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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 Lindquist, CFA +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 credit pressure would result from a reduction in structural rigidities, including those associated with low and declining productivity as well as the relatively rigid government spending structure. A material strengthening of the government's balance sheet through a reduction in the sovereign's debt and interest burdens, and a reduction in vulnerabilities through a significant decrease in the share of foreign-currency government debt would also lead to upward credit pressure.

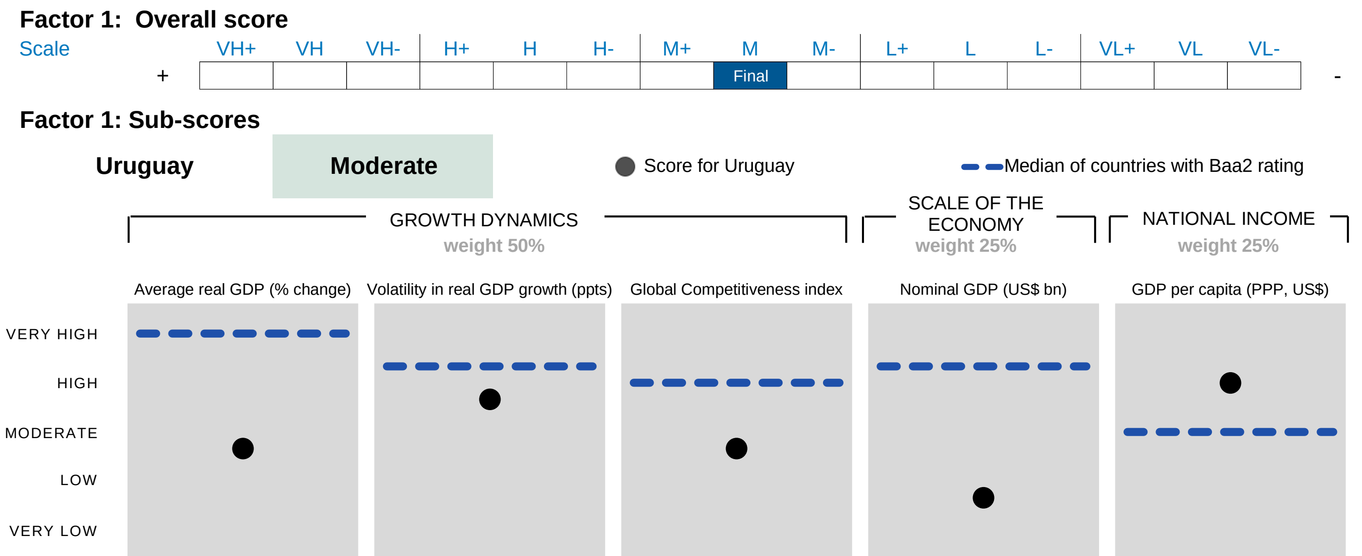
Downward credit pressure would emerge if we were to conclude that structural fiscal and economic challenges were unlikely to be addressed, denoting a weakening in policy responsiveness. This would likely lead to economic growth underperforming and fiscal strength deteriorating further in the medium term, leading to an increase in debt ratios and/or a sustained, material erosion in external and financial buffers.

This credit analysis elaborates on Uruguay's credit profile in terms of economic strength, institutional strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in 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: The Scorecard-indicated outcome is shown in light blue in the scale above. In case the Scorecard-Indicated outcome and Final scores are the same, only the Final score will appear in the table above.*

We assess Uruguay's economic strength score as "Moderate," which balances moderate growth dynamics compared to all other rated sovereigns, a high level of income with a GDP per capita of $23,274 (PPP terms) in 2018, and a relatively small economy on a global basis ($59.6 billion in 2018). Other sovereigns with a similar score for economic strength include Hungary (Baa3 stable), Romania (Baa3 stable) and Bulgaria (Baa2 stable).

Exhibit 1

**Peer comparison table factor 1: Economic strength**

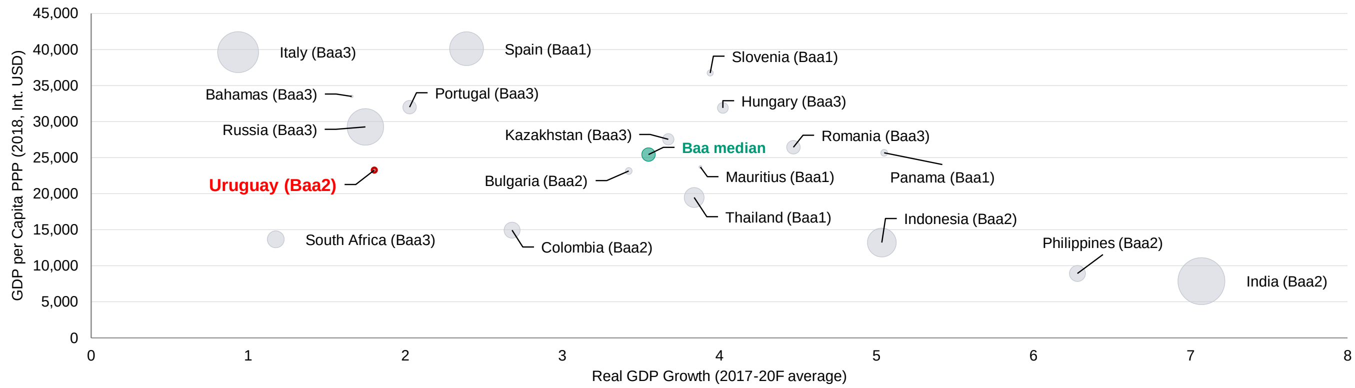
| | Uruguay Baa2/STA | M Median | Hungary Baa3/STA | Romania Baa3/STA | South Africa Baa3/STA | Russia Baa3/STA | Bulgaria Baa2/STA | Kazakhstan Baa3/STA |
|---|---|---|---|---|---|---|---|---|
| **Final score** | M | | M+ | M+ | M+ | M+ | M | M |
| **Scorecard-indicated outcome** | M | | H- | H | H- | H- | M+ | H |
| **Nominal GDP (US$ bn)** | 59.6 | 99.7 | 155.7 | 239.6 | 368.1 | 1,657.6 | 65.1 | 172.9 |
| **GDP per capita (PPP, US$)** | 23,274.1 | 20,790.1 | 31,902.7 | 26,446.7 | 13,675.3 | 29,266.9 | 23,155.6 | 27,549.8 |
| **Average real GDP (% change)** | 2.0 | 2.9 | 3.3 | 4.0 | 1.3 | 1.1 | 3.2 | 3.5 |
| **Volatility in real GDP growth (ppts)** | 2.1 | 2.4 | 3.5 | 3.9 | 1.4 | 3.8 | 2.3 | 2.4 |
| **Global Competitiveness Index** | 4.2 | 4.1 | 4.3 | 4.3 | 4.3 | 4.6 | 4.5 | 4.4 |

*Source: Moody's Investors Service*

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

We expect real GDP growth to continue to slow this year to 0.5% from 1.6% in 2018, such that growth will underperform most 'Baa' rated peers over the 2017-20 period (see Exhibits 2-4). At the same time, Uruguay's economy is smaller than the median for 'Baa' rated peers, ranking fifth out of the 20 'Baa' rated sovereigns. With a nominal GDP of $59.6 billion in 2018, the size of its economy is similar to that of Panama (Baa1 stable). Uruguay's wealth level is near but below the 'Baa' median of $26,060 in PPP terms.

Exhibit 2
**Uruguay's economic strength is supported by relatively high income levels**
**Size of bubble = Nominal GDP (US$ billion, 2018)**

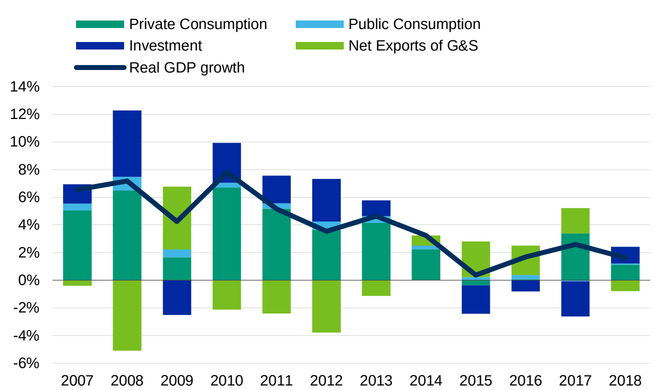



*Source: Moody's Investors Service*

### Comparatively weaker economic activity since 2014

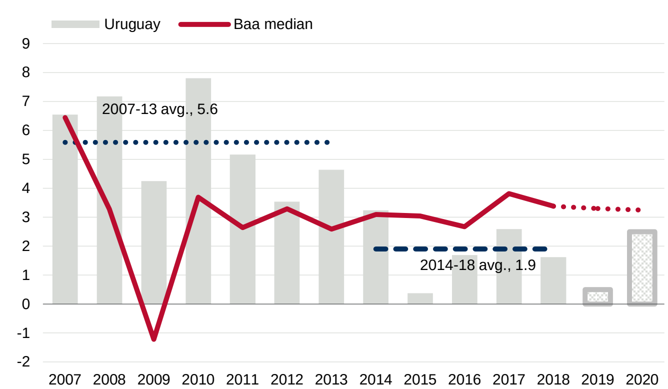
The Uruguayan economy never fully recovered after the commodity price shock induced slowdown in 2015-16 and recessions in neighboring Argentina (B2 negative) and Brazil (Ba2 stable). Real GDP growth slowed to 1.6% in 2018 from 2.6% in 2017 and 1.7% in 2016. The fall in economic activity last year was driven by weaker private consumption as inflation increased and the currency depreciation led to a decrease in household purchasing power in real terms. Lower tourism flows and lower goods exports, on account of the drought that occurred earlier in the year, also contributed to lower growth. Meanwhile, investment posted its first year of positive contributions to growth since 2013 (see Exhibit 3).

Exhibit 3
**Economic slowdown driven by a fall in domestic demand**
**Percentage point contributions to real GDP growth**




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

Exhibit 4
**As Uruguay underperformed relative to peers**
**% change year-on-year**




*Source: Moody's Investors Service*

In 2019, we expect growth to decelerate to 0.5%, affected by a still-weak external environment and domestically by weak investment and labor dynamics. However, we expect this trend to reverse next year. UPM-Kymmene (Baa2 positive), one of the largest forest products companies globally, just finalized its investment decision to construct the Uruguay's third pulp mill (UPM's second pulp mill in

Uruguay). We expect this to boost GDP growth in 2020 to 2.5% from our earlier forecast of 1.8%. UPM will invest $2.7 billion to build the pulp plant and an additional $350 million in port operations and local facilities (together about 5.1% of GDP). Moreover, there is an additional investment of $0.8 billion in railway infrastructure to move the pulp products from the center of the country in Paso de los Toros to the Montevideo port. Construction on the new plant is set to begin in 2020 and the pulp plant is expected to be operating by year-end 2022.

