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12 August 2020

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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
VP-Senior Analyst
renzo.merino@moodys.com

Fernando Freijedo +1.212.553.1619
Associate Analyst
fernando.freijedo@moodys.com

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

Government of Uruguay – Baa2 stable

Annual credit analysis

OVERVIEW AND OUTLOOK

The credit profile of Uruguay 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, and very strong asset-liability management practices also support creditworthiness. We expect government measures to reduce the fiscal deficit to contribute to the stabilization of the government's debt metrics over the coming years.

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 in 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.

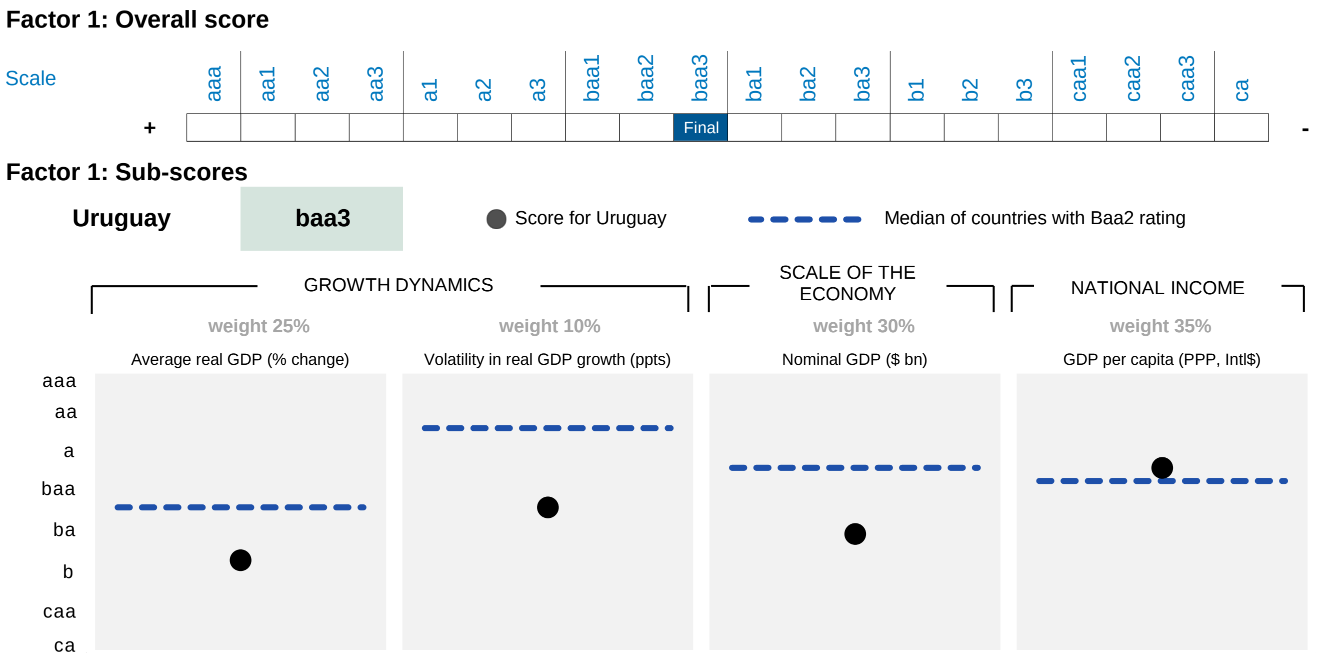
Downward credit pressure would emerge if we were to conclude that structural fiscal and economic challenges were unlikely to be addressed, denoting a weakening in policy responsiveness. This would likely lead to economic growth underperforming and fiscal strength deteriorating further in the medium term, 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, institutions and governance strength, fiscal strength and susceptibility to event risk, which are the four main analytic factors in our Sovereign Ratings Methodology.

CREDIT PROFILE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Economic strength score: baa3



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. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversity, productivity and labour supply challenges.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We assess Uruguay's economic strength score as "baa3," which balances somewhat slow growth dynamics compared to all other rated sovereigns, high income levels (GDP per capita of $23,581 in PPP terms in 2019) and a relatively small economy on a global basis ($56 billion in 2019). Other sovereigns with a similar score for economic strength include Bulgaria (Baa2 positive) and Morocco (Ba1 stable).

Exhibit 1

Peer comparison table factor 1: Economic strength

	Uruguay Baa2/STA	baa3 Median	Bulgaria Baa2/POS	Morocco Ba1/STA	Romania Baa3/NEG	Hungary Baa3/STA	Sharjah Baa2/STA	Paraguay Ba1/STA
Final score	baa3		baa3	baa3	baa2	baa2	ba1	ba1
Initial score	baa3		baa1	baa3	a3	a3	ba1	ba1
Nominal GDP ($ billion)	56.0	97.8	67.9	118.9	250.1	161.0	26.8	38.1
GDP per capita (PPP, Intl$)	23,580.5	17,622.0	24,595.1	9,235.2	27,997.9	34,046.2	26,984.7	13,506.9
Average real GDP (% change)	1.5	2.5	2.6	2.5	3.6	2.9	1.6	3.0
Volatility in real GDP growth (ppts)	2.3	1.4	1.5	1.3	2.9	2.1	2.6	3.5

Sources: National authorities, IMF, Moody's Investors Service

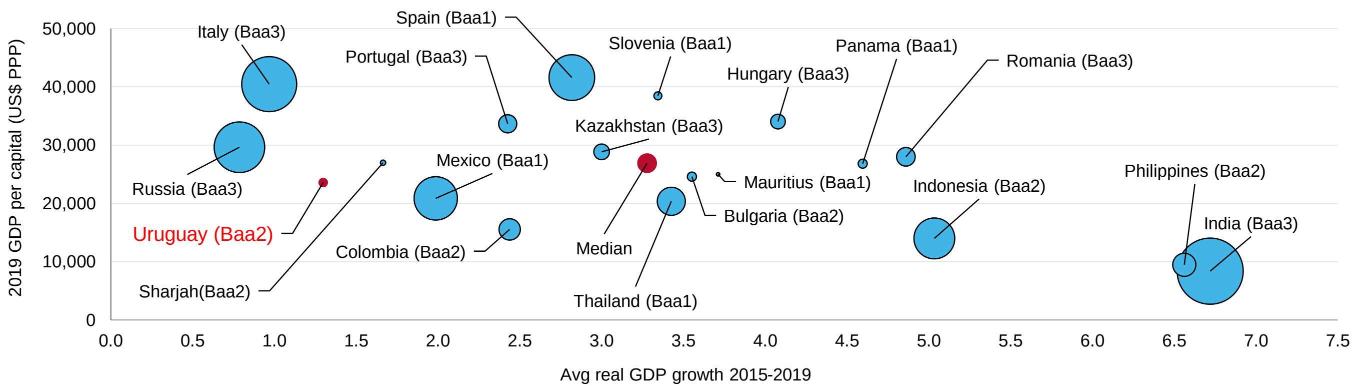
Growth performance to lag most peers; wealth level near median for Baa-rated sovereigns

In 2015-19, Uruguay's economic growth averaged 1.3% annually, making Uruguay as one of the slowest growing sovereign among those rated "Baa" (see Exhibit 2). In terms of wealth levels, Uruguay's $23,581 per capita GDP (PPP) ranks slightly below the Baa-rated median of $26,903.

Exhibit 2

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

Size of bubble = nominal GDP (US$ billion, 2019)



Source: Moody's Investors Service

Economy will contract in 2020 but coronavirus will have less of economic impact than in other regional peers

Unlike elsewhere in the region, Uruguay avoided implementing a nationwide stay-at-home order and instead, beginning in mid-March, monetarily incentivized nonessential businesses to temporarily suspend their operations and recommended that citizens remain in their homes. A "reopening" of the economy began in mid-April. As a result of the limited shutdown measures, we expect real GDP to contract by 3.3% in 2020 – a relatively small contraction when compared to regional and Baa-rated peers (see Exhibit 3).

In 2021, we expect real GDP growth to rebound to 4%, driven in part by the lower base and also by revived investment, itself driven by the new UPM-Kymmene (Baa1 stable) mill being built in Paso de los Toros. Construction started in 2020, but because of the coronavirus pandemic, we expect a significant amount of its economic impact to only materialize in 2021. Over 2020-21, UPM itself will invest around $3 billion in the plant and infrastructure in the port of Montevideo (about 5.4% of 2019 GDP). In addition, the government has committed to investing around $900 million in railway infrastructure connecting the port of Montevideo with the plant – this is a key project implemented through public-private partnership model. The government expects the plant to start producing and exporting at 100% capacity by the second half of 2022.

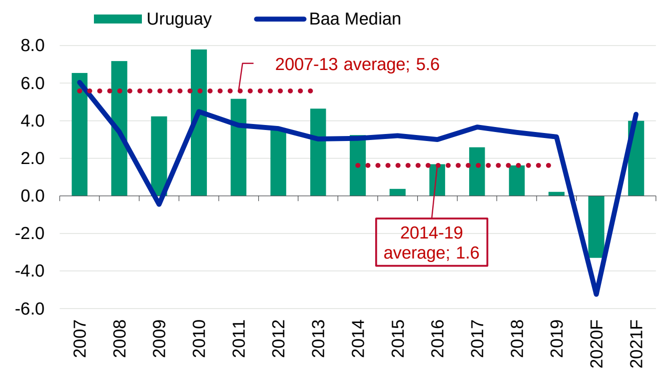
Sluggish growth since 2014 suggests structural shortcomings

The Uruguayan economy has exhibited a material deceleration in recent years. Over 2007-13, real GDP growth averaged 5.6%. This growth was driven by high commodity prices, a widening export base, aggregate growth in household incomes, an investment boom and strong economic activity in Argentina (Ca negative) and Brazil (Ba2 stable). Over 2014-19 these driving factors dissipated, and growth averaged just 1.6% (see Exhibit 3). Argentina and Brazil entered prolonged recessions, limiting tourism and capital flows. This external shock, along with competitiveness limitations, contributed to investment becoming a drag on GDP growth. Domestic demand was also hobbled by shrinking aggregate employment, with consumption receding. Net exports became the economy's main engine after 2014, not through booming exports, but rather via stagnant imports (see Exhibit 4).

