rating/Outlook		Baa2/STA	Baa2/NEG	Baa2/STA	Baa2/POS	Baa3/STA	Baa3/STA	Baa2	Ba3
Rating Range		Baa1 - Baa3	Baa1 - Baa3	Baa1 - Baa3	A3 - Baa2	Baa2 - Ba1	Baa1 - Baa3	Baa1 - Baa3	Ba1 - Ba3
Factor 1		**M+**	**H**	**H**	**H-**	**M+**	**M+**	**H**	**L+**
Nominal GDP (US$ bn)	2017	59.2	314.5	313.6	61.8	211.9	348.9	313.6	49.1
GDP per capita (PPP, US$)	2017	22371.3	14485.3	8314.7	25351.3	24508.4	13544.6	18086.0	14485.3
Avg. real GDP (% change)	2013-2022	2.7	3.1	6.5	5.6	4.2	1.9	3.1	2.3
Volatility in real GDP growth (ppts)	2008-2017	2.3	1.8	2.0	2.8	4.3	1.5	2.0	2.4
Global Competitiveness index	2017	4.2	4.3	4.4	4.4	4.3	4.3	4.5	4.1
Factor 2		**H-**	**M**	**M+**	**M**	**M+**	**M+**	**M+**	**L**
Government Effectiveness, percentile [1]	2016	66.1	45.1	42.1	52.6	36.0	57.1	50.0	39.0
Rule of Law, percentile [1]	2016	67.6	33.8	27.8	51.8	57.8	54.8	47.4	33.8
Control of Corruption, percentile [1]	2016	84.2	38.3	27.0	29.3	54.1	55.6	39.8	38.3
Average inflation (% change)	2013-2022	7.6	3.8	2.9	1.8	2.2	5.5	2.9	3.2
Volatility in inflation (ppts)	2008-2017	1.1	1.9	2.4	2.7	3.1	1.9	1.9	2.5
Factor 3		**M-**	**M-**	**M**	**H+**	**M+**	**M+**	**M**	**M-**
Gen. gov. debt/GDP	2017	47.8	48.7	38.4	38.2	35.0	54.6	38.4	45.1
Gen. gov. debt/revenue	2017	164.8	193.0	245.3	189.8	115.0	151.6	193.0	220.4
Gen. gov. interest payments/revenue	2017	9.3	11.7	12.6	8.7	4.4	10.2	9.3	10.8
Gen. gov. interest payments/GDP	2017	2.7	3.0	2.0	1.7	1.3	3.7	2.0	2.3
Gen. gov. financial balance/GDP	2017	-3.0	-2.2	-2.2	-1.6	-2.9	-2.8	-2.3	-2.8
Factor 4		**L+**	**L+**	**L+**	**M-**	**M-**	**L+**	**M-**	**M-**
Current account balance/GDP	2017	1.6	-3.3	-0.8	-4.9	-3.3	-2.5	-1.5	-2.3
Gen. gov. external debt/gen. gov. debt	2017	56.0	51.7	25.5	77.9	45.6	33.7	51.7	56.2
External vulnerability indicator (EVI)	2019F	87.7	88.1	27.9	21.6	124.6	106.0	63.0	53.3

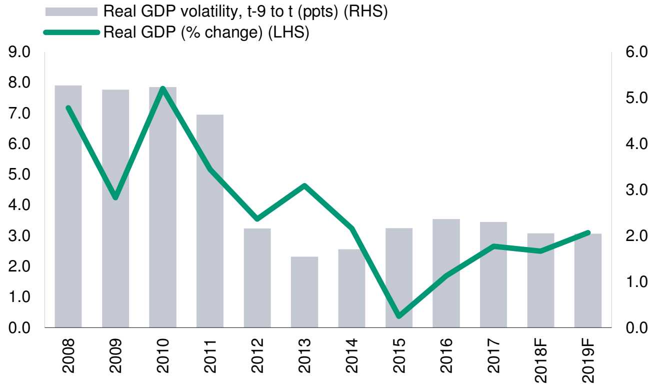
[1] Moody's calculations. Percentiles based on our rated universe.