In addition to the new investment, Mercosur (the Southern Common Market that includes Argentina, Brazil, Paraguay (Ba1 stable), and Uruguay)[1] recently negotiated a trade agreement with the European Union (Aaa stable), which could marginally boost economic activity after ratification through higher export levels.

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

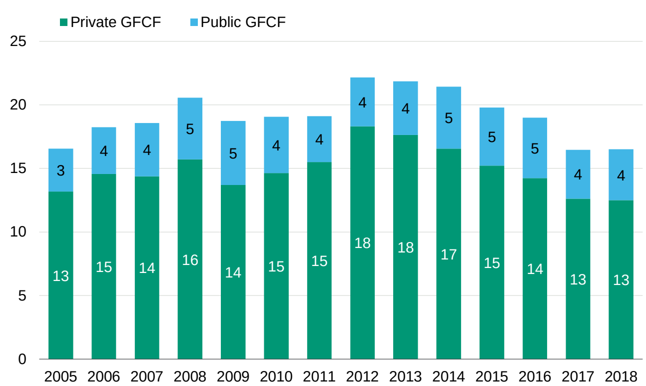
According to the International Monetary Fund (IMF), growth in Uruguay over the past decade has been largely driven by total factor productivity (TFP), which can result from sector-specific productivity improvements or favorable terms-of-trade shocks. A likely factor explaining the improvement in productivity 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 to 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 over 20% in 2008 and 2012-13 (see Exhibit 5). Since 2013, this ratio has mostly 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 on FDI to boost growth and build up the country's capital stock, which makes Uruguay more susceptible to shifts in external demand and global economic conditions. We expect that UPM-related investments will likely boost GFGF in 2019-22. That said, we think it is still uncertain that a broader recovery in private investment will take hold.

Exhibit 5

**Investment has been below 20% of GDP since 2015...**

**Gross fixed capital formation, % of GDP**

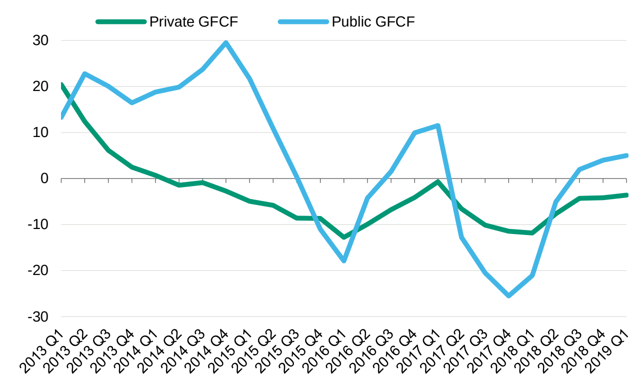



*Sources: Central Bank of Uruguay via Haver Analytics, Moody's Investors Service*

Exhibit 6

**...driven by lower private gross fixed capital formation**

**% change year-on-year, 4-quarter rolling average**

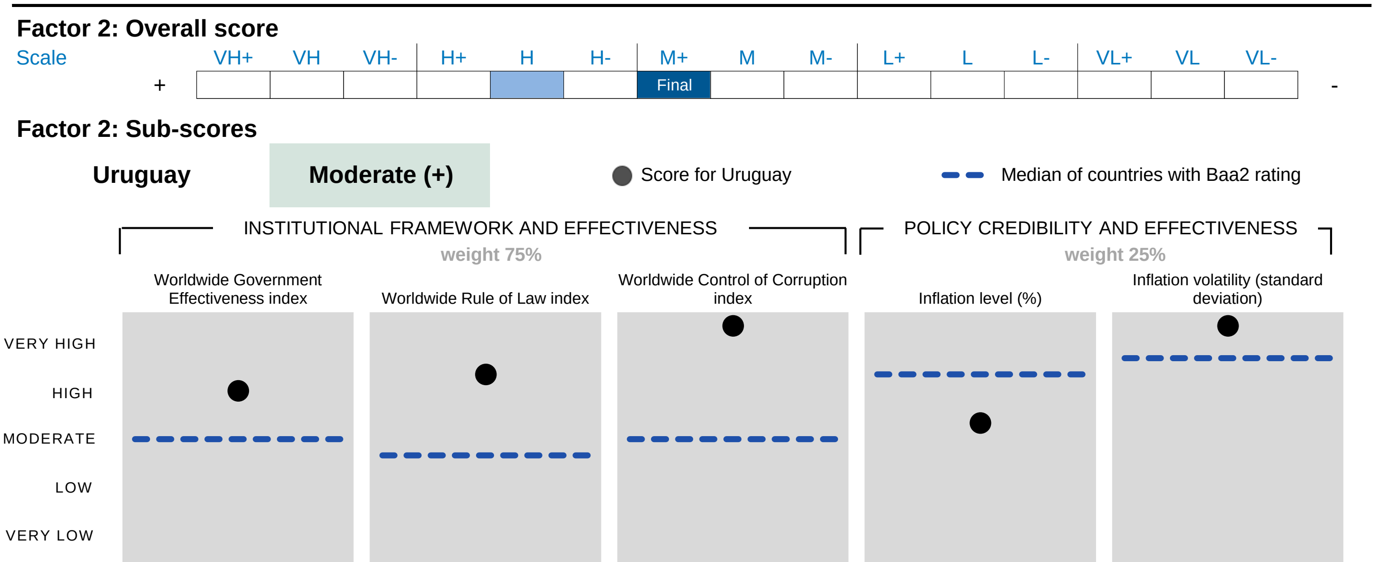



*Sources: Central Bank of Uruguay via Haver Analytics, Moody's Investors Service*

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 – 46,000 jobs have been lost. This, in turn, pushed the unemployment rate to around 9% from about 6% in 2012-13. According to the IMF, Uruguay's labor market may have a suboptimal 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.

Notwithstanding the benefits that the economy will enjoy from the construction of the new UPM plant, the factors that have contributed to a broad decline in investment in the country, and the consequent effect on labor, can structurally hinder potential growth and economic strength for Uruguay. This presents a challenge for the next administration that will take office in March 2020.

## Institutional strength: Moderate (+)




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: The Scorecard-indicated outcome is shown in light blue in the scale above. In case the Scorecard-Indicated outcome and Final scores are the same, only the Final score will appear in the table above.*

Uruguay's institutional strength score is set at "Moderate (+)," below the scorecard-indicated outcome of "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 the Bahamas (Baa3 stable) and the Philippines (Baa2 stable).

Exhibit 7

**Peer comparison table factor 2: Institutional strength**

| | Uruguay Baa2/STA | M+ Median | Bahamas Baa3/STA | Bulgaria Baa2/STA | Hungary Baa3/STA | Philippines Baa2/STA | South Africa Baa3/STA | Colombia Baa2/STA |
|---|---|---|---|---|---|---|---|---|
| **Final score** | M+ | | M+ | M+ | M+ | M+ | M+ | M |
| **Scorecard-indicated outcome** | H | | VH- | H- | H+ | M | H | M |
| **Gov. Effectiveness, percentile [1]** | 62.0 | 59.1 | 67.8 | 58.3 | 65.6 | 43.0 | 59.8 | 42.3 |
| **Rule of Law, percentile [1]** | 70.0 | 53.3 | 58.3 | 48.1 | 68.6 | 29.9 | 48.9 | 33.5 |
| **Control of Corruption, percentile [1]** | 84.6 | 54.3 | 81.7 | 49.6 | 56.9 | 35.0 | 55.4 | 39.4 |
| **Average inflation (%)** | 7.6 | 2.8 | 1.6 | 1.0 | 2.0 | 3.1 | 5.4 | 3.9 |
| **Volatility in inflation (ppts)** | 1.1 | 1.4 | 0.7 | 1.9 | 2.0 | 1.4 | 1.0 | 1.6 |

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

*Source: Moody's Investors Service*

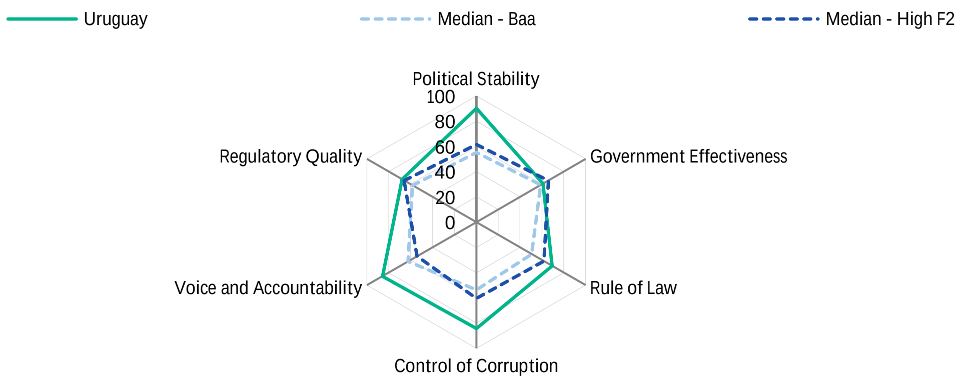
## Strong institutional framework relative to rating peers

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 8). As per the 2017 WGI scores, Uruguay ranks in the 60th percentile for government effectiveness, compared to the Baa median in the 57th percentile; for rule of law Uruguay is in the 68th percentile while the Baa median is in the 49th; and for control of corruption Uruguay is in the 83rd percentile, much higher than the 52nd 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 8

