

Uruguay

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Local Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Country Ceiling	BBB+
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Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

Financial Data

Uruguay

USDbn	2018
GDP	59.6
GDP per head (USD 000)	17.2
Population (m)	3.5
International reserves	15.6
Net external debt (% GDP)	-20.9
Central government (CG) total debt (% GDP)	60.3
CG foreign-currency debt	15.9
CG domestically issued debt (UYUbn)	368.1

Source: Fitch Ratings

Rating Derivation

Component	Outcome
Sovereign Rating Model (SRM)	BBB+
Qualitative Overlay (QO)	-2
Macroeconomic	-1
Structural features	-
Public finances	-1
External finances	-
Long-Term Foreign-Currency IDR (SRM + QO)	BBB-

Source: Fitch Ratings

Related Research

[Global Economic Outlook \(Jun 2019\)](#)
[Latin America Sovereign Credit Overview 2Q19 \(April 2019\)](#)

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Key Rating Drivers

Negative Outlook: Growth underperformance and fiscal deterioration have persisted, lifting the government debt burden and constraining policy space to confront shocks. The scope, nature and timing of potential measures to address these negative fiscal and macroeconomic trends remain uncertain, but could become clearer after the October 2019 elections.

Stagnant Growth: Fitch Ratings projects growth will fall to 0.5% in 2019 from 1.6% in 2018. Private-sector activity has been contracting as a whole, as public utilities have propped up headline growth numbers. External pressures (eg Argentina) explain part of the slowdown, as well as domestic structural issues, reflected in a 30% investment contraction since 2014. Fitch expects growth to slow to 0.5% in 2019 as a whole, and rise to 1.5% in 2020 and 2.5% in 2021 on increased construction activity around a large pulp plant and related railway infrastructure.

Further Fiscal Slippage: The fiscal position is weakening beyond Fitch's prior projections, due primarily to structural spending pressures that continue to far exceed budget projections, and also amid a moderate dip in tax collections due to sluggish growth. Fitch expects the central government deficit to reach 4.3% of GDP in 2019 and the public sector deficit 5.4% (both net of transitory pension-system revenue from the *cincuentones* law), far above the target.

Rising Debt, Strong Profile: Fitch projects general government debt will reach 64.3% of GDP at end-2019, having grown the most in the 'BBB' category since 2013 by 15pp. Long-dated debt and liquidity buffers help mitigate financing risks in the context of relatively high reliance on external funding. Cash holdings and contingent credit lines cover debt service for over a year, and the authorities have made progress in deepening local funding.

Fiscal Adjustment Uncertainty: Fitch estimates a fiscal adjustment of about 2.5% of GDP could stabilise debt/GDP, but the outlook for this is likely to remain unclear and plans vague until after the elections. A rigid spending profile could make a spending-focused adjustment strategy challenging and slow, even with a social security reform. Appetite for tax hikes appears narrow, as candidates have focused instead on lifting revenue by fostering stronger economic growth.

High, Stable Inflation: Inflation was 7.4% as of June 2019, above the target range (5%±2pp) and the highest among investment-grade sovereigns. The Central Bank of the Uruguay (BCU) recently dialled back the contractionary bias of monetary policy despite above-target inflation, given a weak growth backdrop. Efforts to reduce ex post wage indexation could help alleviate inertial inflation pressures.

Sound External Finances: The current account balance shifted back into deficit in 2018 (0.6% of GDP). Fitch expects it will rise but remain moderate at 2.0% of GDP in 2019 as the full impact of Argentina's currency crisis on tourism inflows is felt, and rise further in the following years as construction of the pulp plant progresses (financed by FDI). The large stock of foreign-exchange (FX) reserves provides ample coverage of current external liabilities and imports.

Rating Sensitivities

Worsening Debt Dynamics: Factors that could lead to a downgrade include failure to reduce fiscal deficits or improve the trajectory of government debt/GDP, persistently weak economic growth or a sustained erosion of central bank international reserves.

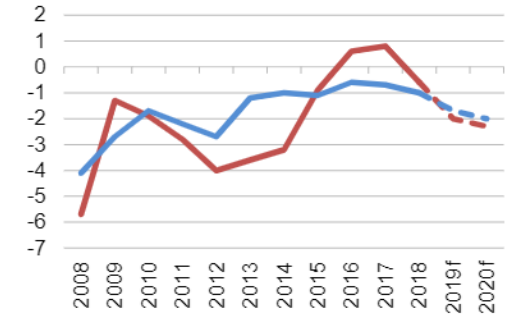
Debt Stabilisation, Growth Recovery: Factors that could help stabilise the Outlook include greater confidence in a fiscal consolidation path that would support stabilisation of debt metrics, sustained reduction in inflation or investment and productivity gains lifting growth prospects.