Source: Moody's Investors Service

DATA, CHARTS AND REFERENCES

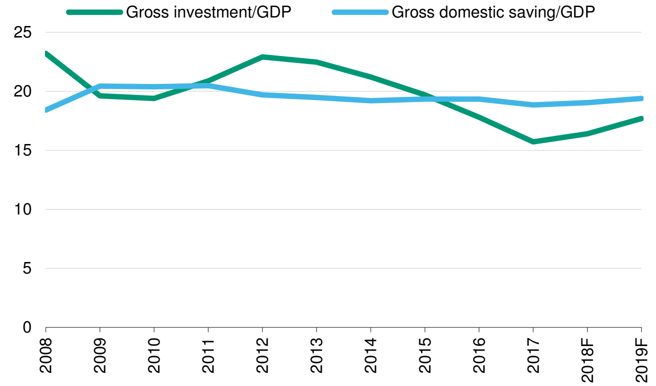
Chart pack: Uruguay

Exhibit 29
Economic growth



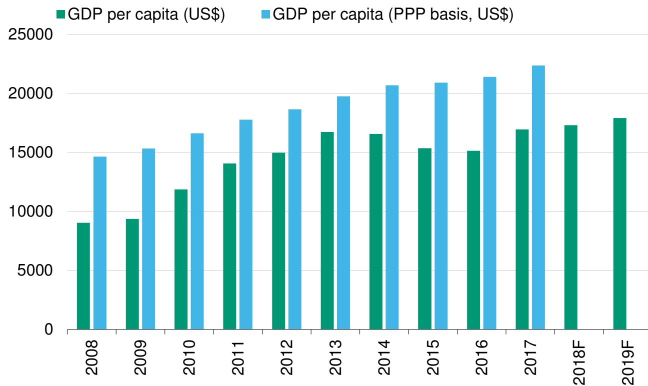
Source: Moody's Investors Service

Exhibit 30
Investment and saving



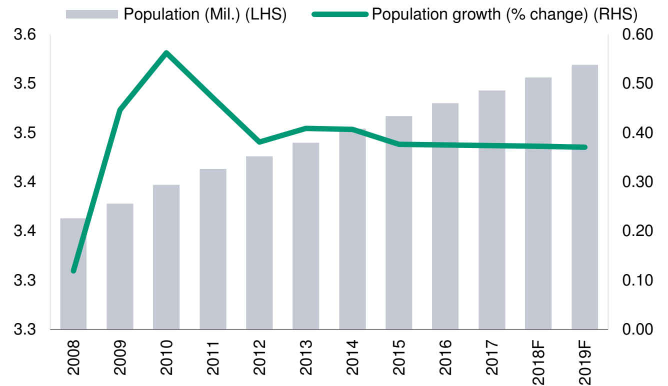
Source: Moody's Investors Service

Exhibit 31
National income



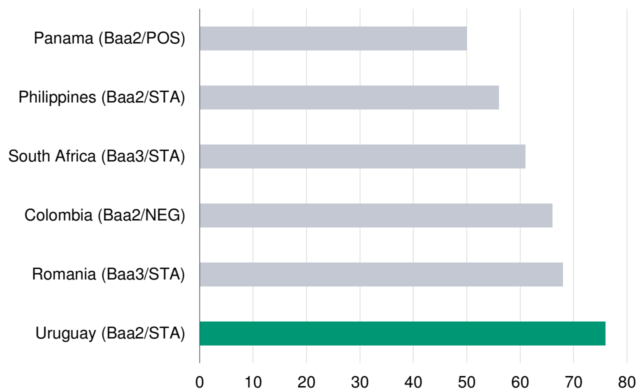
Source: Moody's Investors Service

Exhibit 32
Population