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

**Percentile rank among Moody's rated sovereigns, 2017**




*Sources: Worldwide Governance Indicators, Moody's Investors Service*

## Monetary policy credibility hampered by persistently high inflation

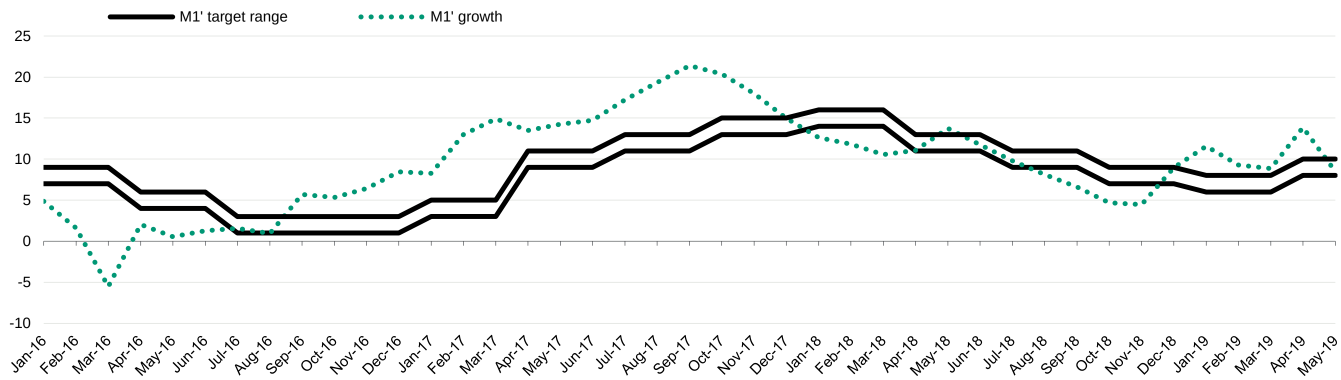
For most countries, we gauge the credibility and effectiveness of macroeconomic policymaking by looking at the evolution of inflation – both in terms of levels and volatility – because monetary policy can address inflationary pressures, while loose fiscal policy can push prices up. Uruguay has an inflation 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 2018 at 8.0%, outside of the target band after landing within the band for the first time since 2010 in 2017. However, given an increase in food prices because of the drought, and higher tradable goods costs following the peso depreciation, inflation will likely end 2019 around 7.5% (at the end of June, inflation fell to 7.4%). Barring any new shocks, inflation should begin to converge with the target range in 2020.

There are several factors affecting inflation dynamics. One of them is the evolution of the exchange rate, given the high inflationary pass-through effect of the exchange rate given 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 throughout the remainder of 2018 and the first half of 2019 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 9). The monetary policy stance then became more expansionary in the second quarter of 2017, even as M1' growth exceeded the target. As the economy decelerated in the second half of 2017, demand for local currency moderated. The authorities began tightening in reaction to the price shocks. Yet as of the April CCM communication, the authorities have moderated their tightening and moved to an M1' range of 8%-10% from 6%-8%, given the slowdown in economic activity.

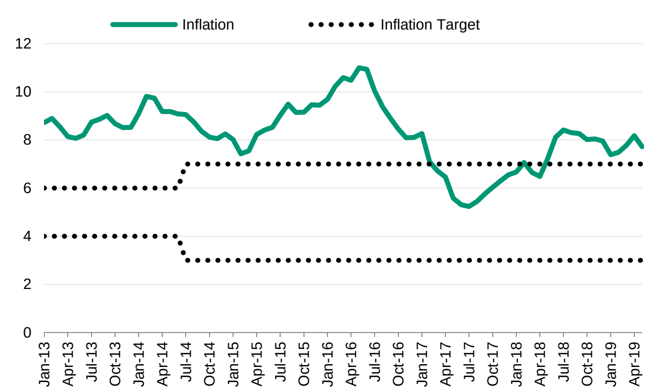
Exhibit 9
**Monetary aggregate (M1`): actual vs. target**
**%, annual growth**




Note: 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*

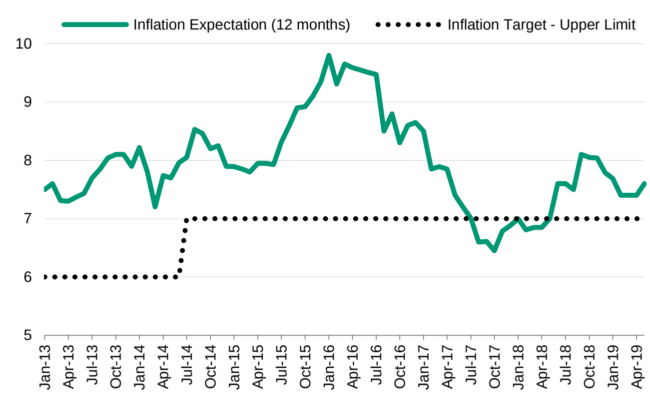
Uruguay's monetary authorities have a limited track record of effectively containing inflation within the target range (see Exhibit 10) and expectations are that it will end 2019 above the upper limit (see Exhibit 11). This in part reflects more moderate increases in wages in recent years, which in turn helps contain the increase in non-tradable prices. Anchoring inflation expectations closer to the target range is especially important for salary negotiations. Authorities were able to implement guidelines for nominal increases in wages in the last round of negotiations, rather than anchoring them to past inflation rates, to better reflect productivity and sector-specific dynamics. Unlinking wages from inflation, i.e., removing an element of inflation inertia in Uruguay, could lead to a structurally 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 10
**Inflation converged with target in 2017 but reverted to above target range levels in 2018...**
**%**




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

Exhibit 11
**...returning inflation expectations to between 7%-8%**
**%**

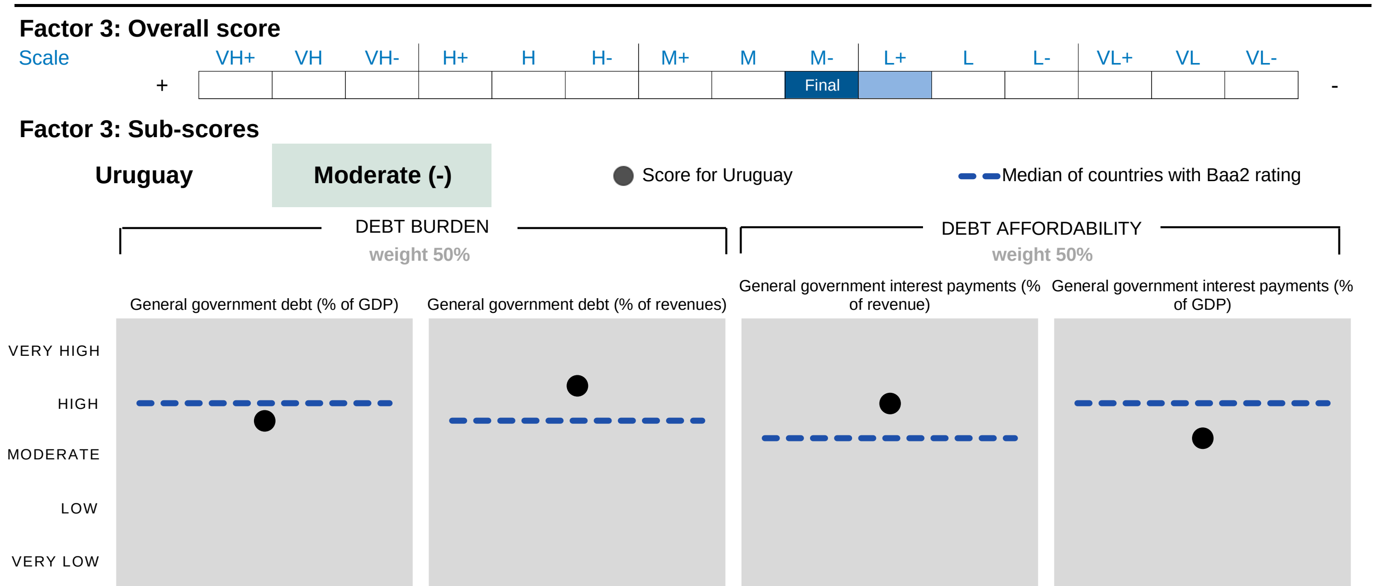



*Sources: Central Bank of Uruguay via Haver Analytics, Moody's Investors Service*

### A mixed track record has undermined fiscal policy credibility

Between 2005-11, fiscal deficits never exceeded 1.5% of GDP at the consolidated central government level underpinned by higher-than-expected government revenue which reflected above-potential growth fueled by the commodity super cycle and an investment boom. During this period, the authorities met fiscal deficit targets[2] even though they increased spending on pensions and other social transfers, as higher-than-expected government revenue allowed them to do so. However, the decision to increase spending ultimately led to a deterioration of the fiscal accounts on a structural basis. The structural and the headline deficits peaked at 4.7% and 3.8% of GDP in 2016, as economic growth slowed and the commodity boom ended. Since then, fiscal deficits have remained relatively elevated coming above 3.0% of GDP at the consolidated central government level and reflect the effect of below-potential growth on government revenue as well as the presence of persistent upward pressures on spending coming from what the government refers to as “endogenous” – i.e., difficult to adjust – spending items, e.g., pensions, transfers. The end result has been that the government has acknowledged it will not be able to meet the medium-term fiscal deficit target of 2.5% of GDP set in its initial multi-year fiscal plan (presented in 2015) in 2019 or 2020 as it had revised last year. This decision somewhat undermines fiscal policy credibility.

## Fiscal strength: Moderate (-)




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

*Note: The Scorecard-indicated outcome is shown in light blue in the scale above. In case the Scorecard-Indicated outcome and Final scores are the same, only the Final score will appear in the table above.*

We set Uruguay's fiscal strength score at “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. The “Moderate (-)” score differs from the scorecard-indicated “Low (-) score because we consider that the negative adjustment overstates risks caused by the large share of foreign-currency debt given the presence of sizable liquid buffers. Uruguay shares this score with Colombia (Baa2 stable).