Exhibit 3

Uruguay's economy underperformed relative to peers

Real GDP, % change year-on-year

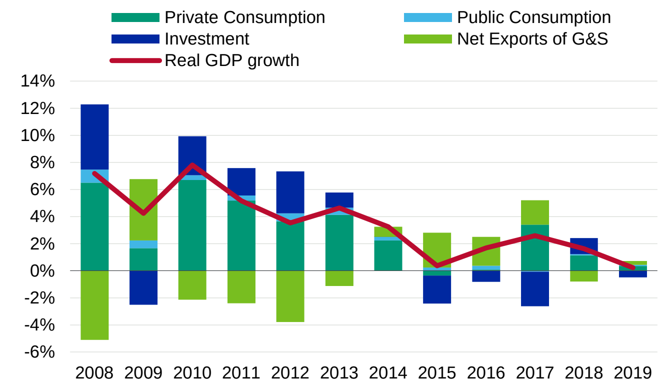


Source: Moody's Investors Service

Exhibit 4

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

Low growth over the past five years suggests that some medium-term headwinds are at play. The International Monetary Fund (IMF) identified some of these factors, which include lower export demand, an overvalued exchange rate, labor market inefficiencies and skill gaps, and limited public and private investment.

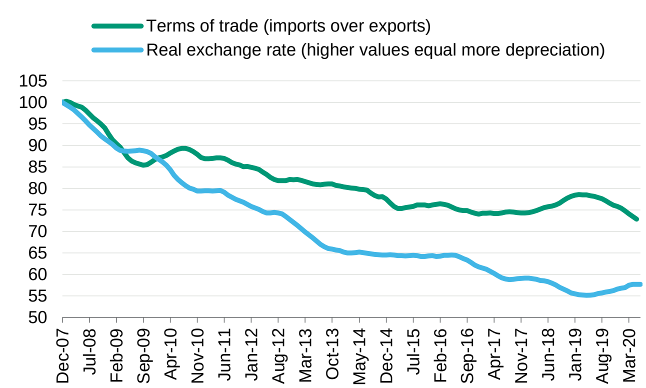
Export volumes in the decade before 2014 grew sharply, driven by increased agricultural demand from China (A1 stable), and the rise of the forestry and paper pulp sectors in Uruguay. Demand from China and prices of Uruguay's agricultural exports have been on the decline for years, the natural result of the slowdown in Chinese growth. The forestry and paper pulp sector has a brighter outlook given the construction of a third pulp mill in Uruguay, but the country has had limited success in integrating mills with auxiliary industries, which limits their potential impact on economic growth.

Over the 2000s, Uruguay experienced a substantial improvement in its terms of trade, which coincided with a sustained real exchange rate appreciation. After 2015, Uruguay's terms of trade stabilized while the real exchange rate continued to appreciate (see Exhibit 5). This lack of adjustment to developments in the terms of trade may introduce macroeconomic imbalances and, while competitiveness is multifactoral, the appreciation of the currency is likely eroding Uruguay's competitiveness.

Exhibit 5

Uruguay's real exchange rate continued to appreciate despite a stabilization in the terms of trade

12-month moving averages, December 2007=100

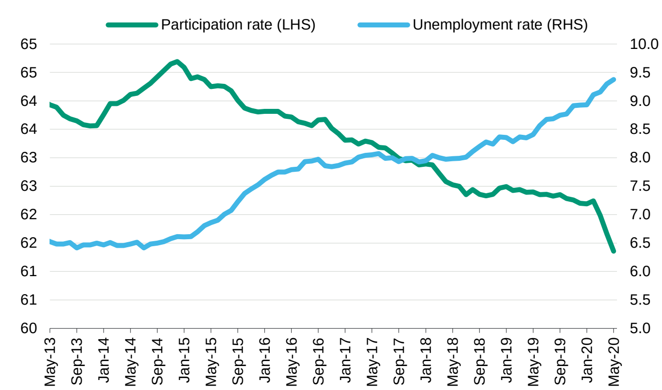


Sources: Moody's Investors Service, Banco Central del Uruguay

Exhibit 6

Unemployment has risen over the past five years

12-month moving averages

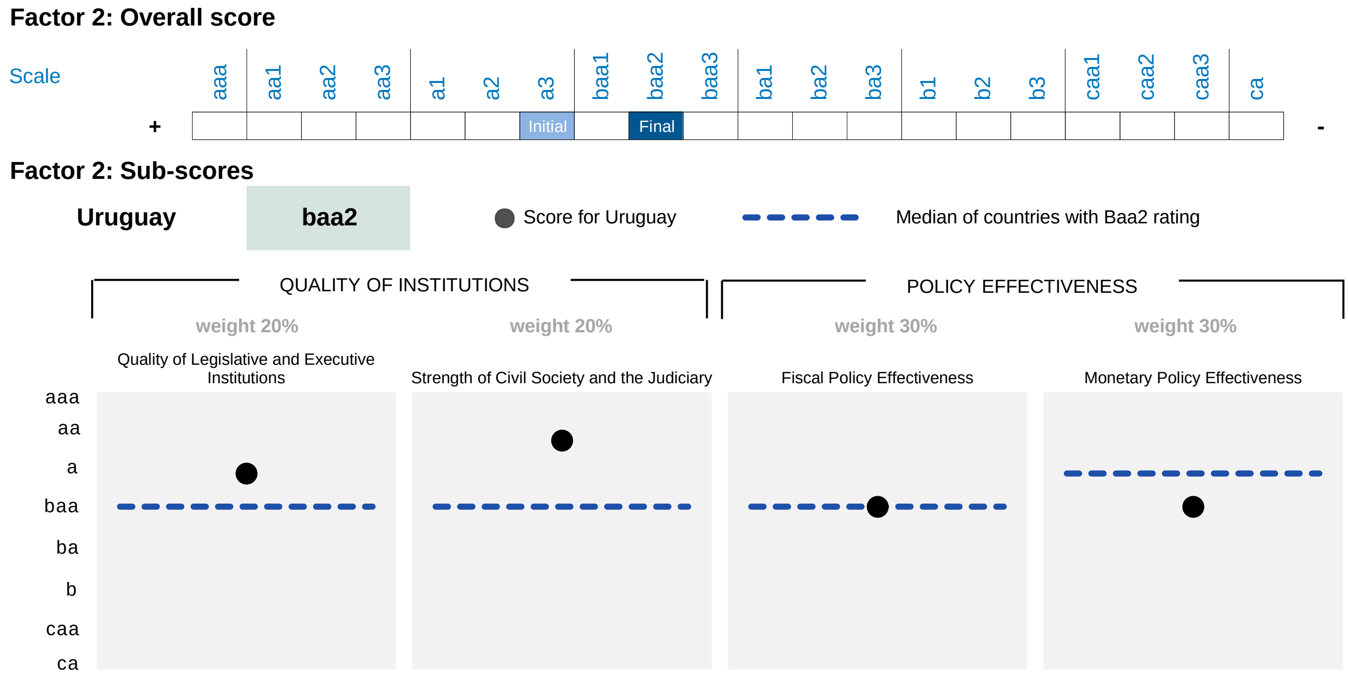


Sources: Moody's Investors Service, INE

The labor market also shows signs of structural limitations. Unemployment has been rising since 2014, while participation rates have been steadily falling (see Exhibit 6). The fall in participation means that the unemployment rate would be even higher had these individuals remained in the labor market. The decrease in employment has hamstrung domestic demand via lower household incomes, despite increasing real wages over the period 2014-19. The labor market's lackluster performance over the past five years is attributable to a combination of factors, but competitiveness issues like the ones mentioned above may play a part. Additionally, the IMF points to Uruguay's rigid labor market rules and the apparent provision of educational services at a quality level that trails high-growth peers.[1]

A final factor weighing on Uruguay's growth prospects are low investment flows. Investment as a share of GDP has been below 20% for 15 of the past 20 years (it was 16% in 2019). The IMF attributes the low level of private investment (with the exception of large FDI projects) to the small size of Uruguay's financial system (the banking system is under 80% of GDP) and other financial inefficiencies like low competition and limited financing options. Public investment has also been lacking, the result of the need to contain fiscal deficits and a lopsided expenditure structure toward current expenses. Sustaining higher rates of growth with current levels of investment, particularly considering Uruguay's low population growth, will be challenging.

Institutions and governance strength score: baa2



Institutions and governance 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 is the government's capacity to conduct sound economic policies that foster economic growth and prosperity. Institutions and governance strength is most often adjusted for the track record of default, which can only lower the final score.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Uruguay's institutions and governance strength score is set at "baa2," below the initial score of "a3." This assessment balances Uruguay's strong civil society and political institutions, with still-evolving capabilities in terms of fiscal and monetary policy. The government has faced challenges in meeting its policy goals, as exemplified by stubbornly high inflation rates that remained above the official target range and a mixed track record of fiscal management. Other sovereigns with a similar score for institutions and governance strength include Bulgaria (Baa2 positive) and Hungary (Baa2 stable).