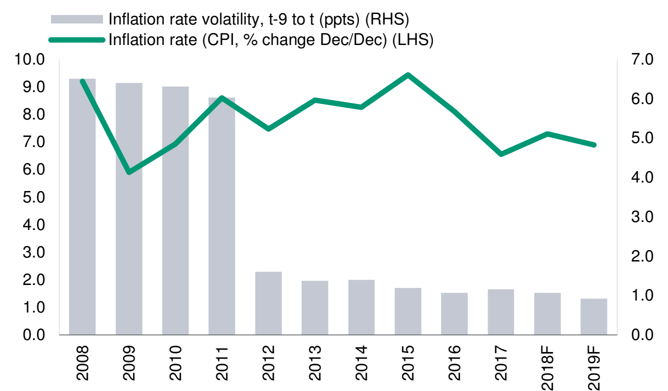
Source: Moody's Investors Service

Exhibit 33
Global Competitiveness Index
Rank 76 out of 137 countries



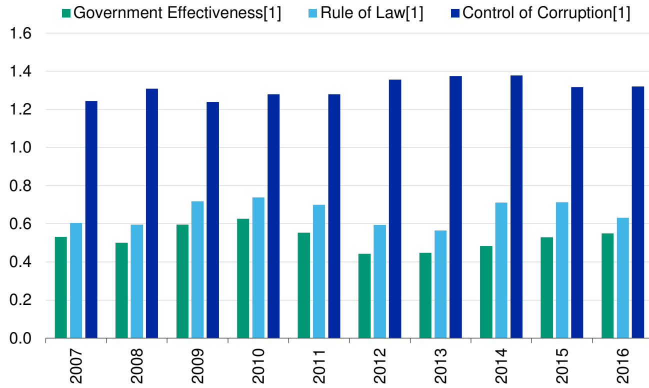
Source: World Economic Forum

Exhibit 34
Inflation and inflation volatility



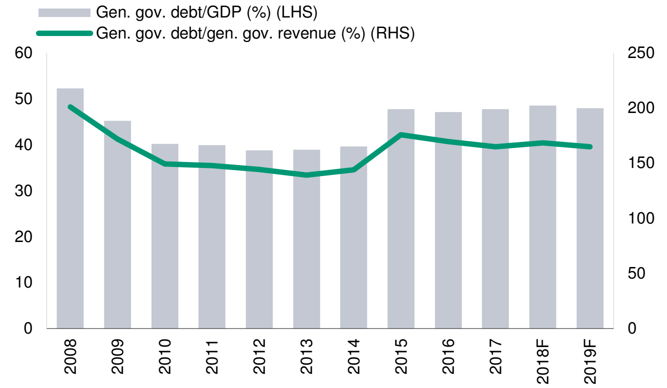
Source: Moody's Investors Service

Exhibit 35
Institutional framework and effectiveness



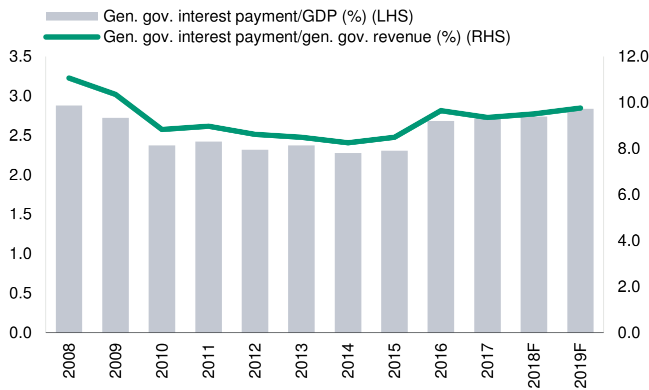
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 36
Debt burden