Exhibit 12

**Peer comparison table factor 3: Fiscal strength**

| | Uruguay Baa2/STA | M- Median | Colombia Baa2/STA | Indonesia Baa2/STA | Philippines Baa2/STA | Portugal Baa3/STA | Mauritius Baa1/STA | Italy Baa3/STA |
|---|---|---|---|---|---|---|---|---|
| **Final score** | M- | | M- | M | M | L+ | M | L+ |
| **Scorecard-indicated outcome** | L+ | | M- | M | M | M- | H- | L+ |
| **Gen. gov. debt/GDP** | 52.0 | 51.1 | 52.6 | 29.8 | 38.7 | 121.5 | 57.4 | 132.2 |
| **Gen. gov. debt/revenue** | 177.6 | 193.9 | 198.5 | 227.5 | 238.1 | 279.2 | 256.0 | 284.5 |
| **Gen. gov. interest payments/GDP** | 2.8 | 2.1 | 2.9 | 1.7 | 2.0 | 3.4 | 2.3 | 3.7 |
| **Gen. gov. int. payments/revenue** | 9.6 | 8.4 | 10.8 | 12.8 | 12.3 | 7.9 | 10.8 | 8.0 |

*Source: Moody's Investors Service*

### Central government deficit will remain greater than 3% through 2020

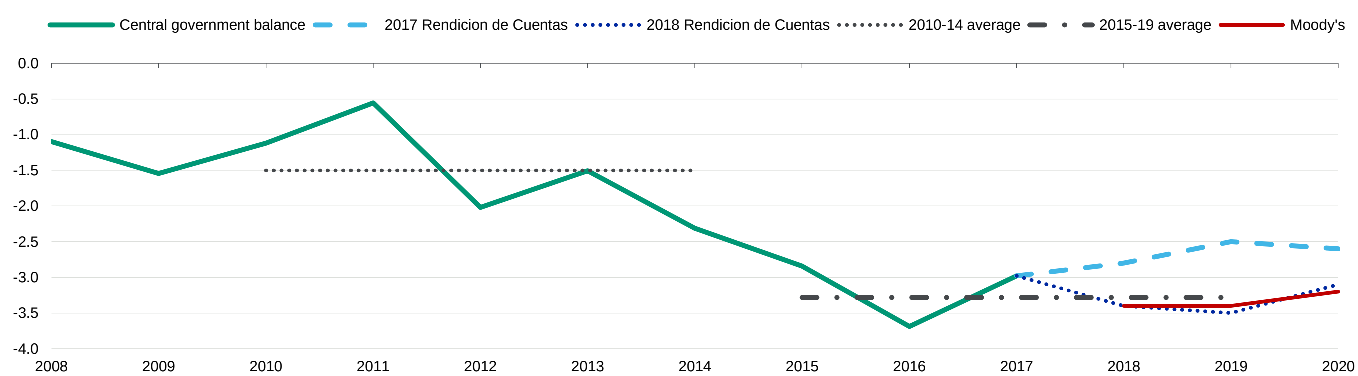
The central government deficit gradually widened to 3.7% in 2016 from 1.5% in 2013, driven by slower economic growth and higher "endogenous" expenditures. We expect that under the current administration, which is in the last year of its term (2015-19), the central government deficit will average 3.3% of GDP, 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.[3] 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 2018, the central government deficit expanded to 3.4% from 3.0% of GDP in 2017 (see Exhibit 13). The benefits of the revenue measures implemented by the authorities in 2017 had worn off[4] and implementing any expenditure reforms would not have been popular with either the electorate or the political class, given upcoming elections later this year. Thus, expenditures increased by 0.7 percentage points in 2018, driven by increases in most line items.

Exhibit 13

**Central government fiscal deficit has widened**

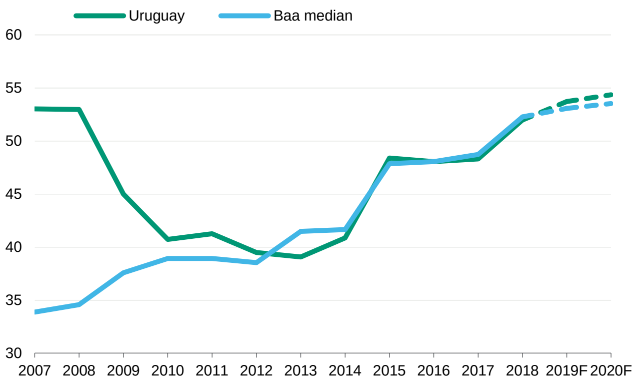
**% of GDP**




*Sources: Ministry of Finance, Moody's Investors Service*

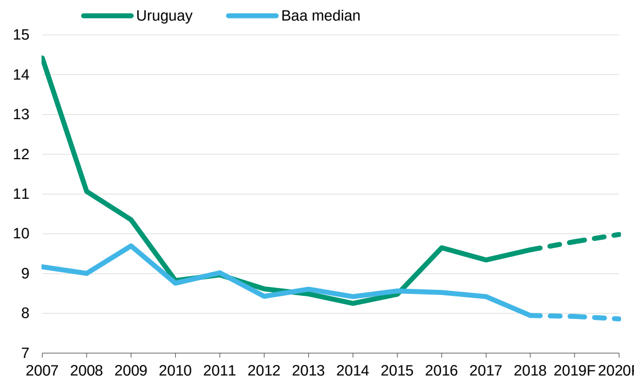
Our baseline assumes that the central government deficit will remain above 3% of GDP in 2019-20, pushing Uruguay's debt ratio to around 53% of GDP during this period (see Exhibit 14). At this level, the debt burden will be in line with the median for 'Baa' rated sovereigns. Still, the relatively high exposure of government finances to currency depreciation implies that debt affordability – as measured by interest payments-to-revenue – will likely worsen relative to peers (see Exhibit 15).

Exhibit 14
**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 15
**...but interest burden diverging from peers**
**Interest payments as % of government revenue**

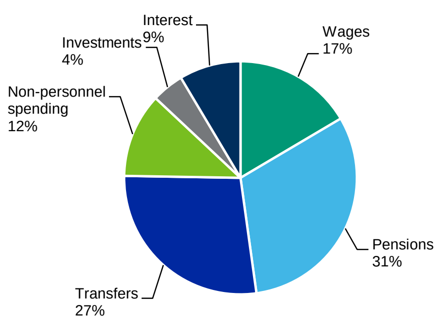



*Sources: Ministry of Finance, Moody's Investors Service*

## Inflexible expenditure structure poses medium-term risks

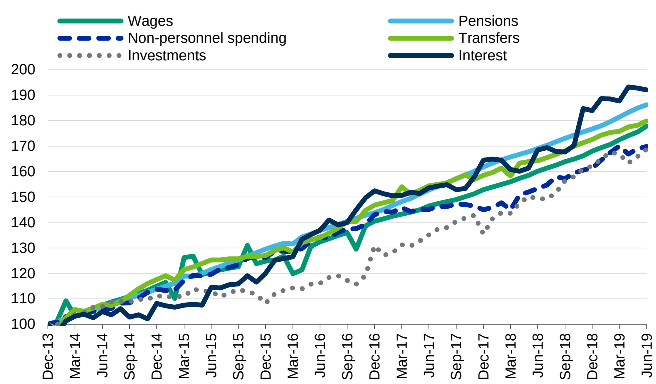
The rigidity of Uruguay's expenditure structure poses important medium-term challenges to public finances. Non-investment spending accounts for 96% of the total (see Exhibit 16), with the so-called endogenous expenditures, which are difficult to adjust, representing almost 59% of total spending (68% when interest payments are included).

Exhibit 16
**Uruguay's expenditure structure is rigid**
**% of total spending, 12-months through June 2019**




*Sources: Ministry of Finance, Moody's Investors Service*

Exhibit 17
**Indexed expenditures have been the fastest growing items**
**Index, 12-month rolling in nominal terms; December 2013 = 100**




*Sources: Ministry of Finance, Moody's Investors Service*

Despite some revenue and light spending measures taken by the authorities over the last five years, indexed expenditures have increased linearly (see Exhibit 17). The growth in 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, was used once again during the 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. This, in turn, contributed to an increase in pension outlays as a share of GDP, which are now around two percentage points of GDP higher than a decade ago. Authorities expect pensions to grow at a more moderate rate going forward, in line with the economy.

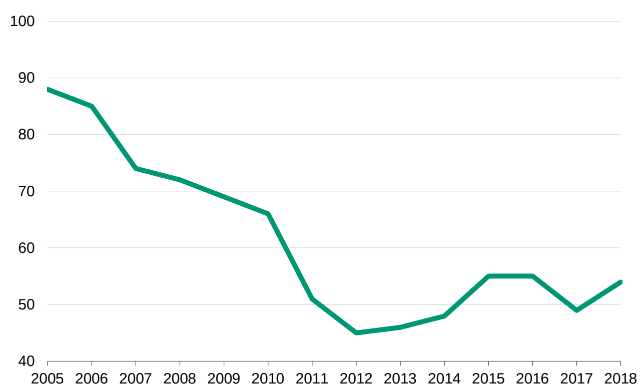
Other elements, in addition to Uruguay's aging population, have also contributed to increased pension-related pressures on the fiscal accounts in recent years and could continue to do so if left unaddressed. One such issue was the increase in the number of pensioners resulting from changes that were 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 requires annually about 1% of GDP in transfers from the government. Additionally, after passing a law in 2017, people over 50 years old or more as of 1 April 2016 were allowed to transfer from the individual defined contribution system to the public defined benefit system. While this has boosted 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 March 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 still significant 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.[5] During the first half of 2019 the peso depreciated by around 7%. We expect the exchange rate to remain at this new level of about UYU35/USD barring any new shocks. Consequently, the impact on debt metrics would be more contained than in previous episodes of exchange rate volatility.

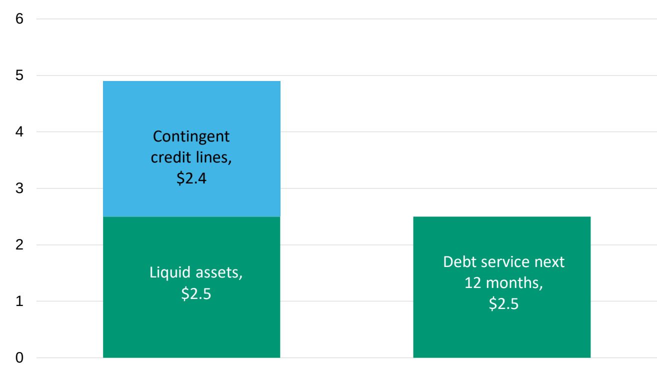
Importantly, the government has $2.5 billion (4.3% of GDP) in liquid assets – mostly held in foreign currency – and another $2.4 billion (4.1% of GDP) in contingent credit lines that would allow it to fully cover 12 months of debt service requirements (see Exhibit 19), providing sufficient buffer against heightened global market volatility. Additionally, because of the government's liability management, the government has also reduced potential risks by extending the average maturity on its debt (which stood at 13.9 years as of June 2019).