Peer Comparison

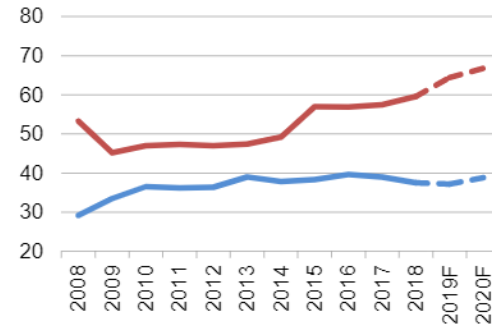
Net External Debt
% of GDP



Current Account Balance
% of GDP



General Government Debt
% of GDP



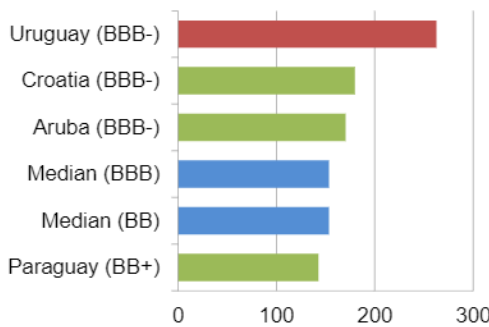
General Government Balance
% of GDP



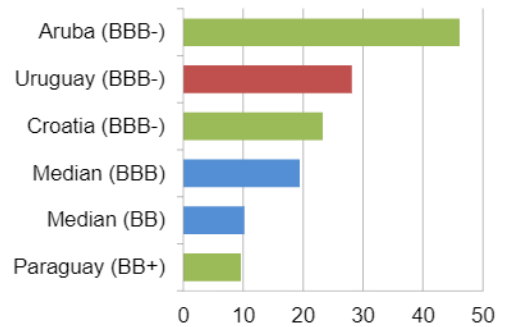
Uruguay

Median(BBB)

International Liquidity Ratio, 2018
%



GDP per capita Income, 2018
At market exchange rates, USA = 100



Note: Medians based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Related Criteria

- Sovereign Rating Criteria (May 2019)
- Country Ceiling Criteria (Jul 2018)

Rating Factors

Summary: Strengths and Weaknesses

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

Note: Relative to 'BBB' category
Source: Fitch Ratings

Strengths

- Uruguay's per-capita income is well above the 'BBB' median. Strong social development and governance indicators underpin creditworthiness and support policy continuity.
- The external balance sheet is strong. The net external creditor position and liquidity ratio are among the highest in the 'BBB' category. Banks and corporates are net external creditors, and the sovereign has a strong FX liquidity position despite being a net external debtor. Foreign reserve levels are high (even after netting out US dollar bank reserve requirements), and their coverage of liquid external liabilities has improved on lower non-resident deposits and holdings of local debt.
- Proactive public debt management has reduced refinancing risks. Debt maturities in the coming years are low, and an average maturity of about 14 years is high. Financing flexibility is supported by precautionary multilateral credit lines and liquid assets, which currently cover debt servicing needs for over a year, and help to mitigate vulnerabilities associated with relatively high reliance on external funding markets.

Weaknesses

- Inflation is the highest in investment-grade space, having averaged 8.2% in the five years through 2018. Structurally high inflation, dollarisation and low financial depth constrain the credibility and counter-cyclical flexibility of monetary policy. The authorities are working to reduce inertial price pressures by de-indexing wage contracts.
- General government debt of 60% of GDP in 2018 is above the historic 'BBB' median of 36%, even net of 8.2pp in recapitalisation bonds held by the central bank (entailing no effective debt service, but included by Fitch for consistency with other sovereigns). The stock of foreign-currency (FC) debt is one of the highest in the 'BBB' category at 29% of GDP (47% of the total, or 54% net of recapitalisation bonds), exposing the sovereign balance sheet to FX risk. The authorities have made recent progress in deepening peso funding sources.
- Fiscal policy credibility is relatively weak. Deficit targets have been frequently overshot in recent years, and frequent hikes to a legal cap on increases in net debt have rendered it ineffective as a fiscal anchor. Spending is highly rigid and dominated by legally mandated and indexed social entitlements, with a very low share of capex.
- Uruguay's five-year average growth of 1.9% is below the 'BBB' median, but has been resilient to volatility in large neighbouring economies. The investment rate below 17% of GDP in 2018 is among the weakest in the category, and the Ease of Doing Business score is low.

Local-Currency Rating

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

Country Ceiling

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

Peer Group

Rating	Country
BBB	Bulgaria
	Colombia
	Hungary
	Indonesia
	Italy
	Kazakhstan
	Mexico
	Panama
	Philippines
	Portugal
BBB-	Uruguay
	Aruba
	Croatia
	Republic of Cyprus
	India
	Morocco
	Romania
	Russia
	San Marino
	BB+
Namibia	
North Macedonia	
Oman	
Paraguay	
South Africa	