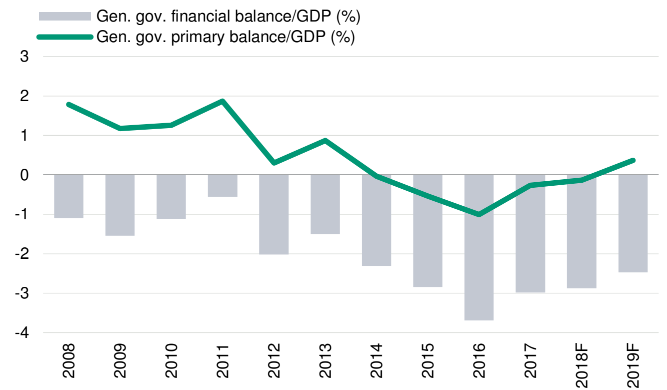
Source: Moody's Investors Service

Exhibit 37
Debt affordability



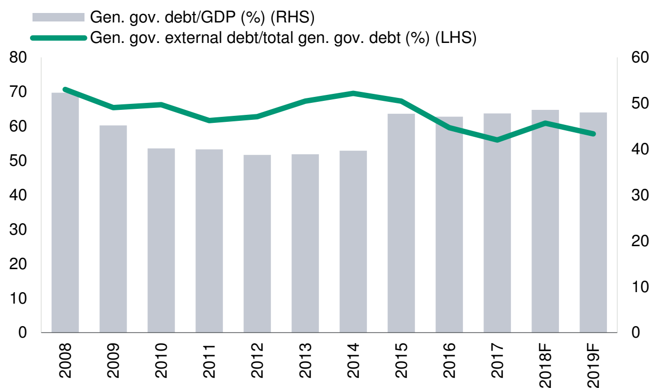
Source: Moody's Investors Service

Exhibit 38
Financial balance



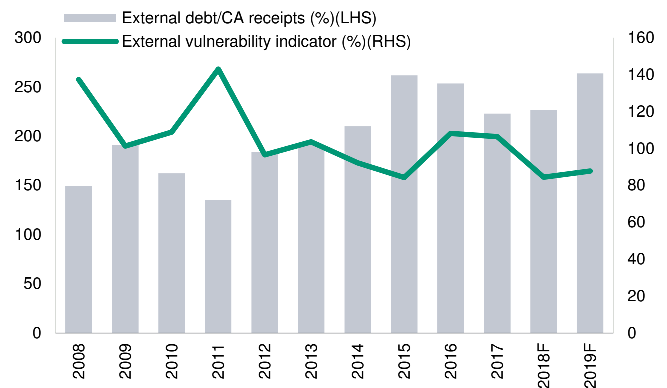
Source: Moody's Investors Service

Exhibit 39
Government liquidity risk



Source: Moody's Investors Service

Exhibit 40
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 41

Uruguay[1]

	Government Bonds			Foreign Currency Ceilings				
				Bonds & Notes		Bank Deposit		
	Foreign Currency	Local Currency	Outlook	Long-term	Short-term	Long-term	Short-term	Date
Outlook Changed	Baa2	Baa2	Stable	A2	--	Baa2	--	Jul-17
Outlook Changed	Baa2	Baa2	Negative	A2	--	Baa2	--	Jun-16
Rating Raised	Baa2	Baa2	Stable	A2	--	Baa2	--	May-14
Rating Raised	Baa3	Baa3	Positive	--	--	Baa3	--	Jul-12
Outlook Changed	Ba1	Ba1	Positive	--	--	--	--	Jan-12
Rating Raised	Ba1	Ba1	Stable	Baa1	--	Ba2	--	Dec-10
Review for Upgrade	Ba3	Ba3	RUR+	--	--	--	--	Jul-10
Rating Raised	Ba3	Ba3	Stable	Ba1	--	B1	--	Jan-09
Review for Upgrade	B1	B1	RUR+	--	--	--	--	Aug-08
Rating Raised	B1	B1	Stable	Ba2	--	B2	--	Dec-06
Review for Upgrade	B3	B3	RUR+	--	--	Caa1	--	Sep-06
Rating Raised	--	--	--	B1	--	--	--	May-06
Outlook Changed	B3	B3	Stable	--	--	--	--	Nov-04
Rating Lowered	B3	B3	Negative	B3	--	Caa1	--	Jul-02
Rating Lowered	B1	B1	Negative	B1	--	B3	--	Jul-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	Apr-02
Outlook Changed	--	--	Negative	--	--	--	--	Feb-02
Rating Assigned	--	Baa3	--	--	--	--	--	Oct-98
Rating Raised	Baa3	--	--	Baa3	P-3	Baa3	P-3	Jun-97
Outlook Assigned	--	--	Stable	--	--	--	--	Mar-97
Rating Assigned	--	--	--	--	NP	Ba2	NP	Oct-95
Rating Assigned	Ba1	--	--	Ba1	--	--	--	Oct-93

Notes: [1] Table excludes rating affirmations. Please visit the issuer page for Uruguay for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 42
Uruguay