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**
**$ billions, as of March 2019**



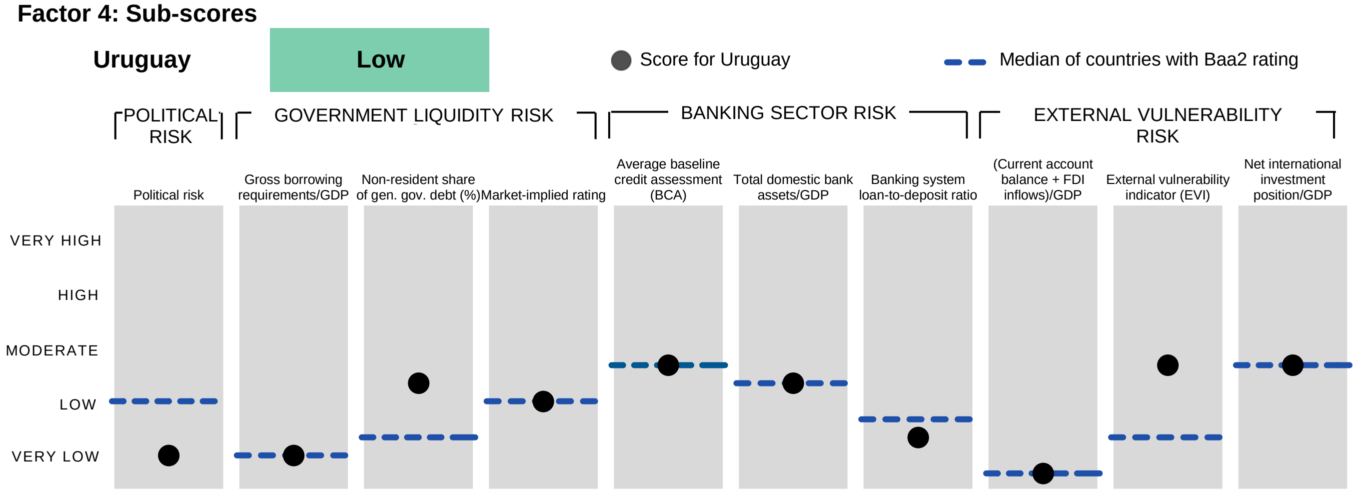

*Sources: Ministry of Finance, Moody's Investors Service*

## Susceptibility to event risk: Low

**Factor 4: Overall score**

| Scale | VL- | VL | VL+ | L- | L | L+ | M- | M | M+ | H- | H | H+ | VH- | VH | VH+ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| + | | | | | Final | | | | | | | | | | | - |

**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 Scorecard-Indicated outcome 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 negative) and Peru (A3 stable).

### Political risk: Very Low

Exhibit 20

**Peer comparison table factor 4a: Political risk**

| | Uruguay | | Bahamas | Mauritius | Panama | Portugal | Trinidad & Tobago | Cyprus |
|---|---|---|---|---|---|---|---|---|
| | Baa2/STA | | Baa3/STA | -- | Baa1/STA | Baa3/STA | Ba1/STA | Ba2/STA |
| **Final score** | VL | | VL | -- | VL | VL | VL+ | VL |
| **Geopolitical risk** | VL | -- | VL | -- | VL | VL | VL | VL |
| **Domestic political risk** | VL | -- | VL | -- | VL | VL | VL+ | VL |

*Source: Moody's Investors Service*

Political event risk is "Very Low" because of the policy continuity that various governments throughout the political spectrum have maintained. 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 non-consecutive term in office. The macroeconomic policies pursued by this administration have been 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 included narrowing the fiscal deficit in a lower growth environment, reducing inflation and pursuing reforms to add dynamism to economic activity.

This is the last full year of the current administration's term, which officially ends in March 2020. General elections are scheduled for 27 October. If none of the presidential candidates win 50% of the vote, the electorate will return to the polls in November for a runoff vote. The winner of the election will likely be from one of the three dominant political parties, which include the Frente Amplio (Daniel

Martinez), Partido Nacional (Luis Lacalle Pou) and Partido Colorado (Ernesto Talvi). As of writing, polls show that a runoff election would likely take place in November and no party would have a majority in congress.

In terms of the three parties' policy agendas, we would expect to see the most aggressive fiscal reforms from the Partido Nacional, followed by the Partido Colorado. We would expect more policy continuity from the Frente Amplio.

### Government liquidity risk: Low (-)

Exhibit 21

**Peer comparison table factor 4b: Government liquidity risk**

| | Uruguay Baa2/STA | L- Median | Bahamas Baa3/STA | Colombia Baa2/STA | Indonesia Baa2/STA | Mauritius Baa1/STA | Hungary Baa3/STA | Spain Baa1/STA |
|---|---|---|---|---|---|---|---|---|
| **Final score** | L- | | L- | L- | L- | L- | L | L |
| **Scorecard-indicated outcome** | L- | | L- | VL+ | VL | VL- | VL+ | VL |
| **Gross borrowing req./GDP** | 5.4 | 5.4 | 4.8 | 6.2 | 4.7 | 15.1 | 21.0 | 16.3 |
| **Gen. gov. ext. debt/gen. gov. debt** | 52.2 | 43.8 | 36.4 | 32.7 | 61.2 | 17.0 | 39.4 | 45.6 |
| **Market funding stress indicator** | Baa2 | Ba1 | Ba2 | Baa1 | Baa1 | -- | A3 | Aa1 |

*Source: Moody's Investors Service*

Uruguay's "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 Baa2-Baa3 range throughout 2019. This volatility can lead to changes in the scorecard-indicated outcome, which as of publication is "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. 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.

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 75% of total debt (by jurisdiction).[6] This compares with a Baa median of about 43%. 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 event that Uruguay were shut out of the international markets, its liquidity policy of holding fiscal reserves (in cash) that cover over 12 months of debt service, including interest and principal, significantly reduces 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 22

| Peer comparison table factor 4c: Banking sector risk | Uruguay Baa2/STA | L Median | Bahamas Baa3/STA | Mauritius Baa1/STA | Philippines Baa2/STA | Thailand Baa1/POS | Slovenia Baa1/POS | Colombia Baa2/STA |
|---|---|---|---|---|---|---|---|---|
| **Final score** | L | | L+ | L+ | L+ | L+ | M- | L |
| **Scorecard-indicated outcome** | L | | L+ | M- | L+ | L+ | M- | L |
| **Baseline credit assessment** | ba1 | baa2 | -- | ba1 | baa3 | baa3 | ba1 | ba1 |
| **Total dom. bank assets/GDP** | 66.3 | 152.3 | -- | -- | 83.2 | 157.6 | 88.4 | 64.1 |
| **Loan-to-deposit ratio** | 63.9 | 104.5 | 98.4 | -- | 78.5 | 107.9 | 88.1 | 94.6 |

*Source: Moody's Investors Service*

We assess banking sector risk in Uruguay as "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 63% of GDP in 2018, of which about half were loans. We rate six banks in Uruguay, which held almost 78% of total loans as of May 2019. The rated banks' average standalone Baseline Credit Assessment (BCA) is ba1, 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 of nine foreign banks and a number of specialized franchises of foreign institutions. Foreign ownership of total assets in the banking system is about 49% 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 3.2% of gross loans in May 2019, 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 around 73% of the total, while dollar-denominated loans remain high at approximately half of the system's lending portfolio.

## External vulnerability risk: Low

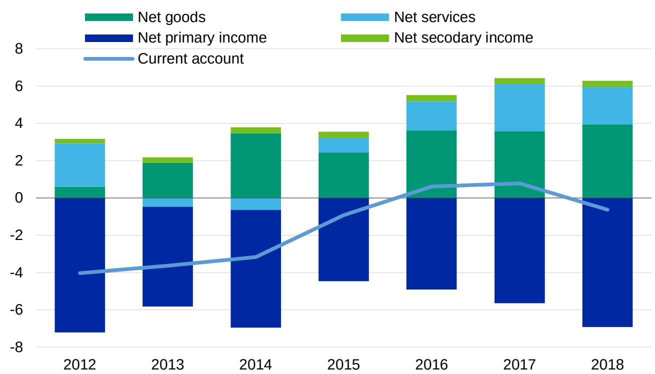
Exhibit 23

| Peer comparison table factor 4d: External vulnerability risk | Uruguay Baa2/STA | L Median | Bulgaria Baa2/STA | Paraguay Ba1/STA | Mauritius Baa1/STA | St. Maarten Baa3/STA | Azerbaijan Ba2/STA | Philippines Baa2/STA |
|---|---|---|---|---|---|---|---|---|
| **Final score** | L | | VL+ | L- | VL+ | VL+ | VL+ | VL |
| **Scorecard-indicated outcome** | L | | VL+ | L- | VL- | VL | L | VL- |
| **(Curr. acc. bal. + FDI inflows)/GDP** | 4.0 | -0.6 | 8.6 | 1.7 | 61.6 | 7.5 | 15.9 | 0.6 |
| **External vulnerability indicator (EVI)** | 100.8 | 67.2 | 65.5 | 95.2 | 6.7 | 66.8 | 116.2 | 23.5 |

*Source: Moody's Investors Service*

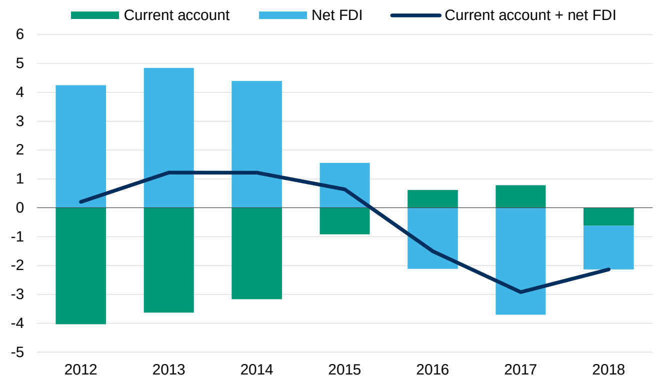
Uruguay's current account balance was in surplus 2016-17 and then fell back into deficit in 2018 (see Exhibit 24). The goods surplus has expanded in recent years because imports fell as oil prices declined and lower investment – and FDI – led to a decrease in imports of capital goods. Before last year, the economic recovery in Argentina 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 primary 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 25). The shift to a current account surplus had limited the risk of external debt accumulation over recent years, however, that reversed last year.