Exhibit 7

Peer comparison table factor 2: Institutions and governance strength

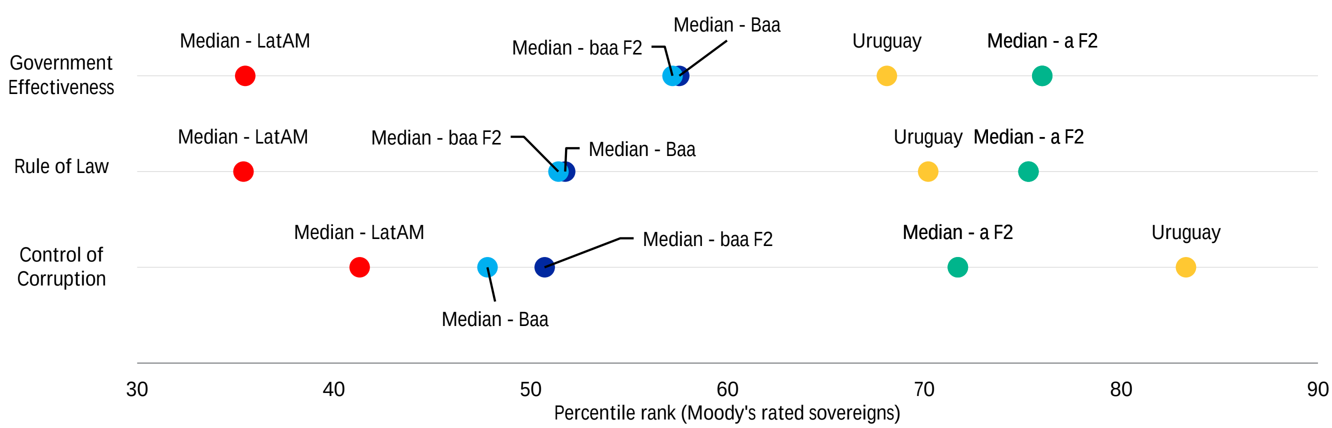
	Uruguay Baa2/STA	baa2 Median	Bulgaria Baa2/POS	Hungary Baa3/STA	Philippines Baa2/STA	Thailand Baa1/STA	Colombia Baa2/STA	Indonesia Baa2/STA
Final score	baa2		baa2	baa2	baa1	baa1	baa3	baa3
Initial score	a3		baa2	baa2	baa1	baa1	baa3	baa3
Quality of legislative & executive institutions	a	baa	baa	a	baa	baa	baa	baa
Strength of civil society & judiciary	aa	baa	baa	ba	b	ba	ba	ba
Fiscal policy effectiveness	baa	baa	baa	baa	a	a	baa	ba
Monetary & macro policy effectiveness	baa	baa	baa	baa	a	a	baa	a
Fiscal balance/GDP (3-year average)	-5.4	-3.9	-0.8	-3.9	-3.8	-2.1	-5.6	-4.3
Average inflation (% change)	8.0	2.9	1.6	2.4	2.6	0.4	3.9	3.2
Volatility of inflation (ppts)	1.0	1.5	1.9	2.0	1.4	1.5	1.6	1.7

Sources: National authorities, IMF, Moody's Investors Service

Strong institutional framework relative to rating peers

Uruguay scores higher than most Baa-rated and Latin American peers in government effectiveness, rule of law and control of corruption according to the Worldwide Governance Indicators (WGI) (see Exhibit 8). As of 2018, Uruguay ranked around the 70th percentile in terms of government effectiveness and rule of law, significantly above the median for Baa-rated countries (below the 60th percentile on both categories) and the median for Latin American countries (around the 35th percentile in both categories). In terms of control of corruption, Uruguay is a very strong performer. Uruguay's scores rank significantly higher than most in (i) Latin America; (ii) in the group of sovereigns rated "Baa"; (iii) and those sovereigns that have scores for institutions and governance strength in the "baa" and "a" categories. 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
Uruguay's institutional framework outperforms most Baa-rated and Latin American sovereigns
Percentile rank among Moody's rated sovereigns, 2018



Sources: Worldwide Governance Indicators, Moody's Investors Service

We score Uruguay's quality of executive and legislative institutions at "a." As mentioned above, Uruguay's government effectiveness is stronger than most rating peers, and the executive and legislative branches' capacity to respond to shocks is strong, as demonstrated by the policy response during the coronavirus crisis, which involved coordinated response from health, fiscal and monetary authorities. However, the legislative process has in the past resulted in executive reform proposals being watered down, the direct result of Uruguay's deliberative democracy, coalition governments and tight legislative majorities.

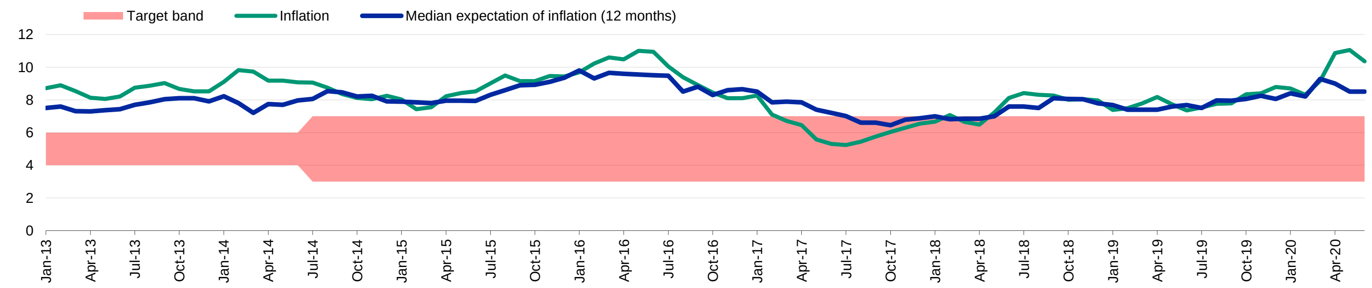
The strength of the civil society and the judiciary also scores at "aa," reflecting a strong control of corruption, rule of law and judicial independence. According to the World Bank's Ease of Doing Business 2020 report, Uruguay ranks 104th out of 190 countries in terms of enforcing contracts and 70th in terms of resolving insolvency.

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. We score Uruguay's monetary and macroeconomic policy effectiveness at "baa." Despite a perceived ineffectiveness in terms of reining in inflation within its policy targets, the policymakers have implemented a strong set of macroprudential tools to mitigate systemic risks that would limit a repeat of the episode seen in the early 2000s.

Uruguay has had an inflation targeting regime for over a decade, which aims to maintain inflation within a band. The band is set by the Macroeconomic Coordination Committee (CCM), which comprises the Central Bank of Uruguay (BCU) and the Ministry of Finance, and is currently 3.0%-7.0%. Over the past 90 months, headline inflation has been inside the band for only 13, denoting lackluster performance in terms of compliance with the inflation target (see Exhibit 9). Maintaining inflation within the target has been a challenge amid (i) low financial system penetration (which limits monetary policy transmission), (ii) the de facto practice of backward-looking salary and pension adjustments, and (iii) high pass-through of exchange rate movements into inflation due to persistent high levels of dollarization in the economy.

Exhibit 9
In recent years, Uruguay's inflation rate has rarely been inside the target band
(%)



Sources: Banco Central del Uruguay, Moody's Investors Service

Since 2015, authorities have sought to reduce the element of inflation inertia present in the wage setting mechanisms due to past practices of linking wage increases to past inflation. Authorities were able to implement guidelines for nominal increases in wages in the last two round of negotiations, to better reflect productivity and sector-specific dynamics.[2] This is important because pension spending – which represents about 30% of total spending for the central government – is linked to the average nominal wage growth. More recently, the government reached an agreement with business groups and labor unions to limit short-term wage increases in the context of the pandemic. Starting in January 2021, private sector wages will increase 3% in nominal terms (i.e. lower salaries in real terms) – with a potential adjustment to account for inflation (minus the magnitude of real GDP contraction in 2020) in June 2021. This should help contain price increases of nontradable goods and provide companies with greater flexibility to manage their labor costs. Beginning in 2022, and depending on the economic recovery, a new negotiation would determine how to allow for a recovery of real wages.

The administration of President Lacalle Pou, which entered office in March 2020, has appointed Diego Labat as new president of the BCU. Under Mr. Labat, and during its August 2020 meeting, the CCM announced that it will begin the transition to return to using interest rates as the monetary policy instrument (since 2013 the BCU has used monetary aggregates).

In 2019, inflation had remained slightly above the 7% upper bound of the target band, but the currency depreciation triggered by the coronavirus pandemic drove it to over 10% by April. The exchange rate has since stabilized but is still around 20% higher in year-on-year terms, which will limit disinflationary pressures. We currently expect inflation to end the year at 9.5% in 2020 and to remain above 7% in 2021.