Rating History

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

Strengths and Weaknesses: Comparative Analysis

2018	Uruguay BBB-	BBB median ^a	BB median ^a	Aruba BBB-	Croatia BBB-	Paraguay BB+
Macroeconomic performance and policies						
Real GDP (5yr average % change)	1.9	3.6	4.2	2.5	2.3	4.3
Volatility of GDP (10yr rolling SD)	2.1	3.0	2.6	4.9	3.2	3.5
Consumer prices (5yr average)	8.2	4.1	5.6	0.6	0.4	4.0
Volatility of CPI (10yr rolling SD)	1.1	2.3	3.3	2.2	1.3	1.6
Unemployment rate (%)	8.4	7.5	9.1	7.3	9.6	4.6
Type of exchange rate regime	Managed float	n.a.	n.a.	Peg (USD)	Crawl-like	Managed float
Dollarisation ratio (% of bank deposits)	72.3	17.1	38.2	17.3	82.3	44.0
REER volatility (10yr rolling SD)	4.0	5.1	6.5	1.6	1.9	5.6
Structural features						
GDP per capita (USD, mkt exchange rates)	17,181	11,265	6,345	28,927	14,587	6,031
GNI per capita (PPP, USD, latest)	21,870	21,185	14,875	-	24,700	9,180
GDP (USDbn)	59.6	n.a.	n.a.	3.2	60.8	41.6
Human development index (percentile, latest)	71.2	66.4	50.8	-	76.0	41.4
Governance indicator (percentile, latest) ^b	79.3	58.2	43.8	87.7	67.0	35.6
Broad money (% GDP)	50.5	60.0	47.6	75.5	74.0	35.5
Default record (year cured) ^c	2003	n.a.	n.a.	-	1996	2004
Ease of doing business (percentile, latest)	50.3	70.9	52.2	-	69.9	40.8
Trade openness (avg. of CXR + CXP % GDP)	31.1	46.2	46.4	78.5	60.4	37.8
Gross domestic savings (% GDP)	18.6	22.7	17.7	25.7	22.8	24.6
Gross domestic investment (% GDP)	16.5	23.6	21.7	20.6	21.4	20.2
Private credit (% GDP)	27.3	58.6	36.5	56.0	56.5	42.9
Bank systemic risk indicators ^d	bb/1	n.a.	n.a.	-1	-1	-1
Bank system capital ratio (% assets)	17.5	15.1	15.7	32.2	22.5	17.9
Foreign bank ownership (% assets)	49.3	35.0	34.5	100.0	90.1	37.0
Public bank ownership (% assets)	50.7	13.2	16.3	0.0	6.1	6.7
External finances						
Current account balance + net FDI (% GDP)	-2.1	0.4	0.8	4.8	4.5	1.7
Current account balance (% GDP)	-0.6	-1.8	-2.6	2.4	2.7	0.6
Net external debt (% GDP)	-20.9	7.3	9.5	1.2	20.1	5.7
Gross external debt (% CXR)	231.5	116.5	114.9	81.1	119.3	104.4
Gross sovereign external debt (% GXD)	41.7	31.8	46.7	47.7	42.7	38.1
Sovereign net foreign assets (% GDP)	-3.6	2.6	-2.2	2.1	6.1	4.7
Ext. interest service ratio (% CXR)	7.6	4.3	4.0	4.4	3.6	4.1
Ext. debt service ratio (% CXR)	20.2	15.2	13.9	15.0	27.6	10.8
Foreign exchange reserves (months of CXP)	10.0	4.9	4.3	4.7	6.7	5.9
Liquidity ratio (latest) ^e	236.1	143.2	151.4	170.2	179.9	142.6
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	48.7	20.8	21.8	3.7	13.4	77.6
Sovereign net foreign currency debt (% GDP)	0.4	-6.0	2.2	-9.9	21.0	-5.4
Public finances^f						
Budget balance (% GDP)	-2.1	-2.3	-2.7	-2.1	-0.2	-0.5
Primary balance (% GDP)	0.7	-0.3	-0.4	1.8	2.3	0.2
Gross debt (% revenue)	195.0	134.5	155.0	266.4	161.1	95.2
Gross debt (% GDP)	59.6	35.8	38.9	61.1	74.3	16.5
Net debt (% GDP)	55.2	29.9	32.9	59.0	68.4	8.1
Foreign currency debt (% total debt)	46.9	35.3	61.6	33.4	72.5	79.9
Interest payments (% revenue)	9.2	7.1	9.3	16.6	5.4	4.0
Revenues and grants (% GDP)	30.6	31.7	25.0	22.9	46.1	17.3
Volatility of revenues/GDP ratio	1.2	6.5	6.1	7.5	5.0	5.3
Central govt. debt maturities (% GDP)	3.6	5.4	5.2	8.3	7.8	0.7

^a Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (eg current account and fiscal balance).

^b Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence.

^c Uruguay concluded an exchange offer for all foreign-currency bond debt on 22 May 2003.

^d Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'.

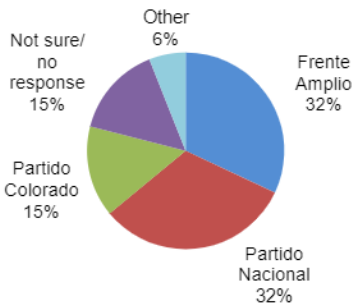
^e Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year.

^f General government unless stated.

Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)

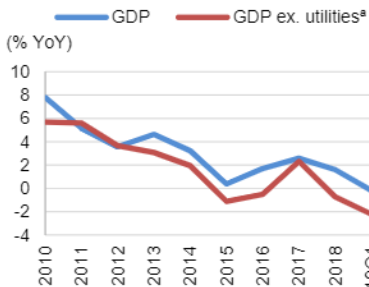
Source: Fitch Ratings

Generic Presidential Poll



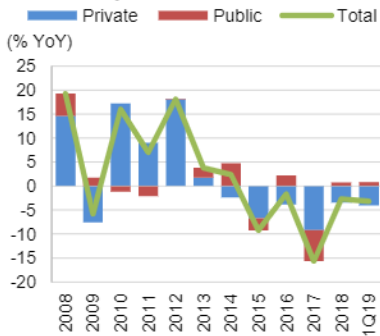
Source: Fitch Ratings, Cifra (June 2019)

Real GDP Growth



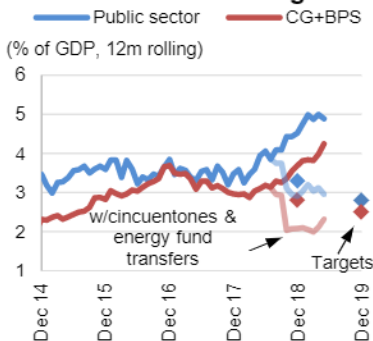
* GDP excluding oil refinery, telecom, electricity, social services
Source: Fitch Ratings, BCU

Fixed Capital Formation



Source: Fitch Ratings, BCU

Fiscal Deficits and Targets



Source: Fitch Ratings, MEF

Key Credit Developments

Election Cycle Ramps Up

The October 2019 general elections are poised to be competitive amid a slide in sentiment and economic growth after three terms (15 years) of rule under the Frente Amplio (FA) coalition. Following 30 June primaries, the FA candidate will be Daniel Martinez, the moderate former mayor of Montevideo, although powerful left-leaning factions in the FA could have influence in the ticket and platform. The opposition is split among several candidates, led by Luis Lacalle Pou of the Partido Nacional, but they would likely ally together in a probable November runoff vote.

Strong political and social stability preclude a radical policy shift in any likely election outcome. However, the elections will be important in determining political appetite and governability for reforms to address a high fiscal deficit and anaemic growth. The next government is unlikely to have a legislative majority, which on one hand could complicate progress on controversial proposals, but on the other could create space for moderate factions in the FA and opposition parties to work together on issues around which there is some consensus (eg social security).

Growth Stagnates as Private Sector Struggles

Real GDP growth slowed to 1.6% in 2018, extending a streak of weak performance averaging 1.9% in the past five years. Fitch expects this trend to continue and growth to slow to 0.5% in 2019, assuming a modest pickup later in the year after a weak 1Q19 (-0.2% yoy). Private-sector activity has been contracting as a whole since a 2017 rebound (including construction, manufacturing, commerce), and GDP growth net of public utilities and the telecom sector (which has an outsized influence in GDP statistics¹) was around -2% yoy in 1Q19.

Uruguay's slowdown reflects a mix of external and internal factors. An adverse regional backdrop has posed headwinds, and Argentina's recession and currency crisis led to a 30% decline in tourist arrivals in the 1Q19 high season. Low business confidence and profitability have contributed to a prolonged contraction in investment (-30% since 2014). Consumption has propped up growth but has turned more sluggish amid low confidence and a weak labour market, characterised by net job destruction since 2014 and real wage growth below prior highs.

Fitch expects growth to rise to 1.5% in 2020 and 2.5% in 2021, lifted by construction of a large pulp mill and related railway expected to take around four years, as well as progress on other PPP projects. Growth is likely to be modest net of this megaproject, however, reflecting low investment. Key issues weighing on investment appetite cited by business groups include high production costs (salaries, taxes, utility rates) and labour challenges, highlighted by recent strike activity (eg after Petrobras' decision to exit gas distribution operations) and the International Labour Organisation's decision to formally review collective bargaining laws.

The post-election outlook for reforms is unclear. The FA has focused on improving education, digitalisation and security, but fiscal constraints pose limits to ambitious new initiatives. The opposition aims to make business-friendly changes to labour and wage policies and improve governance at public companies. Trade opening could see progress in any election scenario, and a recent breakthrough in a Mercosur-EU trade agreement is an auspicious sign.

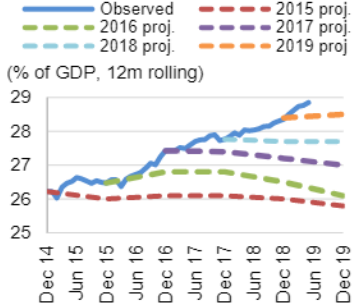
Fiscal Slippage Leaves Difficult Task for Next Government

Uruguay's fiscal position has continued to deteriorate, net of a statistical revenue boost² from the *cincuentones* law allowing persons in their 50s to bring their private pension funds into the public system (BPS). The central government + BPS balance rose to 3.7% of GDP in 2018 from 2.9% in

¹ Telecom explains 7.4pp of Uruguay's 9.9% real growth in the five years through 2018 despite representing just 1.8% of nominal GDP, given its weight in real GDP has grown to 16.5% (eclipsing all other sectors). The BCU is currently updating national accounts statistics with a new base year.

² The *cincuentones* law entails a statistical but not a fundamental improvement in fiscal metrics through 2021 in Fitch's view, as it lowers deficits but not financing needs (the funds go into an escrow trust rather than to the Treasury) and adds to fiscal pressures over the long term.