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
Economic structure and performance												
Nominal GDP (US$ bil.)	30.4	31.7	40.3	48.0	51.3	57.5	57.2	53.3	52.7	59.2	60.7	63.0
Population (Mil.)	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5
GDP per capita (US$)	9,029	9,373	11,859	14,053	14,963	16,724	16,571	15,366	15,140	16,943	17,319	17,901
GDP per capita (PPP basis, US$)	14,652	15,321	16,627	17,763	18,655	19,756	20,681	20,902	21,395	22,371	--	--
Nominal GDP (% change, local currency)	15.8	12.3	13.1	14.6	12.4	13.2	12.9	9.4	9.2	6.8	9.6	10.4
Real GDP (% change)	7.2	4.2	7.8	5.2	3.5	4.6	3.2	0.4	1.7	2.7	2.5	3.1
Inflation (CPI, % change Dec/Dec)	9.2	5.9	6.9	8.6	7.5	8.5	8.3	9.4	8.1	6.6	7.3	6.9
Gross investment/GDP	23.2	19.6	19.4	20.9	22.9	22.5	21.2	19.7	17.8	15.7	16.4	17.7
Gross domestic saving/GDP	18.4	20.4	20.4	20.5	19.7	19.5	19.2	19.3	19.3	18.8	19.0	19.4
Nominal exports of G & S (% change, US$ basis)	34.7	-6.5	23.7	19.4	4.9	1.1	0.3	-11.1	-5.7	13.0	4.0	3.0
Nominal imports of G & S (% change, US$ basis)	50.7	-21.7	22.7	26.0	16.1	1.5	-3.6	-16.7	-13.9	4.1	7.0	8.0
Openness of the economy[1]	65.2	53.4	51.7	53.2	55.1	49.7	49.1	45.3	41.3	40.0	41.1	41.7
Government Effectiveness[2]	0.5	0.6	0.6	0.6	0.4	0.4	0.5	0.5	0.5	--	--	--
Government finance												
Gen. gov. revenue/GDP	26.0	26.3	26.9	27.0	26.9	28.0	27.6	27.2	27.8	29.0	28.8	29.1
Gen. gov. expenditures/GDP	27.1	27.8	28.0	27.6	28.9	29.5	29.9	30.0	31.5	32.0	31.7	31.6
Gen. gov. financial balance/GDP	-1.1	-1.5	-1.1	-0.6	-2.0	-1.5	-2.3	-2.8	-3.7	-3.0	-2.9	-2.5
Gen. gov. primary balance/GDP	1.8	1.2	1.3	1.9	0.3	0.9	0.0	-0.5	-1.0	-0.3	-0.1	0.4
Gen. gov. debt (US$ bil.)	13.7	16.4	16.2	18.6	20.8	21.4	21.7	23.3	25.6	28.2	28.7	29.2
Gen. gov. debt/GDP	52.3	45.2	40.2	39.9	38.8	38.9	39.7	47.7	47.1	47.8	48.5	48.0
Gen. gov. debt/gen. gov. revenue	200.9	171.8	149.3	147.7	144.1	139.1	143.8	175.7	169.5	164.8	168.4	164.8
Gen. gov. interest payments/gen. gov. revenue	11.1	10.4	8.8	9.0	8.6	8.5	8.2	8.5	9.6	9.3	9.5	9.8
Gen. gov. FC & FC-indexed debt/gen. gov. debt	72.0	69.0	66.0	51.0	45.0	46.0	48.0	55.0	55.0	49.0	50.2	49.9
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	24.4	19.6	20.1	19.9	19.4	21.4	24.3	29.9	29.3	28.8	31.5	33.7
Real eff. exchange rate (% change)	9.5	2.6	12.0	2.0	3.2	6.6	-1.7	3.7	4.2	7.0	--	--
Current account balance (US$ bil.)	-1.7	-0.4	-0.8	-1.3	-2.1	-2.0	-1.8	-0.4	0.4	0.9	0.5	0.1
Current account balance/GDP	-5.7	-1.3	-1.9	-2.8	-4.1	-3.4	-3.1	-0.8	0.8	1.6	0.8	0.2
External debt (US$ bil.)	15.4	18.0	18.4	18.3	36.1	37.7	40.8	43.3	39.8	38.7	41.4	42.7
Public external debt/total external debt	71.7	73.0	71.5	78.7	46.1	47.8	46.4	43.8	45.0	48.1	42.1	39.5
Short-term external debt/total external debt	27.4	27.8	28.1	22.2	21.2	24.1	22.7	20.6	17.1	14.6	17.4	16.4
External debt/GDP	50.8	56.8	45.7	38.2	70.5	65.6	71.3	81.3	75.6	65.4	68.2	67.8
External debt/CA receipts[3]	149.5	191.3	162.4	134.9	184.1	191.2	210.0	261.6	253.3	222.8	226.4	263.7
Interest paid on external debt (US$ bil.)[4]	1.0	0.7	0.8	0.9	0.7	1.0	0.9	1.1	0.9	0.8	0.8	0.8
Amortization paid on external debt (US$ bil.)[4]	0.9	0.4	0.9	2.0	1.8	2.2	1.7	1.6	3.1	1.9	1.9	1.9
Net foreign direct investment/GDP	7.0	4.8	5.8	5.2	4.2	4.8	4.4	1.6	-1.6	-0.4	0.2	1.0
Net international investment position/GDP	-6.7	-10.1	-6.1	-10.0	-33.2	-26.6	-30.0	-28.2	-29.7	-28.9	--	--
Official forex reserves (US$ bil.)	6.3	7.6	7.2	9.8	13.1	15.7	17.0	15.2	13.1	15.6	17.5	17.7
Net foreign assets of domestic banks (US$ bil.)	1.7	2.8	4.9	4.8	3.7	3.0	3.0	4.8	6.0	5.9	--	--