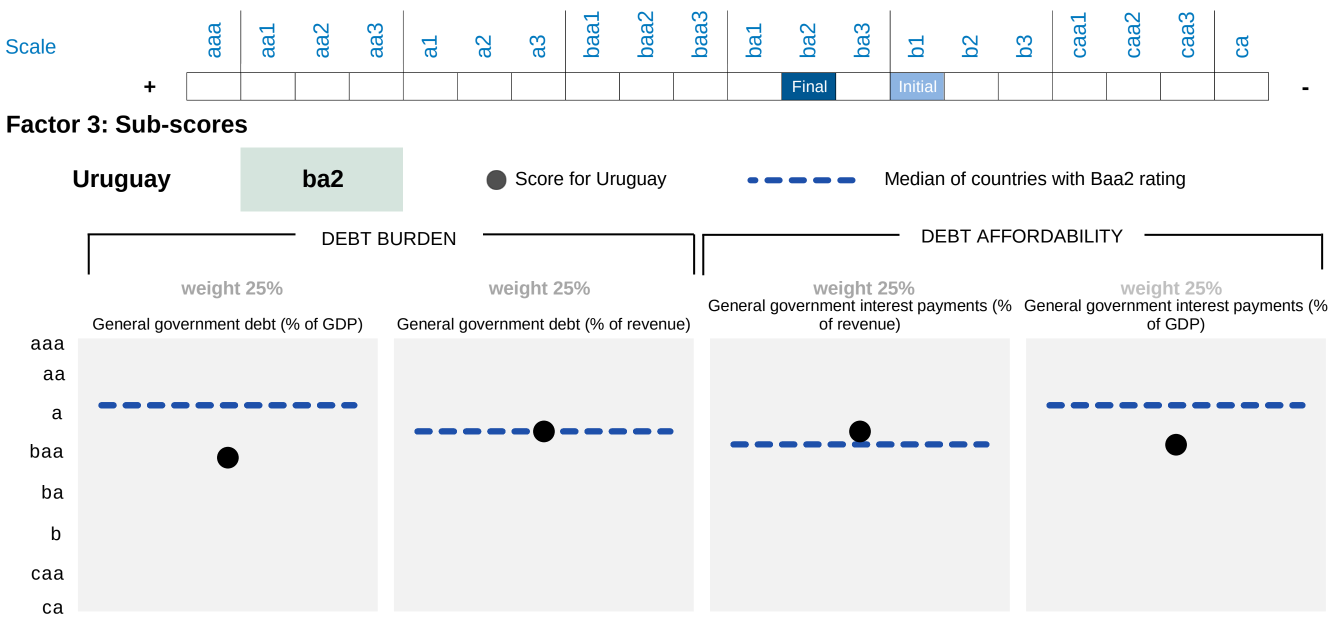
A mixed track record has undermined fiscal policy credibility

We score fiscal policy effectiveness as "baa." As with inflation, the government has struggled to comply with its own fiscal targets in recent years. Uruguay's fiscal framework requires that, upon entering office, administrations present a five-year budget to Congress to set medium-term fiscal targets at the consolidated public sector level.[3] The latest five-year budget covered 2015-19, a period that saw sluggish economic growth that weighed on revenue and persistent upward pressures on spending, which came from what the authorities referred to as "endogenous" (i.e., difficult to adjust) spending items, (e.g., pensions, transfers). The end result was a pernicious dynamic that saw the authorities consistently revise (and miss) their deficit and debt targets over 2015-19. Meanwhile, fiscal statistics display a high degree of transparency, which facilitates the monitoring of fiscal developments.

The current administration entered office in March 2020, and has until August 31 to present its own five-year budget, which will cover 2020-24. Officials have announced their intentions to seek fiscal consolidation. They consider two policy initiatives as key to taming the spending pressures that derailed the targets in 2015-19. The first is the introduction of a fiscal rule, which is currently being designed following congressional approval of its legal framework. The rule will focus on structural balance targets, with a committee of independent experts providing the inputs for their calculation, and an expenditure growth rule that would limit the expansion of spending (in real terms) to the economy's potential growth rate. The second is a pension reform, for which an initial consultative committee composed of experts is being assembled. Regardless of these initiatives we consider the upcoming budget, and compliance with its targets, the main issue.

Fiscal strength score: ba2

Factor 3: Overall score



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 initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We set Uruguay's fiscal strength score at "ba2," balancing its high government debt burden, moderate interest burden, very strong liability management practices and fiscal reserve assets, with lingering vulnerabilities from an elevated proportion of foreign-currency debt. The "ba2" score differs from the initial "b1" score because we consider that the negative adjustment informed by the large share of foreign-currency debt overstates risks related to the debt structure given the presence of sizable liquid buffers and the long maturity profile of the debt. Uruguay shares this score with Trinidad and Tobago (Ba1 negative).

Exhibit 10

Peer comparison table factor 3: Fiscal strength

	Uruguay Baa2/STA	ba2 Median	Cote d Ivoire Ba3/RUR	Trinidad & Tobago Ba1/NEG	Colombia Baa2/STA	Indonesia Baa2/STA	Italy Baa3/STA	Portugal Baa3/POS
Final score	ba2		ba2	ba2	ba1	ba1	ba3	ba3
Initial score	b1		b2	ba2	ba3	ba1	b1	ba1
Gen. gov. debt (% of GDP)	56.4	43.3	51.2	63.5	52.1	30.6	134.8	117.7
Gen. gov. debt (% of revenue)	195.6	195.6	252.9	225.0	190.9	223.9	286.4	274.7
Gen. gov. interest payments (% of GDP)	2.7	2.1	2.1	3.0	3.0	1.9	3.4	3.0
Gen. gov. int. payments (% of revenue)	9.3	9.3	10.1	10.9	10.8	14.2	7.2	7.0

Sources: National authorities, IMF, Moody's Investors Service.

Our analysis looks at consolidated central government excluding "cincuentones" revenue

For peer comparison purposes, our analysis of sovereign fiscal strength focuses on the general government level of aggregation. For Uruguay, based on the available data, we use the consolidated central government, which best approximates the general government definition because it includes the central government administration and the social security body (Banco de Prevision Social, BPS).

Additionally, we strip the effect of the so-called 2018 "cincuentones" law under which a group of future pensioners aged over 50 years old were allowed to transfer from the private pension system (administered by the AFAPs) to the public one under the BPS. The AFAPs will transfer the accumulated savings of this specific group to the BPS, which will be allocated to a trust and can only be used in the future to cover their pensions. Therefore, this revenue does not constitute a source of funding that the central government or BPS can use to cover its expenditures at present.[4] The Uruguayan government displays strong transparency in its fiscal reporting by including detail about the AFAP transfers, allowing for the netting out of this extraordinary revenue flow.

Despite tax reform in 2017, fiscal deficit deteriorated over the last five years

Uruguay's fiscal accounts deteriorated over the last five years as lower economic growth somewhat weighed on revenue growth while some mandatory expenditure items, including pensions and other social transfers, continued to grow faster than the overall economy. In 2015-19, the deficit averaged 3.4% of GDP, wider than the 1.5% recorded on average in 2010-14.[5] In 2015, when the administration of former President Tabare Vazquez took office, the medium-term fiscal target was for a gradual reduction to 2.5% of GDP by 2019. Amid weak economic performance, the target was revised in 2019, delaying that deficit target to after 2020. In 2019, the deficit widened to 4.3% of GDP from 3.4% in 2018 as expenditures grew 9.3%, while revenue (excluding the cincuentones transfers) expanded by 6.3%. Since 2015, revenue only grew faster than total spending in 2017 and 2018 because of revenue-enhancing measures implemented in those years.[6] Overall, given the rigidity of government spending, fiscal consolidation was mainly pursued through the revenue side.

Before the coronavirus shock, the new administration of President Luis Lacalle Pou (which took office in March) mandated a 15% budget reduction across most ministries to begin correcting the fiscal accounts this year. This effort has been broadly maintained. In response to the shock, the authorities announced stimulus plans, ranging from unemployment insurance to increased liquidity in the financial sector. Part of the response is to be financed by a "coronavirus fund," which will be effectively funded through contributions of highly paid public officials.

We expect the coronavirus crisis to weigh on the fiscal accounts through both lower revenue and higher spending (e.g., the BPS will make higher payments because of increased unemployment claims). Consequently, we expect the deficit to widen to over 7% of GDP in 2020. Deficit reduction efforts will be key to supporting the sovereign's credit profile, particularly because of the expected deterioration in debt metrics. We expect to get more detail about the government's fiscal consolidation plans once its five-year budget is presented to the congress by the end of August.

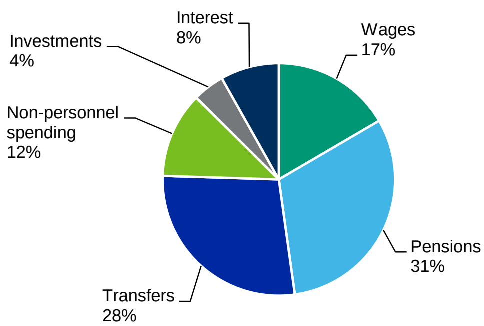
Inflexible expenditure structure poses medium-term risks

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 11), with the so-called endogenous expenditures, which are difficult to adjust, representing almost 59% of total spending (68% when interest payments are included).

Over the last five years, indexed expenditures have increased almost linearly (see Exhibit 12). The growth in pension-related expenditures is directly linked to the evolution of the average nominal wage growth.[7] The previous government sought to de-link wage increases from past inflation by instituting guidelines that tie nominal wage increases to productivity and sector-specific dynamics. 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 introduced in 2008 and 2017.[8] Another element that will influence future spending pressures relates to the military pension fund, which requires about 1% of GDP in annual transfers from the government. It is thus unlikely that pension payments will report an improving trend in the coming years in the absence of reform. The government has begun discussions on this issue with the announcement of a commission that will evaluate pension reform. We note, however, that such reform will not have a material short-term effect on the fiscal deficit.