Exhibit 24
**Current account components**
**% of GDP**




*Sources: Haver Analytics, Moody's Investors Service*

Exhibit 25
**FDI coverage of current account deficit**
**% of GDP**



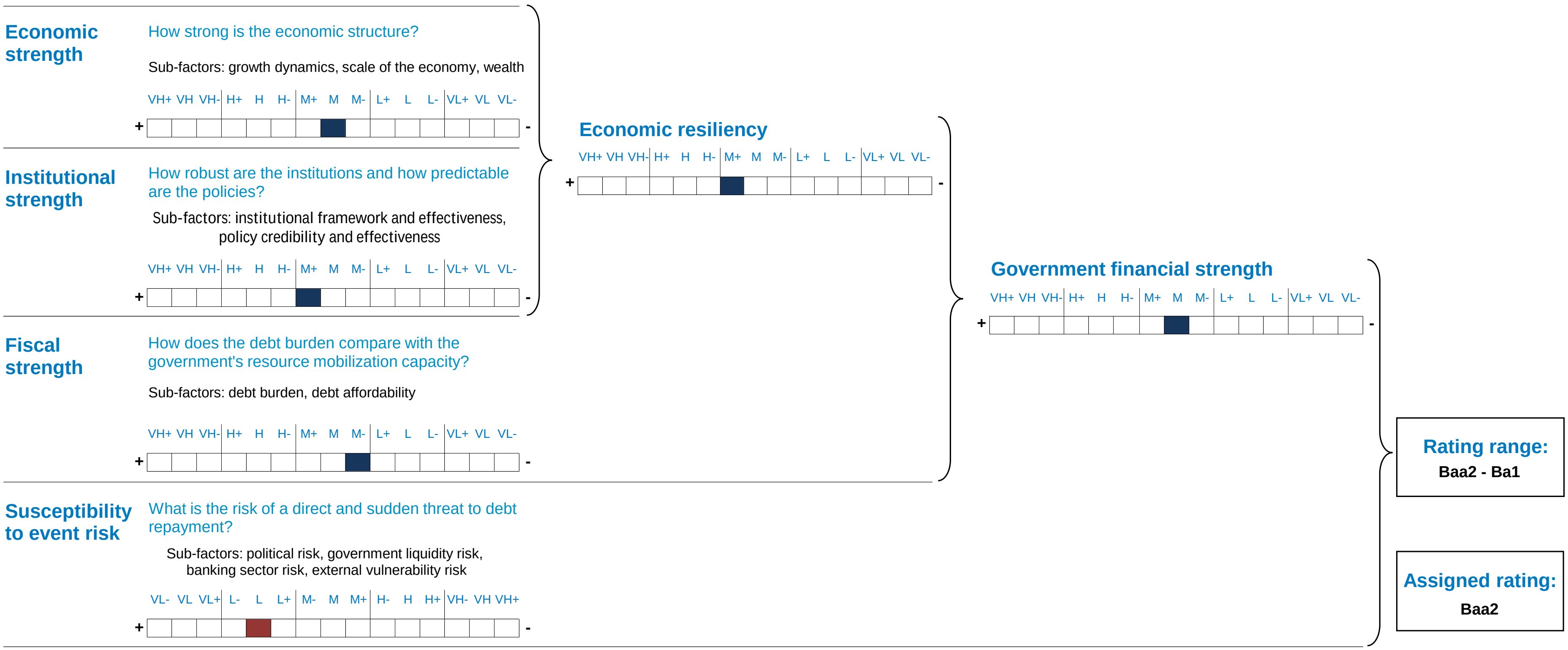

*Sources: Haver Analytics, Moody's Investors Service*

While Uruguay has a negative net international investment position – -26.6% of GDP in 2018 – about 60% of its total liabilities are related to FDI. This, in turn, reduces the country's vulnerabilities to shifts in capital flows. Meanwhile, international reserve assets account for about 25% 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 26
**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 27

**Uruguay's key peers**

| | Year | Uruguay | Bahamas | Colombia | Romania | Indonesia | South Africa | Baa2 Median | Latin America and Caribbean Median |
|---|---|---|---|---|---|---|---|---|---|
| Rating/Outlook | | Baa2/STA | Baa3/STA | Baa2/STA | Baa3/STA | Baa2/STA | Baa3/STA | Baa2 | Ba3 |
| Rating Range | | Baa2 - Ba1 | Baa3 - Ba2 | Baa1 - Baa3 | Baa2 - Ba1 | Baa1 - Baa3 | Baa1 - Baa3 | Baa1 - Baa3 | Ba2 - B1 |
| **Factor 1** | | **M** | **M-** | **H** | **M+** | **H+** | **M+** | **H** | **M-** |
| Nominal GDP (US$ bn) | 2018 | 59.6 | 12.6 | 331.0 | 239.6 | 1042.2 | 368.1 | 331.0 | 50.2 |
| GDP per capita (PPP, US$) | 2018 | 23274.1 | 33494.2 | 14943.5 | 26446.7 | 13229.5 | 13675.3 | 14086.5 | 15024.4 |
| Avg. real GDP (% change) | 2014-2023 | 2.0 | 0.9 | 3.1 | 4.0 | 5.0 | 1.3 | 4.1 | 2.1 |
| Volatility in real GDP growth (ppts) | 2009-2018 | 2.1 | 2.0 | 1.9 | 3.9 | 0.6 | 1.4 | 1.9 | 2.3 |
| Global Competitiveness index | 2017 | 4.2 | -- | 4.3 | 4.3 | 4.7 | 4.3 | 4.4 | 4.1 |
| **Factor 2** | | **M+** | **M+** | **M** | **M** | **M** | **M+** | **M+** | **L+** |
| Government Effectiveness, percentile [1] | 2017 | 62.0 | 67.8 | 42.3 | 35.0 | 46.7 | 59.8 | 47.8 | 38.6 |
| Rule of Law, percentile [1] | 2017 | 70.0 | 58.3 | 33.5 | 62.7 | 34.3 | 48.9 | 41.2 | 33.5 |
| Control of Corruption, percentile [1] | 2017 | 84.6 | 81.7 | 39.4 | 54.7 | 45.2 | 55.4 | 45.6 | 39.4 |
| Average inflation (% change) | 2014-2023 | 7.6 | 1.6 | 3.9 | 2.0 | 3.9 | 5.4 | 3.9 | 3.1 |
| Volatility in inflation (ppts) | 2009-2018 | 1.1 | 0.7 | 1.6 | 2.8 | 1.7 | 1.0 | 1.7 | 1.7 |
| **Factor 3** | | **M-** | **L** | **M-** | **M+** | **M** | **M+** | **M** | **M-** |
| Gen. gov. debt/GDP | 2018 | 52.0 | 58.4 | 52.6 | 35.0 | 29.8 | 57.2 | 45.4 | 52.3 |
| Gen. gov. debt/revenue | 2018 | 177.6 | 354.6 | 198.5 | 109.2 | 227.5 | 195.2 | 213.0 | 224.2 |
| Gen. gov. interest payments/revenue | 2018 | 9.6 | 15.4 | 10.8 | 3.7 | 12.8 | 12.6 | 11.6 | 10.5 |
| Gen. gov. interest payments/GDP | 2018 | 2.8 | 2.5 | 2.9 | 1.2 | 1.7 | 3.7 | 2.4 | 2.4 |
| Gen. gov. financial balance/GDP | 2018 | -3.4 | -3.3 | -2.2 | -3.0 | -1.8 | -4.4 | -2.8 | -2.5 |
| **Factor 4** | | **L** | **L+** | **L+** | **M-** | **L** | **L+** | **L+** | **M** |
| Current account balance/GDP | 2018 | -0.6 | -14.1 | -3.9 | -4.5 | -3.0 | -3.5 | -2.3 | -2.9 |
| Gen. gov. external debt/gen. gov. debt | 2018 | 52.2 | 36.4 | 32.7 | 45.8 | 61.2 | 46.8 | 39.2 | 55.5 |
| External vulnerability indicator (EVI) | 2020F | 100.8 | 43.7 | 93.6 | 158.2 | 52.6 | 112.0 | 67.7 | 61.5 |

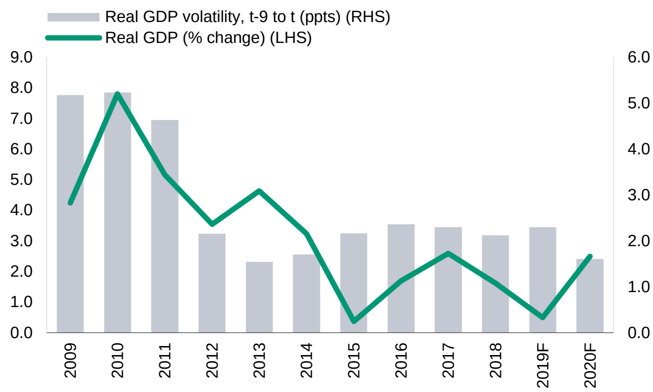
[1] Moody's calculations. Percentiles based on our rated universe.