Source: Moody's Investors Service

Exhibit 43

Uruguay, cont.

Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	17.3	14.9	31.0	22.1	10.3	13.7	6.4	9.0	14.4	--	--	--
Monetary policy rate (% per annum, Dec 31)[5]	7.8	6.3	6.5	8.8	9.0	--	--	--	--	--	--	--
Domestic credit (% change Dec/Dec)	61.1	-9.4	27.7	6.2	20.2	27.4	13.8	11.8	5.0	7.7	--	--
Domestic credit/GDP	34.8	28.1	31.7	29.4	31.4	35.4	35.6	36.4	35.0	35.3	--	--
M2/official forex reserves (X)	0.5	0.6	0.9	0.8	0.7	0.6	0.5	0.5	0.7	--	--	--
Total external debt/official forex reserves	243.0	235.1	257.0	187.9	276.7	239.9	239.7	285.8	305.3	248.7	236.7	241.4
Debt service ratio[6][4]	17.9	11.5	15.5	21.3	12.8	15.8	13.3	16.0	25.0	15.4	14.6	16.8
External vulnerability indicator (EVI)[7]	137.2	101.3	108.8	143.0	96.5	103.5	92.2	84.3	108.2	106.4	84.4	87.7
Liquidity ratio[8]	21.2	23.7	20.7	33.6	49.2	57.4	70.8	60.6	62.0	64.1	--	--
Total liabilities due BIS banks/total assets held in BIS banks	26.9	27.8	41.9	50.7	53.6	63.2	67.7	53.0	51.8	58.9	--	--
"Dollarization" ratio[9]	81.9	71.2	68.6	67.2	66.9	68.8	72.4	75.7	72.5	69.0	--	--
"Dollarization" vulnerability indicator[10]	105.3	66.7	67.5	67.2	65.4	64.9	67.5	71.4	79.1	72.6	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Current Account Receipts
[4] Public sector only prior to 2010
[5] Authorities switched to a monetary aggregate target in July 2013
[6] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[7] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits 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 publications

- **Issuer In-Depth:** Government of Uruguay: Deficit reduction to continue but important challenges remain, 19 July 2018
- **Credit Opinion**: Government of Uruguay: Baa2 Stable, 14 March 2018
- **Sector In-Depth**: Sovereigns – Latin America: Erosion of fiscal space across the region continues; policy response key determinant of rating trajectories, 24 January 2018
- **Country Statistics**: Uruguay, Government of, 30 May 2018
- **Outlook**: Sovereigns – Latin America & Caribbean: 2018 outlook stable as growth momentum offsets rising debt and policy uncertainty, 9 January 2018
- **Rating Methodology**: Sovereign Bond Ratings, 22 December 2016

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

- Sovereign risk group web page
- Sovereign ratings list
- Uruguay Ministry of Economics and Finance

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Authors
Renzo Merino
AVP - Analyst

Calyn Gelinas
Associate Analyst

Endnotes

1 While strong economic growth contributed to above-budgeted revenue, which in turn allowed authorities to keep the deficit relatively low, expenditures turned largely procyclical in the 2010-14 period. This led to a widening of the structural deficit, making the adjustment since 2015 – in the context of lower economic growth – more difficult.

2 The most important measures included: (1) income tax rates were raised for the top 30% of earners; (2) the VAT rate on non-cash purchases was reduced by 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.

3 In 2015, a depreciation of more than 20%, debt-to-GDP rose by eight percentage points.

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