Exhibit 11

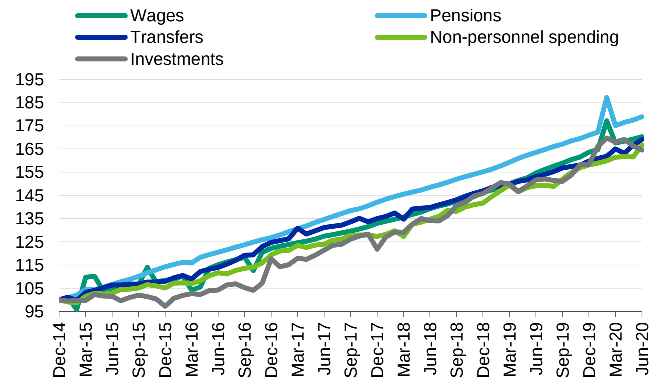
Uruguay's expenditure structure is rigid
% of total spending, 12-months through June 2020



Sources: Ministry of Finance, Moody's Investors Service

Exhibit 12

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



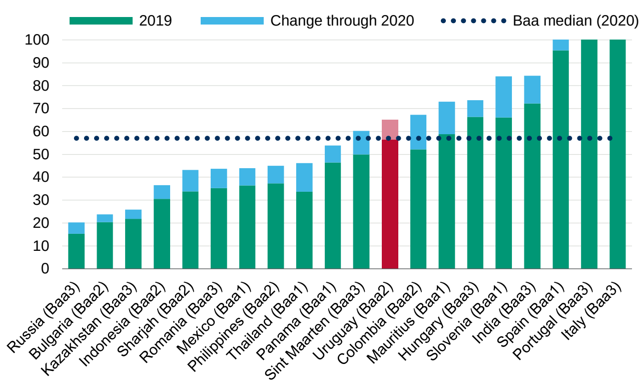
Sources: Ministry of Finance, Moody's Investors Service

Debt metrics will deteriorate because of coronavirus shock, positioning Uruguay in a weaker position than most Baa peers

We forecast that Uruguay's debt and interest burdens will worsen this year because of the coronavirus shock. We expect the debt/GDP ratio to rise to 65% in 2020 from 56% in 2019 (see Exhibit 13). This increase will be slightly smaller than the average rise in the debt burden for Baa-rated sovereigns in 2020 (11 percentage points), and will place Uruguay's debt burden higher than the Baa-median of 57%. In terms of the interest burden, we expect Uruguay's interest/revenue ratio to increase to 10.8% in 2020 from 9.3% in 2019 (see Exhibit 14). The change in 2020 will be smaller than that of the average Baa sovereign (1.9 percentage points), and will position Uruguay in a weaker position than the category median of 8.2%.

Exhibit 13

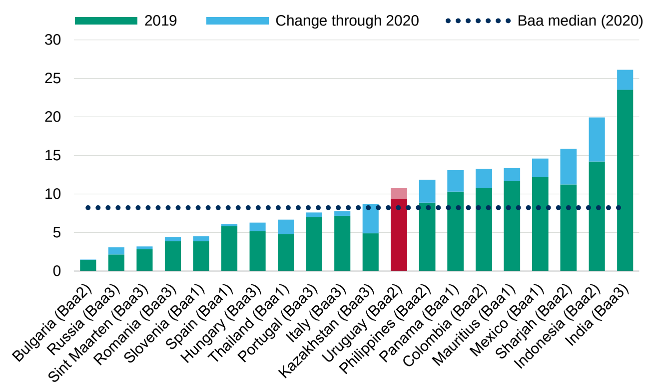
Change in debt burden following coronavirus shock
% of GDP



Source: Moody's Investors Service

Exhibit 14

Change in interest burden following coronavirus shock
% of revenue



Source: Moody's Investors Service

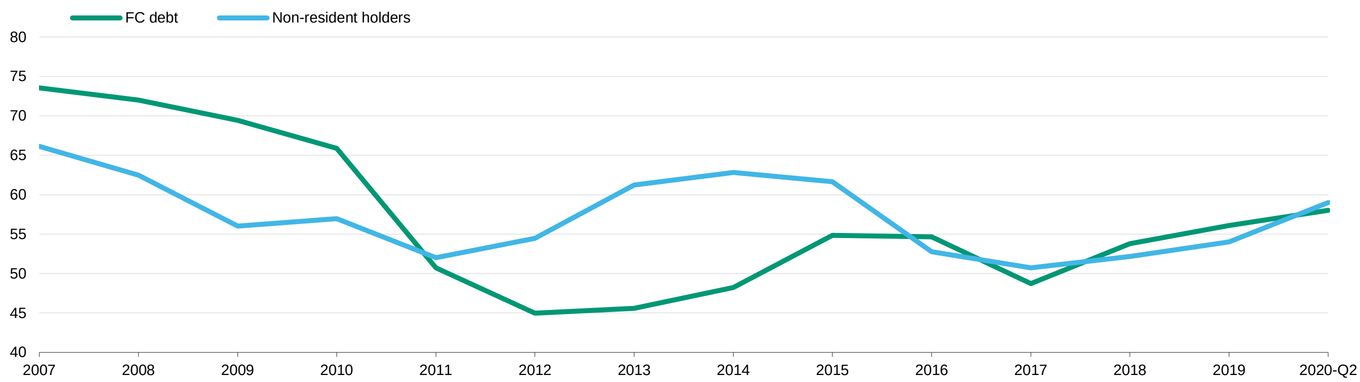
Financial buffers and favorable debt profile limit credit risks associated with exchange rate composition

Uruguay's debt metrics are exposed to exchange rate shocks because a still significant portion of government debt is denominated in foreign currency – although the share came down to 45% in 2012 from a peak of more than 70% in 2008, this rose again to 58% as of the first quarter of 2020 (see Exhibit 15). A depreciation of the Uruguayan peso can thus have a material impact on government debt metrics.[9] Indeed, the depreciation of the peso since 2018 has been an important contributor to the increase in the share of foreign-currency-denominated debt since 2017.

Importantly, as of June 2020 the government had $1.9 billion (3.4% of 2019's GDP) in assets – $1.1 billion in liquid assets (these do not include the proceeds of the issuance that settled in July 2020), with 78% held in foreign currency as of July 2020, and another $1.4

billion (2.5% of GDP) in contingent credit lines (these do not include approved loans from the Inter-American Development Bank and the World Bank for $750 million) – that would allow it to fully cover 12 months of debt-service requirements, providing sufficient buffer against heightened global market volatility. In addition to helping reduce rollover risk, this liquidity practice also acts as a hedge during episodes of currency depreciation.

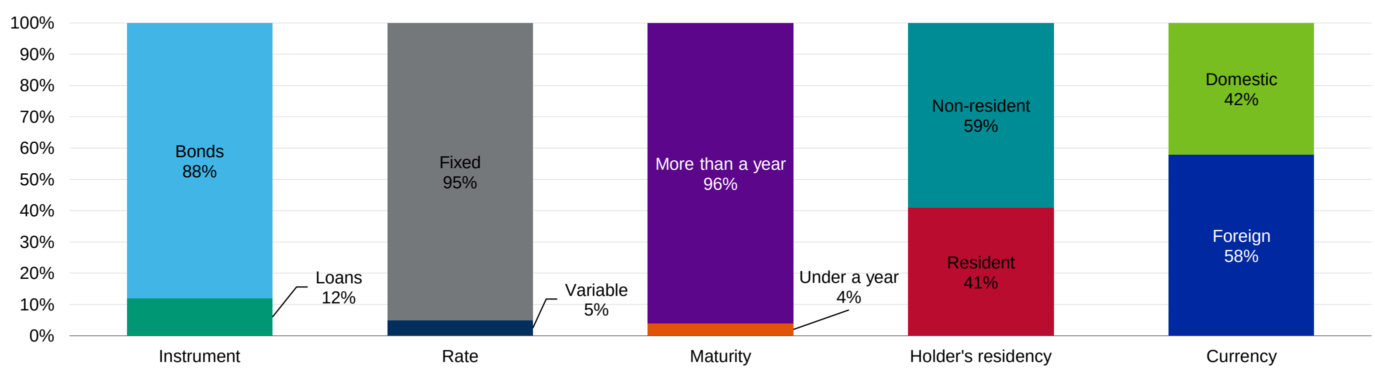
Exhibit 15
Uruguay's debt dollarization has risen above 50% again
Share of foreign-currency-denominated government debt, %



Sources: Ministry of Finance, Moody's Investors Service

Additionally, because of effective liability management, the government has reduced potential risks by extending the average maturity on its debt (which stood at 14 years as of June 2020) and by maintaining a high share of debt at fixed rates – over 90% of debt is at a fixed rate, including local currency instruments with fixed real rates (see Exhibit 16). As the government has been refinancing old debt issued over the past decade with new bonds issued at lower coupons in recent years, the government has also been able to lower the effective interest rate paid on its debt (interest payments-to-total debt) to 4.4%.

Exhibit 16
Uruguay has a favorable debt profile
% of total, as of June 2020



Sources: Ministry of Finance, Moody's Investors Service

Susceptibility to event risk score: a

Factor 4: Overall score

Scale	aaa	aa	a	baa	ba	b	caa	ca	
+			Final						-

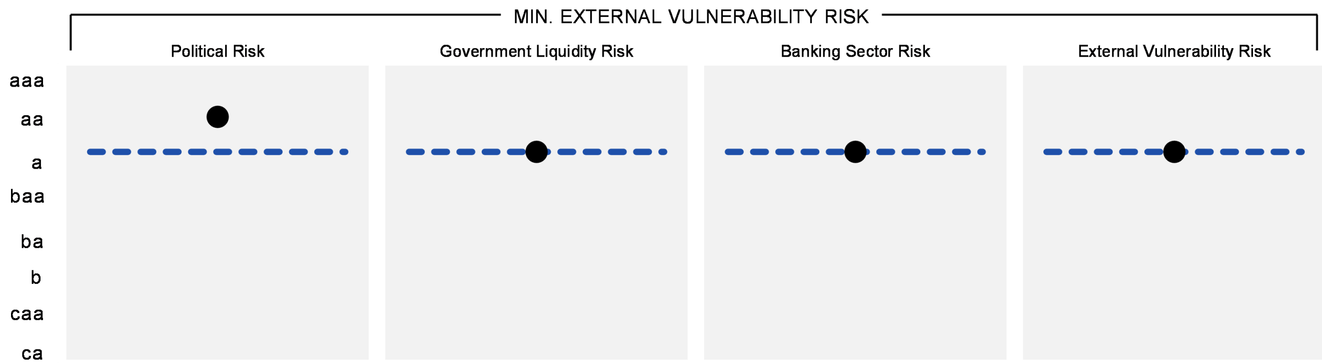
Factor 4: Sub-scores

Uruguay **a**

Score for Uruguay

Median of countries with Baa2 rating

Overall adjustment to Factor 4 Susceptibility to Event Risk: 0



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 scorecard-indicated outcome.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We assess Uruguay's susceptibility to event risk as "a," driven by banking sector risk. Other sovereigns with a similar overall assessment of susceptibility to event risk include Botswana (A2 negative), Indonesia (Baa2 stable) and Paraguay (Ba1 stable).