*Source: Moody's Investors Service*

# DATA, CHARTS AND REFERENCES

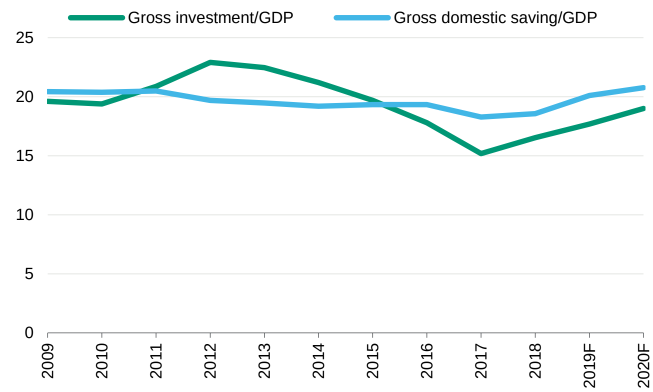
## Chart pack: Uruguay

Exhibit 28
### Economic growth



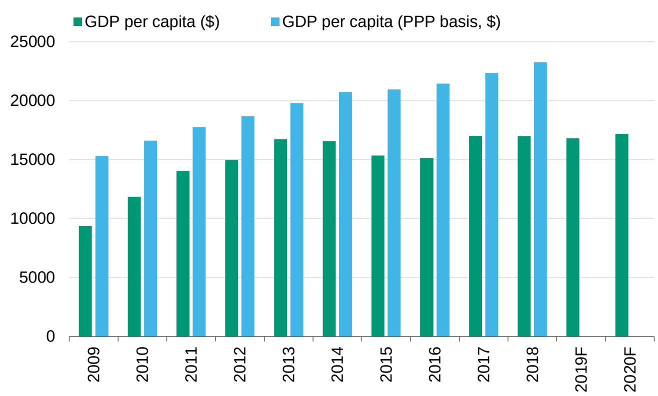

*Source: Moody's Investors Service*

Exhibit 29
### Investment and saving



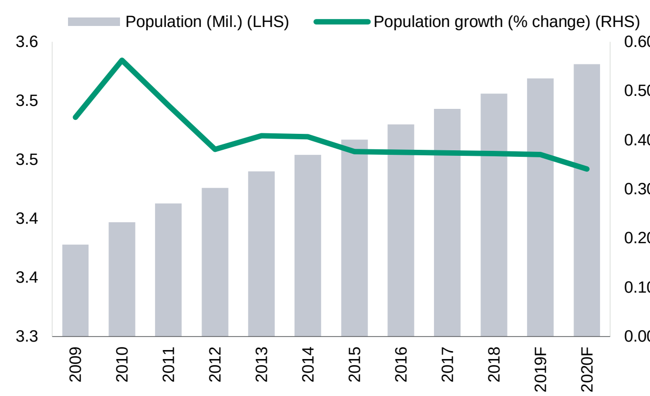

*Source: Moody's Investors Service*

Exhibit 30
### National income



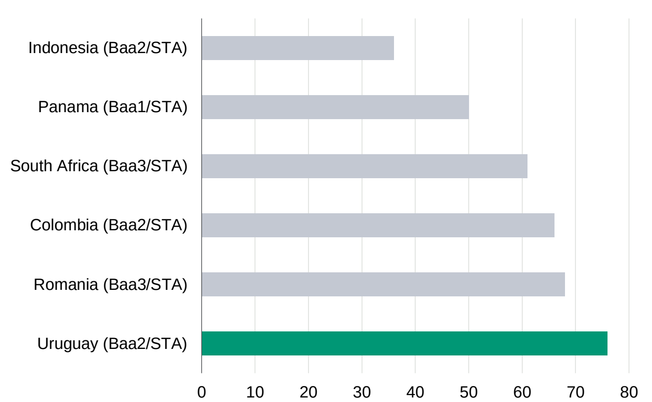

*Source: Moody's Investors Service*

Exhibit 31
### Population



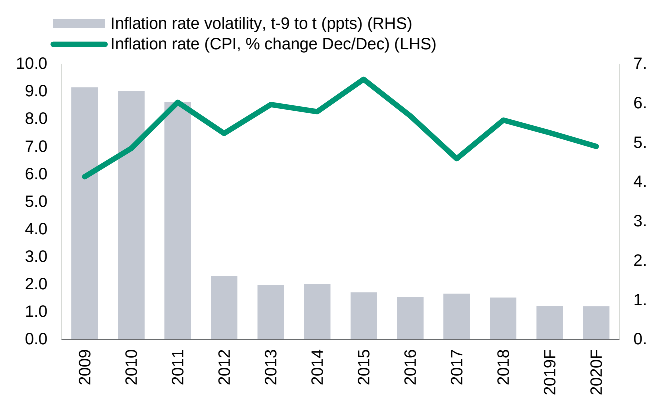

*Source: Moody's Investors Service*

Exhibit 32
### Global Competitiveness Index
**Rank 76 out of 138 countries**



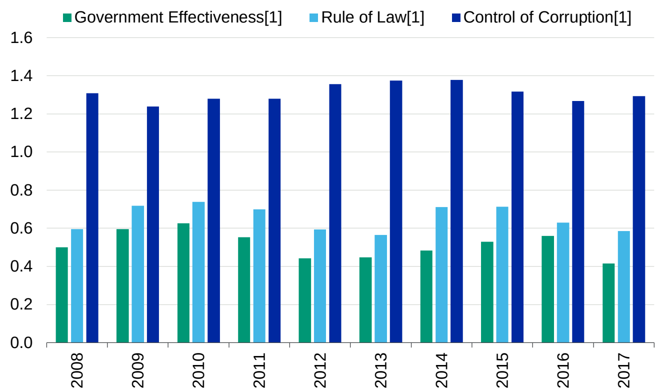

*Source: World Economic Forum*

Exhibit 33
### Inflation and inflation volatility



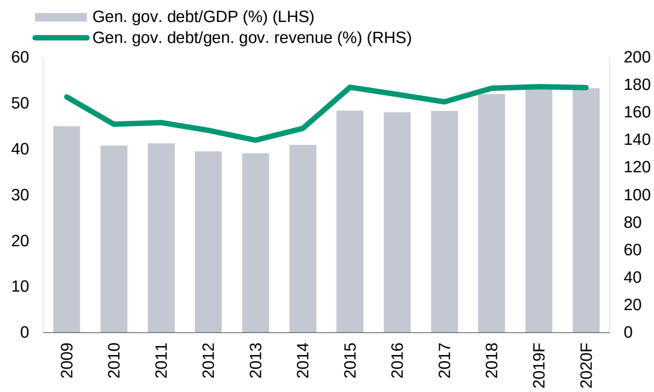

*Source: Moody's Investors Service*

Exhibit 34
### Institutional framework and effectiveness



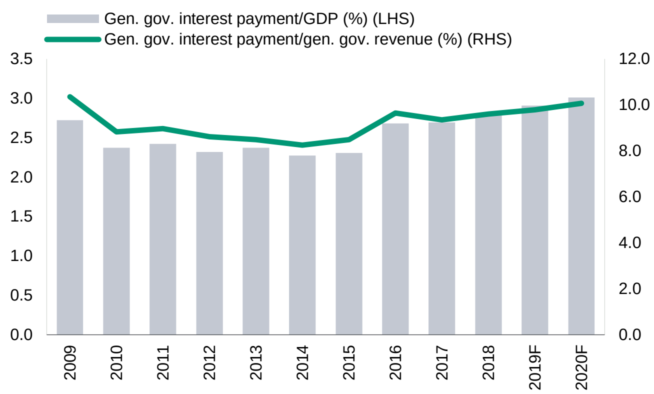

Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
*Source: Worldwide Governance Indicators*