Primary Current Spending

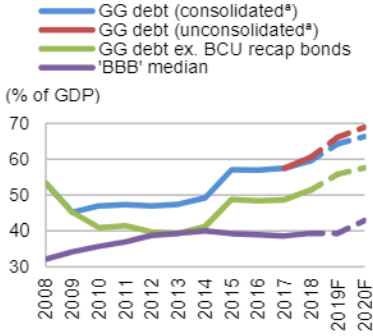


Source: Fitch Ratings, MEF; projections from annual Rendicion de Cuentas

2017, but fell to 2.1% net of the 1.3pp *cincuentones* impact and a 0.3pp withdrawal from an energy fund (booked as revenue). The deficit rose to 4.2% in 2019 through May net of these effects, and Fitch projects it to reach 4.3% in 2019. The public sector deficit targeted by the authorities rose to 4.5% of GDP in 2018 (without the extraordinary revenue) from 3.5% in 2017, also capturing worse outturns at public companies. Fitch expects it to reach 5.4% in 2019, well above the upward-revised 2.8% target set last year as well as a new target of 4.6% set in June.

Cyclical factors explain part of the recent fiscal slippage, as falling consumption has weighed on tax collections. But structural spending overruns remain the key driver, having surpassed official projections repeatedly in recent years. Salary costs are rising due to wage hikes predicated on optimistic growth expectations, and a government pledge to partially fill vacant positions has had a muted impact. Social security costs continue to rise, although healthcare spending growth has eased following completion of expansion of insurance coverage.

General Government Debt



Source: MEF; *w/ and w/o cincuentones trust

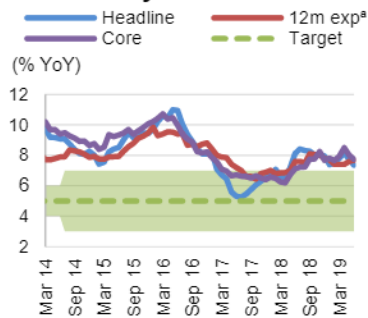
Fitch expects fiscal consolidation to be difficult in any election outcome and that the central government deficit will fall to 4.0% of GDP in 2020. Fitch estimates a 2.5%-of-GDP adjustment would stabilise debt metrics, which could come in small part from a cyclical revenue recovery, but would mostly require structural measures. Fiscal consolidation has been a key theme in the 2019 elections, but plans are likely to remain vague until the new government arrives in March 2020. Campaigns have argued for lifting revenue via higher growth and improving spending efficiency rather than tax hikes, given tax pressure is already high, but with few concrete proposals. A rigid budget will complicate efforts to cut spending, although the opposition has detailed concrete cuts it hopes to achieve without legislative reforms. Social security reform has broad consensus, but will take time to negotiate and may only contain the rise in pension costs rather than lower them.

Debt Burden Remains on a Relatively Rapid Upward Path

Fiscal deficits lifted general government debt to 59.6% of GDP in 2018 from 47.4% in 2013, while XR movements have steepened the path in some years and flattened it in others. These figures include bonds issued to the central bank for recapitalisation (8.2% of GDP in 2018), and consolidate out the holdings of the *cincuentones* fund (1% of GDP). Fitch projects debt to jump to 64.3% of GDP in 2019, a 15pp increase from 2013 that would be the largest in the 'BBB' category. These projections are sensitive to the exchange rate, possible cancellation of BCU recapitalisation bonds³, and the size of further transfers into the *cincuentones* fund through 2021.

Proactive debt management continues to mitigate financing risks. Debt maturities in 2019-2021 average a moderate 2.8% of GDP. Government cash assets of USD2.5 (4.4% of GDP) as of March 2019 and precautionary multilateral credit lines of USD2.4 billion (4.7% of GDP) help mitigate financing risks from uncertainties in global funding markets, upon which Uruguay maintains solid access but is relatively reliant (the stock of FC debt is the second-highest among 'BBB' peers at 29% of GDP). The authorities have pursued efforts to deepen local financing flexibility, most recently by issuing securities in a wage-indexed unit to pension funds. Such efforts could be facilitated by intra-public funding from the *cincuentones* trust.

Inflation Dynamics



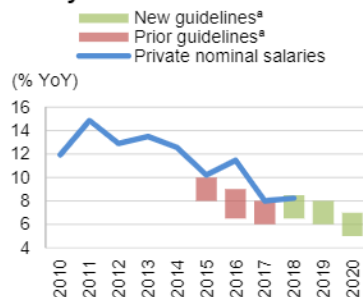
^a Survey median
Source: BCU, CINVE

Inflation Stable Above The Target

Inflation was 7.7% as of May 2019, above the 7% upper bound of the target band (5%+/-2pp). Fitch expects inflation to remain around this level through year-end, balancing pass-through pressures from recent peso depreciation with weak domestic demand. Despite above-target inflation, the BCU dialled back the contractionary bias of monetary policy in its last meeting given the weak growth context, lifting its money supply growth target for 2Q19 and validating real interest rates that at around 2% are moderate relative to past levels.

Inflation inertia going forward could moderate due to the results of a major round of sector-level wage negotiations last year, in which most groups adopted official guidelines setting wages on

Salary Growth & Guidance

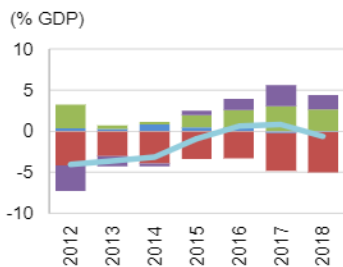


^a Exec guidance for salary growth, ranges (weak to dynamic sectors)
Source: INE

³ In 2018, peso depreciation improved the BCU's net equity and enabled cancellation of 1% of GDP in recapitalisation bonds, and a similar operation could be possible in 2019.