Political risk: a

Exhibit 17

Peer comparison table factor 4a: Political risk

	Uruguay Baa2/STA	aa Median	Panama Baa1/STA	Portugal Baa3/POS	Luxembourg Aaa/STA	New Zealand Aaa/STA	Bulgaria Baa2/POS	Paraguay Ba1/STA
Final score	aa		aa	aa	aaa	aaa	a	a
Voice & accountability, score[1]	1.2	1.2	0.6	1.2	1.6	1.6	0.3	0.1
Political stability, score[1]	1.0	0.9	0.3	1.1	1.4	1.5	0.4	-0.1

[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Sources: National authorities, IMF, Moody's Investors Service

Political event risk is "aa" 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.

The administration, led by president Lacalle Pou, took office on 1 March 2020. The new government has the support of a coalition of parties that provide it with a majority in both legislative chambers. The Lacalle Pou administration has repeatedly remarked upon the importance of fiscal and economic reforms covering a wide range of topics, including fiscal and labor reforms aimed at narrowing fiscal deficits and reducing labor costs. Although the coronavirus pandemic diverted policymaking efforts during the early months of its tenure, we expect the government to begin making progress on its agenda over the rest of 2020.

A key policy measure that progressed in recent months was the omnibus “Urgent Law” bill, which included the legal framework for a fiscal rule. However, the administration also needed to pare back its ambitions on other topics to secure the bill's passage so as to attain support from within its governing coalition, including watering down reforms to the labor market and the liberalization of sectors where state-owned enterprises have a monopoly. The administration will also have to contend with resistance from labor unions, as evidenced by the increase in labor union activity in July. Protests centered around the incoming multiyear budget, which unions expect will include fiscal austerity provisions.

Government liquidity risk: a

Exhibit 18

Peer comparison table factor 4b: Government liquidity risk

	Uruguay Baa2/STA	a Median	Colombia Baa2/STA	Romania Baa3/NEG	Philippines Baa2/STA	Panama Baa1/STA	Italy Baa3/STA	Portugal Baa3/POS
Final score	a		a	a	aa	aa	baa	baa
Initial score	a		a	a	aa	aa	a	baa
Ease of access to funding	a	a	a	a	aa	aa	a	baa
Gross borrowing requirements (% of GDP)	10.6	10.5	10.4	8.4	13.6	10.5	26.5	14.1

Sources: National authorities, IMF, Moody's Investors Service

Uruguay's “a” 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 external government debt.

A favorable maturity profile translates into low rollover risks. To achieve this, the government has maintained a very long maturity profile, with current central government debt having an average maturity of 14.4 years. Given Uruguay’s extended debt maturity, the government faces modest refinancing requirements over the medium term, with yearly principal payments averaging under 3% of GDP over the next five years and never exceeding 4%.

Combined with moderate fiscal deficits, the modest amounts of maturing debt result in fairly low gross financing needs. The widening of fiscal deficits brought on by the coronavirus outbreak will take the government's gross financing needs near 11% of GDP in 2020, which remains in line with the median of Baa-rated sovereigns. We expect financing needs to narrow alongside narrowing fiscal deficits after 2020.

According to the Ministry of Finance, external government debt by jurisdiction has been on average about 75% of total debt. However, the share of nonresident holders is actually closer to 55% of the total, which is closer to the 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. In the midst of the coronavirus crisis, Uruguay was able to issue external bonds – both in US dollars as well as in local currency (indexed units) – in late June at favorable rates. 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 also has access to contingent credit lines with multilateral development banks that are available on call.

Banking sector risk: a

Exhibit 19

Peer comparison table factor 4c: Banking sector risk

	Uruguay Baa2/STA	a Median	Mexico Baa1/NEG	Indonesia Baa2/STA	Cayman Islands Aa3/STA	Singapore Aaa/STA	Mauritius Baa1/NEG	Slovenia Baa1/POS
Final score	a		a	a	aa	aa	baa	baa
Initial score	a		a	a	aa	a	baa	baa
BCA[1]	baa3	baa2	baa2	baa3	--	a1	ba1	ba1
BSCE[2]	ba1-ba2	baa2	baa3	baa3	baa2	aaa-a3	ba1-ba2	ba1-ba2
Total domestic bank assets (% of GDP)	71.9	132.8	40.3	55.0	--	626.3	306.3	88.9

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.
[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system.
Sources: National authorities, IMF, Moody's Investors Service

We assess banking sector risk in Uruguay as "a." 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 72% of GDP in 2019, of which about half were loans. We rate five banks in Uruguay, which held almost 73% of total loans as of September 2019. The rated banks' average standalone Baseline Credit Assessment (BCA) is baa3, and the median deposit rating is Baa3.

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 49% of the system's total assets. 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 51% of the total.

Overall, we assume 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.

As of June 2020, key strengths of the banking system include: (1) good asset quality, with nonperforming loans (NPLs) at a moderate 3% for private banks and 4% for public banks; (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 at 60% for private banks and 90% for public banks. These strengths offset lingering concerns about the elevated level of financial dollarization, especially in terms of deposits. Foreign-currency-denominated deposits account for around 75% of the total, while dollar-denominated loans as a share of total loans are moderate for public banks (31%) and high (63%) for private banks.

External vulnerability risk: a

Exhibit 20

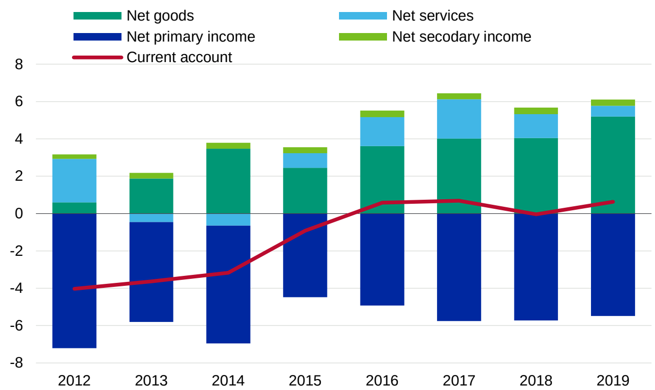
Peer comparison table factor 4d: External vulnerability risk

	Uruguay Baa2/STA	a Median	Bulgaria Baa2/POS	Mexico Baa1/NEG	Philippines Baa2/STA	Peru A3/STA	Hungary Baa3/STA	Romania Baa3/NEG
Final score	a		a	a	aa	aa	baa	baa
Initial score	a		a	a	aa	aa	baa	baa
Current account balance (% of GDP)	0.7	-2.0	4.0	-0.3	-0.1	-1.5	-0.8	-4.6
Net IIP (% of GDP)[1]	-27.0	-36.1	-31.7	-53.2	-9.2	-37.0	-47.3	-42.9
External debt (% of current account receipts)	236.1	100.7	79.9	85.3	61.4	130.4	96.2	104.7
External vulnerability indicator (EVI)[2]	83.0	58.0	75.5	59.0	27.8	25.1	89.5	170.3

[1] Net international investment position (% of GDP).
[2] (Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year)/official foreign exchange reserves.
Sources: National authorities, IMF, Moody's Investors Service

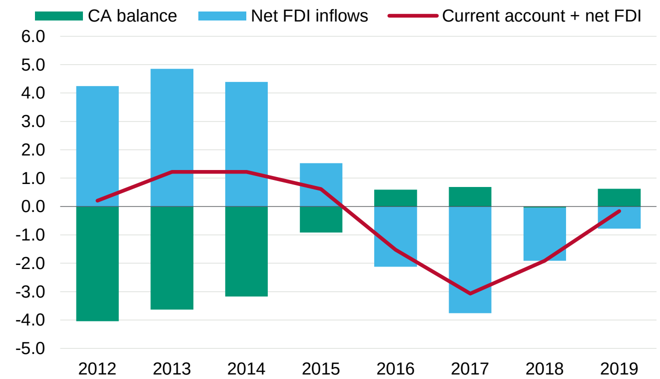
With the exception of a small deficit in 2018, Uruguay has posted recurrent current account surpluses since 2016 (see Exhibit 21). The goods surplus has expanded in recent years because imports fell as oil prices declined and lower investment – and FDI – led to a decrease in imports of capital goods. The services balance was partly driven by developments in Argentina; an economic recovery there drove the inflow of tourists to Uruguay in 2017 (and part of 2018). A decline in economic fortunes in Argentina in 2019 led to a decline in services exports (i.e., tourism receipts). An additional feature of Uruguay's current account is the relatively large net primary income deficit, which is a result of 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 22). The shift to a current account surplus had limited the risk of external debt accumulation over recent years, but that reversed last year.

Exhibit 21
Uruguay's current account has been in surplus in recent years
% of GDP



Sources: Haver Analytics, Moody's Investors Service

Exhibit 22
Balances in the current account and FDI flows reversed as the economy cooled in 2016-19
% of GDP



Sources: Haver Analytics, Moody's Investors Service

While Uruguay has a negative net international investment position (-27% of GDP in 2019), about 60% of its total liabilities are related to FDI. This, in turn, reduces the country's vulnerability to shifts in capital flows. Meanwhile, international reserve assets account for about 25.1% of GDP, up from 20% in 2011. This buffer, in addition to the central government's own reserves, provide important coverage of external debt-service payment obligation.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Uruguay

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sovereign issuers' economic, institutions and governance and fiscal strength and their susceptibility to event risk. In the case of Uruguay, the materiality of ESG to the credit profile is as follows:

Environmental factors affect Uruguay's credit profile in a limited manner. The country's large coastline is not susceptible to major flooding, and extreme weather events are rare in the region. The main risk is disruptive weather effects like excessive rains or droughts, which would affect the agricultural sector.