Exhibit 35
### Debt burden



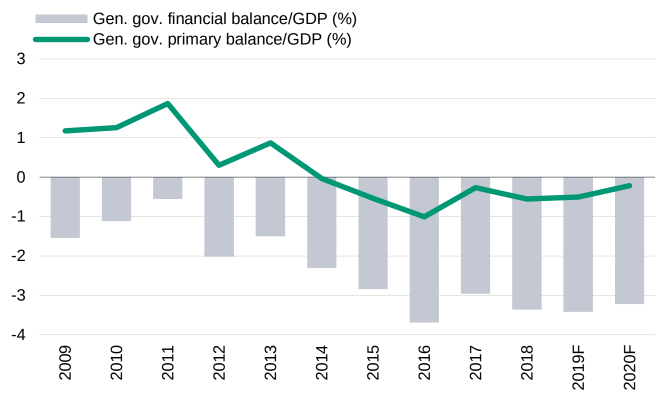

*Source: Moody's Investors Service*

Exhibit 36
### Debt affordability



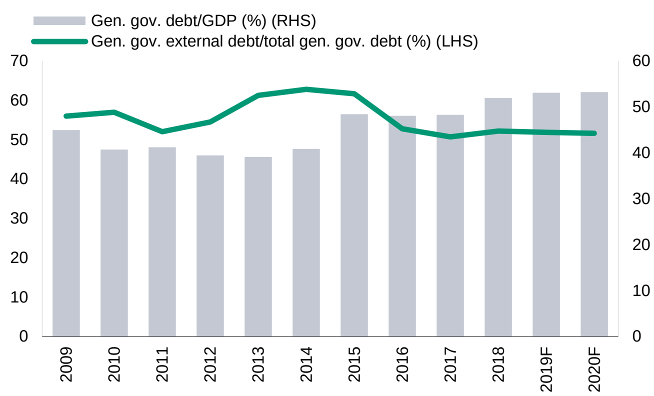

*Source: Moody's Investors Service*

Exhibit 37
### Financial balance



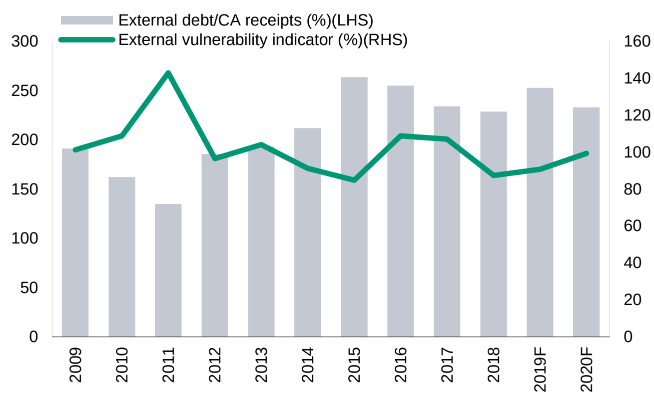

*Source: Moody's Investors Service*

Exhibit 38
### Government liquidity risk




*Source: Moody's Investors Service*

Exhibit 39
### External vulnerability risk




*Source: Moody's Investors Service*

## Rating history

Exhibit 40

### 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 41
**Uruguay**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019F | 2020F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Economic structure and performance** | | | | | | | | | | | | |
| Nominal GDP (US$ bil.) | 31.7 | 40.3 | 48.0 | 51.3 | 57.5 | 57.2 | 53.3 | 52.7 | 59.5 | 59.6 | 59.1 | 60.8 |
| Population (Mil.) | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| GDP per capita (US$) | 9,373 | 11,859 | 14,053 | 14,963 | 16,724 | 16,571 | 15,366 | 15,140 | 17,043 | 16,999 | 16,806 | 17,207 |
| GDP per capita (PPP basis, US$) | 15,326 | 16,623 | 17,763 | 18,669 | 19,798 | 20,744 | 20,963 | 21,469 | 22,374 | 23,274 | -- | -- |
| Nominal GDP (% change, local currency) | 12.3 | 13.1 | 14.6 | 12.4 | 13.2 | 12.9 | 9.4 | 9.2 | 7.4 | 7.3 | 8.3 | 9.9 |
| Real GDP (% change) | 4.2 | 7.8 | 5.2 | 3.5 | 4.6 | 3.2 | 0.4 | 1.7 | 2.6 | 1.6 | 0.5 | 2.5 |
| Inflation (CPI, % change Dec/Dec) | 5.9 | 6.9 | 8.6 | 7.5 | 8.5 | 8.3 | 9.4 | 8.1 | 6.6 | 8.0 | 7.5 | 7.0 |
| Gross investment/GDP | 19.6 | 19.4 | 20.9 | 22.9 | 22.5 | 21.2 | 19.7 | 17.8 | 15.2 | 16.5 | 17.7 | 19.0 |
| Gross domestic saving/GDP | 20.4 | 20.4 | 20.5 | 19.7 | 19.5 | 19.2 | 19.3 | 19.3 | 18.3 | 18.6 | 20.1 | 20.8 |
| Nominal exports of G & S (% change, US$ basis) | -6.5 | 23.7 | 19.4 | 4.9 | 1.1 | 0.3 | -11.1 | -5.7 | 13.0 | -1.9 | 4.0 | 4.5 |
| Nominal imports of G & S (% change, US$ basis) | -21.7 | 22.7 | 26.0 | 16.1 | 1.5 | -3.6 | -16.7 | -13.9 | 4.2 | 3.7 | 2.5 | 8.0 |
| Openness of the economy[1] | 53.4 | 51.7 | 53.2 | 55.1 | 49.7 | 49.1 | 45.3 | 41.3 | 39.8 | 40.0 | 41.6 | 43.0 |
| Government Effectiveness[2] | 0.6 | 0.6 | 0.6 | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | 0.4 | -- | -- | -- |
| **Government finance** | | | | | | | | | | | | |
| Gen. gov. revenue/GDP[3] | 26.3 | 26.9 | 27.0 | 26.9 | 28.0 | 27.6 | 27.2 | 27.8 | 28.8 | 29.3 | 29.7 | 29.9 |
| Gen. gov. expenditures/GDP | 27.8 | 28.0 | 27.6 | 28.9 | 29.5 | 29.9 | 30.0 | 31.5 | 31.8 | 32.6 | 33.2 | 33.1 |
| Gen. gov. financial balance/GDP[3] | -1.5 | -1.1 | -0.6 | -2.0 | -1.5 | -2.3 | -2.8 | -3.7 | -3.0 | -3.4 | -3.4 | -3.2 |
| Gen. gov. primary balance/GDP | 1.2 | 1.3 | 1.9 | 0.3 | 0.9 | 0.0 | -0.5 | -1.0 | -0.3 | -0.6 | -0.5 | -0.2 |
| Gen. gov. debt (US$ bil.) | 16.4 | 16.4 | 19.2 | 21.2 | 21.5 | 22.3 | 23.6 | 26.1 | 28.7 | 29.4 | 30.4 | 31.3 |
| Gen. gov. debt/GDP | 45.0 | 40.7 | 41.2 | 39.5 | 39.1 | 40.9 | 48.4 | 48.0 | 48.3 | 52.0 | 53.1 | 53.2 |
| Gen. gov. debt/gen. gov. revenue | 171.1 | 151.4 | 152.6 | 146.8 | 139.7 | 148.2 | 178.1 | 172.9 | 167.6 | 177.6 | 178.6 | 178.0 |
| Gen. gov. interest payments/gen. gov. revenue | 10.4 | 8.8 | 9.0 | 8.6 | 8.5 | 8.3 | 8.5 | 9.6 | 9.3 | 9.6 | 9.8 | 10.1 |
| Gen. gov. FC & FC-indexed debt/gen. gov. debt | 69.4 | 65.9 | 50.7 | 45.0 | 45.6 | 48.2 | 54.8 | 54.7 | 48.7 | 53.8 | 52.5 | 51.5 |
| **External payments and debt** | | | | | | | | | | | | |
| Nominal exchange rate (local currency per US$, Dec) | 19.6 | 20.1 | 19.9 | 19.4 | 21.4 | 24.3 | 29.9 | 29.3 | 28.8 | 32.4 | 34.7 | 37.1 |
| Real eff. exchange rate (% change) | 2.1 | 11.0 | 2.1 | 2.7 | 6.0 | -3.9 | 0.6 | 0.9 | 6.0 | 1.5 | -- | -- |
| Current account balance (US$ bil.) | -0.4 | -0.8 | -1.3 | -2.1 | -2.1 | -1.8 | -0.5 | 0.3 | 0.5 | -0.3 | -0.3 | -1.0 |
| Current account balance/GDP | -1.3 | -1.9 | -2.8 | -4.0 | -3.6 | -3.2 | -0.9 | 0.6 | 0.8 | -0.6 | -0.6 | -1.7 |
| External debt (US$ bil.) | 18.0 | 18.4 | 18.3 | 36.4 | 38.1 | 41.2 | 43.8 | 40.0 | 41.2 | 42.0 | 43.7 | 44.3 |
| Public external debt/total external debt | 73.0 | 71.5 | 78.7 | 45.8 | 47.4 | 46.0 | 43.4 | 44.9 | 45.3 | 45.7 | 36.1 | 36.4 |
| Short-term external debt/total external debt | 27.8 | 28.1 | 22.2 | 21.2 | 23.5 | 22.7 | 20.7 | 17.2 | 15.8 | 15.0 | 16.0 | 15.6 |
| External debt/GDP | 56.8 | 45.7 | 38.2 | 71.0 | 66.2 | 72.0 | 82.1 | 75.9 | 69.1 | 70.5 | 73.9 | 72.9 |
| External debt/CA receipts[4] | 191.3 | 162.4 | 134.9 | 185.7 | 193.1 | 212.0 | 263.6 | 255.3 | 234.0 | 228.7 | 261.2 | 226.0 |
| Interest paid on external debt (US$ bil.)[5] | 0.7 | 0.8 | 0.9 | 0.7 | 1.0 | 0.9 | 1.1 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 |
| Amortization paid on external debt (US$ bil.)[5] | 0.4 | 0.9 | 2.0 | 1.8 | 2.2 | 1.7 | 1.6 | 3.1 | 1.9 | 1.9 | 1.8 | 1.9 |
| Net foreign direct investment/GDP | 4.8 | 5.8 | 5.2 | 4.2 | 4.9 | 4.4 | 1.5 | -2.1 | -3.6 | -1.1 | 0.5 | 1.5 |
| Net international investment position/GDP | -- | -- | -- | -33.7 | -27.1 | -30.4 | -28.7 | -30.0 | -28.3 | -26.6 | -- | -- |
| Official forex reserves (US$ bil.) | 7.6 | 7.2 | 9.8 | 13.1 | 15.7 | 17.0 | 15.2 | 13.1 | 15.6 | 15.1 | 15.0 | 14.8 |
| Net foreign assets of domestic banks (US$ bil.) | 2.8 | 4.9 | 4.8 | 3.7 | 3.0 | 3.0 | 4.8 | 6.0 | 5.9 | 6.2 | -- | -- |

*Source: Moody's Investors Service*

Exhibit 42

**Uruguay, cont.**

| Monetary, external vulnerability and liquidity indicators | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| M2 (% change Dec/Dec) | 14.9 | 31.0 | 22.1 | 10.3 | 13.7 | 6.4 | 9.0 | 14.4 | 13.3 | 10.5 | -- | -- |
| Monetary policy rate (% per annum, Dec 31)[6] | 6.3 | 6.5 | 8.8 | 9.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| Domestic credit (% change Dec/Dec) | -9.4 | 27.7 | 6.2 | 20.2 | 27.4 | 13.8 | 11.8 | 5.0 | 7.7 | 9.9 | -- | -- |
| Domestic credit/GDP | 28.1 | 31.7 | 29.4 | 31.4 | 35.4 | 35.6 | 36.4 | 35.0 | 35.1 | 36.0 | -- | -- |
| M2/official forex reserves (X) | 0.6 | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 | 0.5 | 0.7 | 0.6 | 0.6 | -- | -- |
| Total external debt/official forex reserves | 235.1 | 257.0 | 187.9 | 278.8 | 242.3 | 242.0 | 288.7 | 306.3 | 264.5 | 277.2 | 291.3 | 299.5 |
| Debt service ratio[7][5] | 11.5 | 15.5 | 21.3 | 12.8 | 15.8 | 13.3 | 16.0 | 25.1 | 15.2 | 14.7 | 16.0 | 13.7 |
| External vulnerability indicator (EVI)[8] | 101.3 | 108.8 | 143.0 | 96.5 | 104.2 | 91.3 | 84.9 | 108.9 | 107.1 | 87.5 | 92.0 | 100.8 |
| Liquidity ratio[9] | 23.7 | 20.7 | 33.6 | 49.2 | 57.4 | 70.8 | 60.6 | 62.0 | 64.1 | 61.2 | -- | -- |
| Total liabilities due BIS banks/total assets held in BIS banks | 27.8 | 41.9 | 50.7 | 53.6 | 63.2 | 67.7 | 53.0 | 51.8 | 62.6 | 59.9 | -- | -- |
| "Dollarization" ratio[10] | 71.2 | 68.6 | 67.2 | 66.9 | 68.8 | 72.4 | 75.7 | 72.5 | 69.0 | 69.3 | -- | -- |
| "Dollarization" vulnerability indicator[11] | 66.7 | 67.5 | 67.2 | 65.4 | 64.9 | 67.5 | 71.4 | 79.1 | 72.6 | 73.6 | -- | -- |

[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] Excludes pension transfers related to the 'cincuentones' law starting in 2018
[4] Current Account Receipts
[5] Public sector
[6] Authorities switched to a monetary aggregate target in July 2013
[7] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[8] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[9] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[10] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[11] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

*Source: Moody's Investors Service*

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» **Rating Action:** Moody's affirms Uruguay's Baa2 ratings; maintains stable outlook, 6 August 2019

» **Credit Opinion**: Government of Uruguay – Baa2 stable; Update following rating affirmation, outlook unchanged, 7 August 2019

» **Country Statistics**: Uruguay, Government of, 3 June 2019

» **Outlook**: Sovereigns – Latin America & Caribbean: 2019 outlook stable as growth, debt structures still favorable; political risks rising, 9 January 2019

» **Rating Methodology**: Sovereign Bond Ratings, 27 November 2018

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### Related websites and information sources

» Sovereign risk group web page

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**Authors**
Renzo Merino
*AVP - Analyst*

Calyn Lindquist, CFA
*Associate Analyst*

## Endnotes

1 Venezuela was suspended in 2016 and Bolivia is in the process of joining.

2 Under Uruguay's fiscal framework, it is mandated that within the first six months of taking office every new presidential administration must send to congress a proposed five-year budget to set medium-term fiscal targets at the consolidated public sector level that are to be achieved by the end of the five-year presidential term. The budget and fiscal performance is reviewed on an annual basis in a process known as Rendicion de Cuentas, or Budget Review.

3 While strong economic growth contributed to above-budgeted revenue, which in turn allowed the 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.

4 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.

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

6 A large portion of debt issued in international markets is actually owned by domestic investors. Hence, the share of debt held by nonresidents is closer to 50%.

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