Current Account Balance

Goods Services
Income Merchenting
CAB



Source: Fitch Ratings, BCU

nominal hikes on a downward path, with backward-looking inflation triggers only to prevent real wage losses. Weak labour market trends helped moderate wage demands by powerful unions.

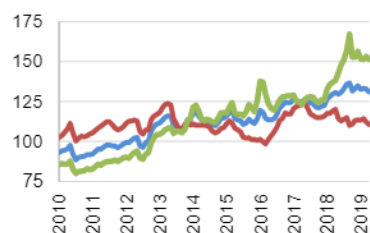
Moderate Current Account Deficit to Re-emerge

The current account balance shifted back into deficit in 2018 (-0.6% of GDP), driven by a decline in tourism inflows later in the year as a result of Argentina’s currency crisis and recession, and a weaker trade surplus net of merchanting activity (ie buying and selling of goods outside the country⁴). Net FDI remains negative, as Uruguayan FDI abroad has surpassed inbound FDI since 2016, but this gap narrowed in 2018. Fitch expects the current account deficit (CAD) to rise to 2.0% of GDP in 2019 as the full impact of the drop-off in Argentine tourists is felt. The CAD is likely to rise further in the coming years as construction of the pulp plant begins, but this will also entail higher FDI and thus be roughly neutral for external finances.

Real Effective XR

Overall Extra-regional
Regional

(Index, 2005-2019 avg. = 100)



Source: Fitch Ratings, MEF; projections from annual Rendicion de Cuentas

The BCU has intervened to manage the depreciation of the peso in recent months (8.4% in the year through June), both by selling dollars in the spot market and buying back peso-denominated sterilisation instruments maturing later in the year with dollars in order to pre-empt FX market pressures. This has involved a drawdown of the BCU’s own FX reserves (ie net of dollar deposits and reserve requirements), which have fallen by USD1.3 billion to USD5.8 billion so far in 2019, but the stock remains large and offers ample coverage of liquid external liabilities (including non-resident deposits and holdings of local bonds) and imports.

The real effective exchange rate (REER) remains high by historical standards and has risen over the past year, reinforcing some concern in the private sector over peso competitiveness. However, the BCU estimates the overvaluation of the peso relative to fundamentals has been mostly erased by recent peso depreciation, and that the still high REER is product of an overshooting in the Argentine peso (and to a lesser extent the Brazilian real).

⁴ Inclusion of merchanting in new balance of payments (BOP) statistics has added introduced some noise: their increased activity in 2018 led the trade surplus to rise (more than offsetting a smaller trade surplus for the rest of the economy) but also explained most of the increase in the primary income deficit (due to the profits accruing to these mostly foreign-owned firms), and these effects roughly netted out.

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

Public Debt Dynamics

Under Fitch's baseline projections, general government debt will rise to 70% of GDP by 2023 from 60% of GDP in 2018. These figures include bonds issued to recapitalise the BCU (9% by 2021) and consolidate out holdings of the *cincuentones* fund (projected to reach 3% by 2021). Growth projections include a boost from the pulp plant in 2021-2024. The main risks include failure to improve the fiscal deficit, namely should this coincide with weaker growth, or a large depreciation of the peso given the large stock of foreign-currency-denominated debt.

Debt Dynamics – Fitch's Baseline Assumptions

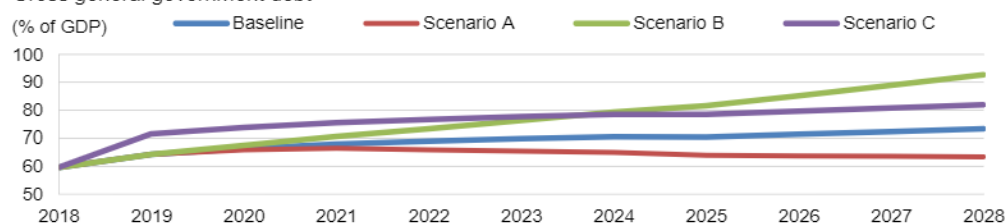
	2018	2019	2020	2021	2022	2023	2028
Gross general government debt (% GDP)	59.6	64.3	66.3	67.9	69.0	69.8	73.4
Primary balance (% of GDP)	0.7	-0.1	0.4	0.3	0.0	0.2	0.5
Real GDP growth (%)	1.6	0.5	1.5	2.5	3.0	3.0	2.5
Avg. nominal effective interest rate ^a (%)	8.1	8.4	8.1	8.0	8.0	8.0	8.1
UYU/USD (annual avg.)	30.7	34.2	37.0	38.9	40.8	42.8	54.7
GDP deflator (%)	5.6	6.4	6.4	5.9	6.0	6.0	6.0

^a Includes capitalising interest on securities in inflation- and wage-indexed peso units

Source: Fitch Ratings

Sensitivity Analysis

Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Scenario A	Achievement of a 1.5%-of-GDP primary surplus by 2023 that stabilises debt/GDP, entailing a 2.5pp-of-GDP adjustment after 2019.
Scenario B	A growth path 1pp below the baseline, and failure to reduce the primary deficit after 2019.
Scenario C	A 20% depreciation in the peso at end-2019.