Social considerations, in particular an aging population, affect Uruguay's credit profile. The outbreak of the coronavirus will have an economic and fiscal impact on Uruguay, notwithstanding the government's efforts to contain the outbreak's impact. The country's aging population, coupled with the population's predilection for social expenditure, will weigh on public finances in the coming years. A recent example of how this situation manifests is the so-called *cincuentones* law, which absorbed private fully funded would-be pensioners into the public system after their forecast pensions were deemed insufficient.

We do not consider governance risks to be material to Uruguay's credit profile. Uruguay has strong institutions and a broad societal consensus on retaining the country's institutional arrangements.

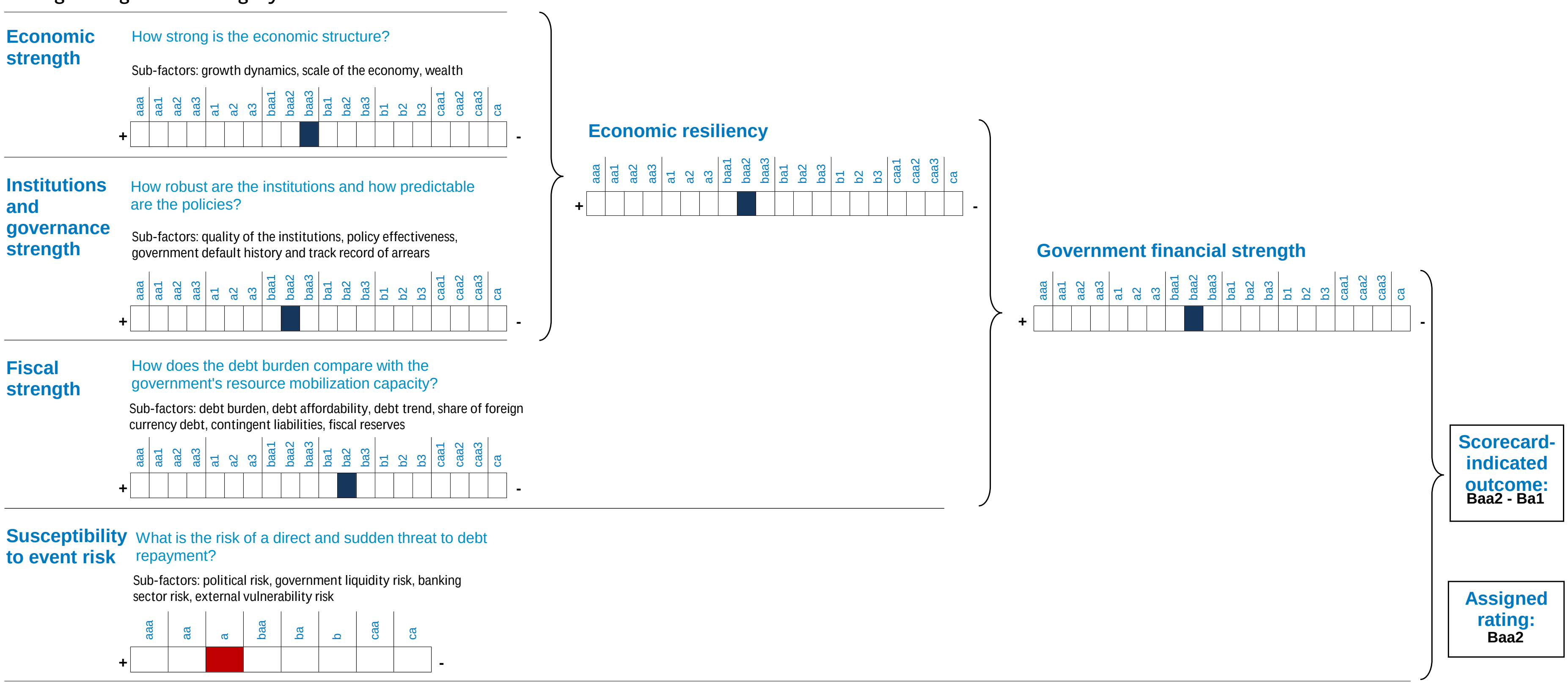
All of these considerations are further discussed in the “Credit profile” section above. Our approach to ESG is explained in our report on how ESG risks influence sovereign credit profiles and our cross-sector methodology General Principles for Assessing ESG Risks.

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. 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 scorecard-indicated outcome. 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 scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Exhibit 23

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 scorecard-indicated outcome and shows the relevant credit metrics and factor scores.

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

Exhibit 24

Uruguay's key peers

	Year	Uruguay	Sharjah	Bulgaria	Slovenia	Colombia	Mexico	Baa2 Median	Latin America and Caribbean Median
Rating/outlook		Baa2/STA	Baa2/STA	Baa2/POS	Baa1/POS	Baa2/STA	Baa1/NEG	Baa2	Ba3
Scorecard-indicated outcome		Baa2 - Ba1	Baa1 - Baa3	A3 - Baa2	A2 - Baa1	Baa1 - Baa3	A3 - Baa2	Baa1 - Baa3	Ba2 - B1
Factor 1		**baa3**	**ba1**	**baa3**	**baa1**	**baa1**	**baa1**	**baa2**	**ba2**
Nominal GDP ($ bn)	2019	56.0	26.8	67.9	53.7	323.6	1258.2	195.8	46.3
GDP per capita (PPP, Intl$)	2019	23,581	26,985	24,595	38,462	15,541	20,868	19,561	15,534
Avg. real GDP (% change)	2015 - 2024F	1.5	1.6	2.6	2.3	2.1	1.1	2.4	1.1
Volatility in real GDP growth (ppts)	2010 - 2019	2.3	2.6	1.5	2.3	1.6	1.5	1.5	1.9
Factor 2		**baa2**	**baa1**	**baa2**	**a2**	**baa3**	**ba1**	**baa2**	**ba3**
Quality of legislative & executive institutions	Latest available	a	baa	baa	a	baa	ba	baa	ba
Strength of civil society & judiciary	Latest available	aa	ba	baa	a	ba	b	ba	ba
Fiscal policy effectiveness	Latest available	baa	baa	baa	a	baa	baa	baa	ba
Monetary & macro policy effectiveness	Latest available	baa	aa	baa	a	baa	baa	a	ba
Gen. gov. fiscal balance (% of GDP)	2019 - 2021F	-5.4	-6.2	-0.8	-4.1	-5.6	-3.5	-4.8	-5.3
Average inflation (% change)	2015 - 2024F	8.0	1.6	1.6	1.2	3.9	3.5	2.9	2.8
Volatility of inflation (ppts)	2010 - 2019	1.0	1.4	1.9	1.0	1.6	1.0	1.5	1.7
Factor 3		**ba2**	**baa3**	**a1**	**a3**	**ba1**	**baa1**	**ba1**	**ba2**
Gen. gov. debt (% of GDP)	2019	56.4	33.8	20.4	66.1	52.1	36.4	35.6	54.1
Gen. gov. debt (% of revenue)	2019	195.6	291.6	53.1	149.5	190.9	204.8	193.2	228.7
Gen. gov. interest payments (% of revenue)	2019	9.3	11.2	1.5	3.9	10.8	12.2	10.1	10.6
Gen. gov. interest payments (% of GDP)	2019	2.7	1.3	0.6	1.7	3.0	2.2	1.9	2.4
Factor 4		**a**	**baa**	**ba**	**baa**	**baa**	**baa**	**baa**	**baa**
Political risk	Latest available	**aa**	**baa**	**a**	**baa**	**baa**	**baa**	**a**	**baa**
Government liquidity risk	Latest available	**a**	**a**	**aaa**	**aaa**	**a**	**a**	**a**	**baa**
Gross borrowing requirements (% of GDP)	2020F	10.6	12.9	4.5	5.8	10.4	10.2	10.6	10.4
Banking sector risk	Latest available	**a**	**baa**	**ba**	**baa**	**a**	**a**	**a**	**baa**
BSCE[1]	Latest available	ba1-ba2	baa3	ba3-b3	ba1-ba2	ba1-ba2	baa3	baa3	ba1-ba2
Total domestic bank assets (% of GDP)	2019	71.9	--	96.2	88.9	63.6	40.3	71.9	72.9
External vulnerability risk	Latest available	**a**	**aa**	**a**	**a**	**a**	**a**	**a**	**baa**
Current account balance (% of GDP)	2019	0.7	--	4.0	6.6	-4.2	-0.3	-0.1	-1.6
External vulnerability indicator (EVI)	2021F	83.0	--	75.5	--	81.8	59.0	75.5	65.5
External debt (% of current account receipts)	2019	236.1	--	79.9	103.0	199.8	85.3	183.8	125.6
Net international investment position (% of GDP)	2019	-27.0	--	-31.7	-19.3	-52.4	-53.2	-30.3	-37.0

[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

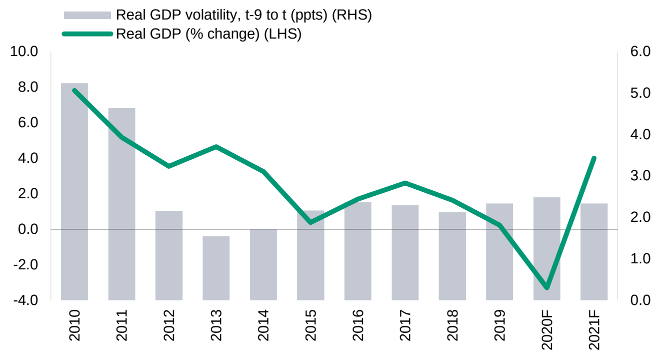
Source: National authorities, IMF, Moody's Investors Service