Forecast Summary

	2014	2015	2016	2017	2018	2019f	2020f
Macroeconomic indicators and policy							
Real GDP growth (%)	3.2	0.4	1.7	2.6	1.6	0.5	1.5
Unemployment (%)	6.6	7.5	7.9	7.9	8.4	8.4	8.0
Consumer prices (annual average % change)	8.9	8.7	9.6	6.2	7.6	7.7	7.6
Short-term interest rate (bank policy annual avg.) (%)	14.4	13.5	13.5	10.4	9.4	9.4	9.4
General government balance (% of GDP)	-2.3	-2.8	-3.7	-3.0	-2.1	-3.1	-2.9
General government debt (% of GDP)	49.2	57.0	56.9	57.5	59.6	64.3	66.3
UYU per USD (annual average)	23.25	27.33	30.16	28.68	30.73	34.20	36.95
Real effective exchange rate (2000 = 100)	94.1	94.7	95.6	101.4	102.9	104.9	104.9
Real private sector credit growth (%)	7.4	11.8	-5.4	-4.3	6.5	1.0	1.1
External finance							
Current account balance (% of GDP)	-3.2	-0.9	0.6	0.8	-0.6	-2.0	-2.3
Current account balance plus net FDI (% of GDP)	1.2	0.6	-1.5	-2.9	-2.1	-1.4	-0.8
Net external debt (% of GDP)	-15.2	-17.2	-17.9	-16.2	-20.9	-23.9	-26.7
Net external debt (% of CXR)	-44.6	-55.1	-60.2	-54.9	-68.0	-76.0	-80.3
Official international reserves including gold (USDbn)	17.6	15.6	13.5	16.0	15.6	15.0	15.2
Official international reserves (months of CXP cover)	9.9	11.0	10.5	11.2	10.0	9.4	9.0
External interest service (% of CXR)	5.9	7.4	7.6	6.8	7.6	8.0	7.8
Gross external financing requirement (% int. reserves)	25.9	14.2	5.4	11.9	16.9	17.9	17.9
Real GDP growth (%)							
US	2.5	2.9	1.6	2.2	2.9	2.4	1.8
China	7.3	6.9	6.7	6.9	6.6	6.2	6.0
Eurozone	1.4	2.1	2.0	2.4	1.9	1.2	1.3
World	2.9	2.8	2.6	3.3	3.2	2.8	2.7
Oil (USD/barrel)	98.9	52.4	45.1	54.9	71.6	65.0	62.5

Source: Fitch Ratings

Fiscal Accounts Summary

(% of GDP)	2015	2016	2017	2018	2019f	2020f
General government						
Revenue	27.2	27.8	28.8	30.6	30.3	30.3
Expenditure	30.0	31.5	31.8	32.7	33.4	33.2
O/w interest payments	2.3	2.7	2.7	2.8	3.0	3.3
Primary balance	-0.5	-1.0	-0.3	0.7	-0.1	0.4
Overall balance	-2.8	-3.7	-3.0	-2.1	-3.1	-2.9
General government debt	57.0	56.9	57.5	59.6	64.3	66.3
% of general government revenue	210.0	204.9	199.6	195.0	212.4	218.7
Central government deposits	7.1	7.0	5.7	5.2	5.5	5.6
Net general government debt	49.3	50.2	51.8	55.2	60.4	63.2
Central government						
Revenue	19.7	20.3	21.1	21.7	21.5	21.7
O/w grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	22.5	24.0	24.1	25.1	25.8	25.6
O/w current expenditure and transfers	19.0	20.0	20.1	20.8	21.3	20.9
- Interest	2.3	2.7	2.7	2.8	3.0	3.3
O/w capital expenditure	1.2	1.4	1.3	1.5	1.5	1.4
Current balance	-1.6	-2.3	-1.6	-1.9	-2.8	-2.5
Primary balance	-0.5	-1.0	-0.3	-0.6	-1.3	-0.7
Overall balance	-2.8	-3.7	-3.0	-3.4	-4.3	-4.0
Central government debt	56.8	56.7	57.3	60.3	65.9	68.7
% of central government revenues	288.5	278.8	271.2	278.3	305.9	316.8
Central government debt (UYUbn)	827.2	901.1	978.0	1,104.9	1,290.1	1,452.2
By residency of holder						
Domestic	360.0	455.4	523.6	565.6	682.4	760.9
Foreign	467.2	445.6	454.5	539.3	607.7	691.3
By currency denomination						
Local currency	439.9	479.8	572.6	591.2	665.3	741.4
Foreign currency	387.3	421.3	405.5	513.7	624.8	710.8
in USD equivalent (eop exchange rate)	13.0	14.4	14.1	15.9	17.4	18.7
Average maturity (years)	14.4	13.8	13.0	13.8	-	-
Memo						
Nominal GDP (UYUbn)	1,455.8	1,589.2	1,707.1	1,831.1	1,958.9	2,115.0

Source: Fitch Ratings, Ministry of Finance

External Debt and Assets

(USDbn)	2013	2014	2015	2016	2017	2018
Gross external debt	38.8	42.3	43.7	40.3	43.1	42.5
% of GDP	67.4	74.0	82.1	76.4	72.3	71.3
% of CXR	196.5	217.9	263.5	257.2	244.8	231.5
By maturity						
Medium- and long-term	29.7	32.9	34.4	33.0	36.2	35.9
Short-term	9.0	9.4	9.3	7.2	6.8	6.6
% of total debt	23.3	22.3	21.4	17.9	15.9	15.5
By debtor						
Sovereign	16.7	17.7	16.6	16.2	18.5	17.7
Monetary authorities	1.6	1.5	1.0	0.7	0.8	0.5
General government	15.1	16.2	15.6	15.5	17.7	17.2
O/w central government	14.4	15.1	15.6	15.2	15.8	16.7
Banks	5.1	5.5	6.0	4.6	3.8	3.8
Other sectors	17.0	19.1	21.1	19.5	20.8	21.0
Gross external assets (non-equity)	46.9	51.0	52.9	49.7	52.7	55.0
International reserves, incl. gold	16.3	17.6	15.6	13.5	16.0	15.6
Other sovereign assets nes	0.0	0.0	0.1	0.0	0.0	0.0
Deposit money banks' foreign assets	8.3	8.7	11.0	10.6	9.7	10.0
Other sector foreign assets	22.3	24.8	26.2	25.6	27.1	29.4
Net external debt	-8.1	-8.7	-9.1	-9.4	-9.7	-12.5
% of GDP	-14.2	-15.2	-17.2	-17.9	-16.2	-20.9
Net sovereign external debt	0.3	0.1	0.9	2.7	2.5	2.2
Net bank external debt	-3.1	-3.2	-5.0	-6.1	-5.9	-6.2
Net other external debt	-5.3	-5.6	-5.1	-6.0	-6.3	-8.4
Net international investment position	-15.6	-17.4	-15.3	-15.7	-16.5	-15.5
% of GDP	-27.1	-30.4	-28.7	-29.9	-27.7	-26.0
Sovereign net foreign assets	-0.3	-0.1	-0.9	-2.7	-2.5	-2.2
% of GDP	-0.6	-0.2	-1.8	-5.1	-4.2	-3.6
Debt service (principal & interest)	3.1	3.5	3.2	2.4	3.3	3.7
Debt service (% of CXR)	15.7	18.2	19.4	15.1	18.6	20.2
Interest (% of CXR)	5.4	5.9	7.4	7.6	6.8	7.6
Liquidity ratio (%)	166.4	160.1	172.1	194.3	215.8	236.1
Net sovereign FX debt (% of GDP)	-11.2	-11.8	-5.1	1.7	-3.2	0.4
Memo						
Nominal GDP	57.5	57.2	53.3	52.7	59.5	59.6
Inter-company loans	9.8	11.4	13.8	12.8	13.6	13.4

Source: Fitch Ratings, Central Bank, IMF, World Bank

External Debt Service Schedule on Medium- and Long-Term Debt at 31 March 2019

(USDm)	2019	2020	2021	2022	2023	2024	2025+
Amortisation	634	2,119	1,573	2,215	915	1,014	21,340
Loans	118	183	171	165	145	243	1,581
External bonds	65	184	544	1,615	437	437	17,384
Foreign currency	65	184	544	562	437	437	11,529
Local currency	0	0	0	1,053	0	0	5,855
Local bonds	451	1,753	858	435	334	334	2,374
Foreign currency	114	22	0	0	0	0	0
Local currency	337	1,731	858	435	334	334	2,374

Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2015	2016	2017	2018	2019f	2020f
Current account balance	-0.5	0.3	0.5	-0.4	-1.1	-1.3
% of GDP	-0.9	0.6	0.8	-0.6	-2.0	-2.3
% of CXR	-2.9	2.1	2.6	-2.0	-6.3	-6.8
Trade balance	1.3	1.9	2.1	2.4	2.7	2.7
Exports, fob	11.1	10.4	10.8	11.5	11.6	12.2
Imports, fob	9.8	8.5	8.7	9.1	8.9	9.5
Services, net	0.4	0.8	1.5	1.2	0.4	0.5
Services, credit	4.5	4.2	5.0	4.9	4.5	4.8
Services, debit	4.1	3.3	3.5	3.7	4.1	4.3
Income, net	-2.4	-2.6	-3.4	-4.1	-4.4	-4.7
Income, credit	0.7	0.9	1.5	1.7	1.7	1.7
Income, debit	3.1	3.5	4.8	5.8	6.1	6.4
O/w: Interest payments	1.2	1.2	1.2	1.4	1.4	1.5
Current transfers, net	0.2	0.2	0.2	0.2	0.2	0.2
Capital and financial accounts						
Non-debt-creating inflows (net)	-0.2	1.3	0.0	2.1	2.4	2.9
O/w equity FDI	-0.4	1.0	0.2	2.1	2.4	2.9
O/w portfolio equity	0.2	0.3	-0.2	0.0	0.0	0.0
O/w other flows	0.2	0.0	0.0	0.0	0.0	0.0
Change in reserves	1.7	2.2	-2.4	0.4	0.6	-0.3
Gross external financing requirement	2.5	0.9	1.6	2.7	2.8	2.7
Stock of international reserves, incl. gold	15.6	13.5	16.0	15.6	15.0	15.2

Source: Fitch Ratings, IMF

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