DATA, CHARTS AND REFERENCES

Chart pack: Uruguay

Exhibit 25

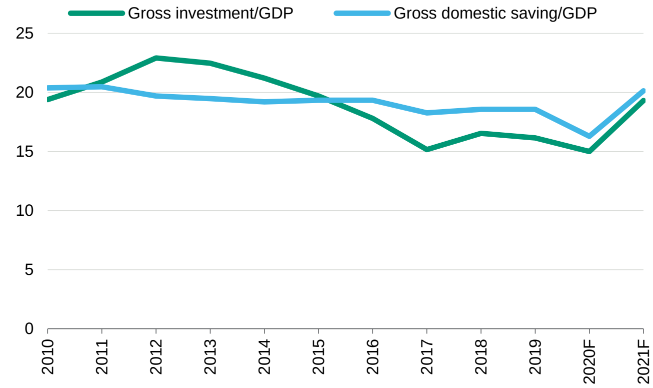
Economic growth



Source: Moody's Investors Service

Exhibit 26

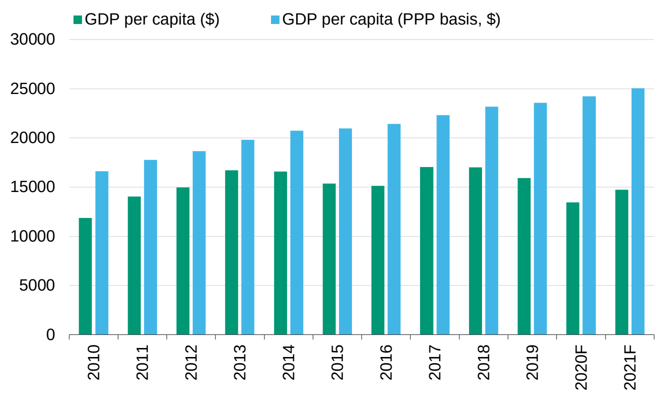
Investment and saving



Source: Moody's Investors Service

Exhibit 27

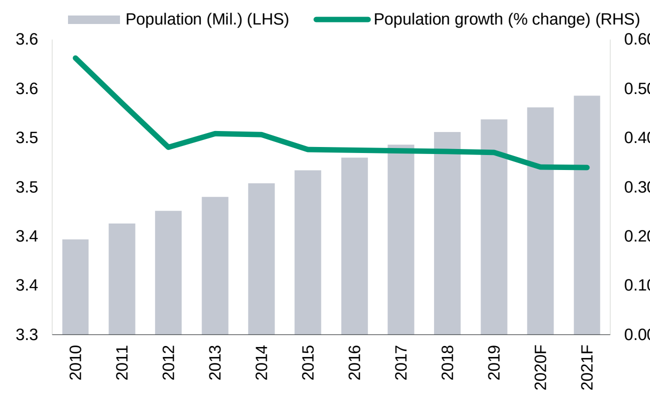
National income



Source: Moody's Investors Service

Exhibit 28

Population

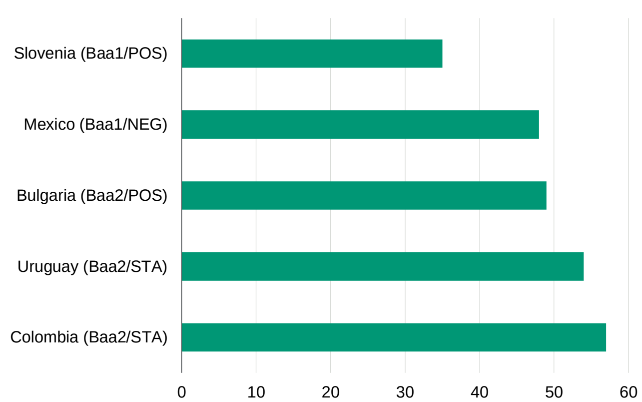


Source: Moody's Investors Service

Exhibit 29

Global Competitiveness Index

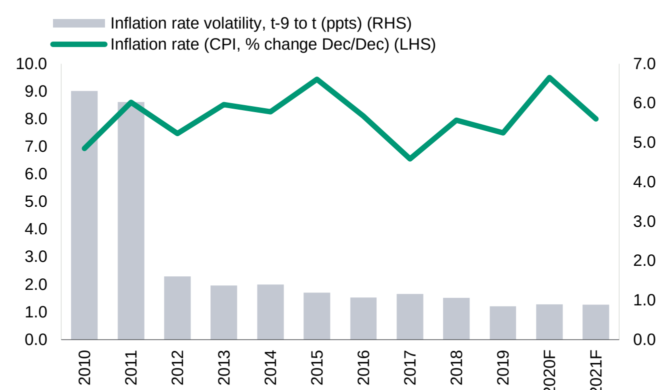
Rank 54 out of 141 countries



Source: World Economic Forum

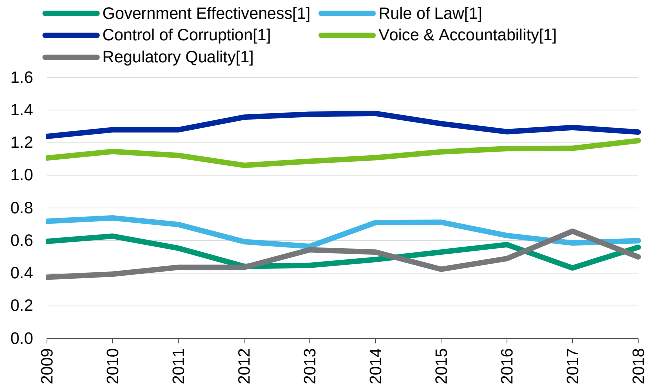
Exhibit 30

Inflation and inflation volatility



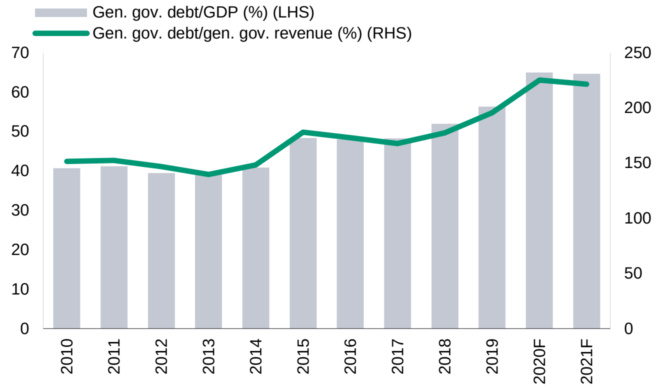
Source: Moody's Investors Service

Exhibit 31
Institutional framework and effectiveness



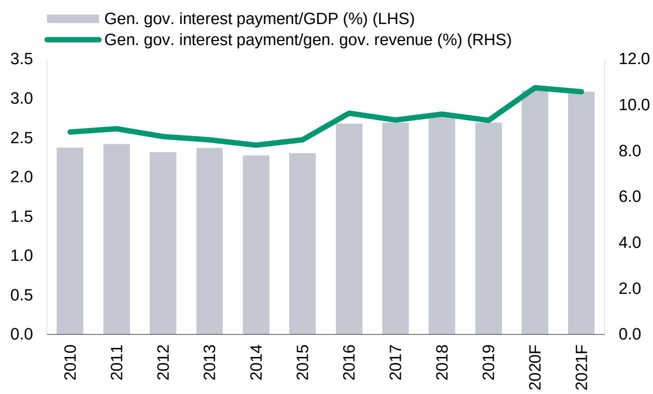
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 32
Debt burden



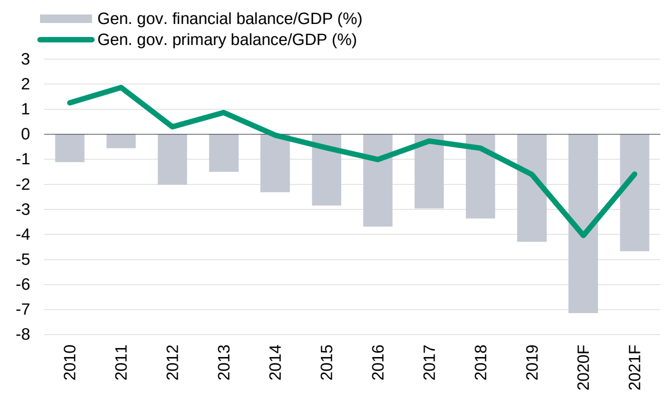
Source: Moody's Investors Service

Exhibit 33
Debt affordability



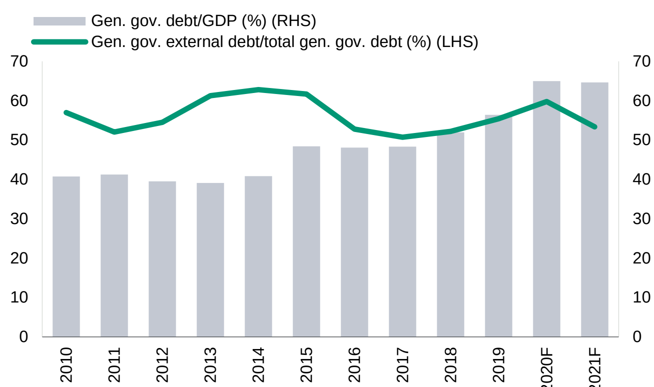
Source: Moody's Investors Service

Exhibit 34
Financial balance



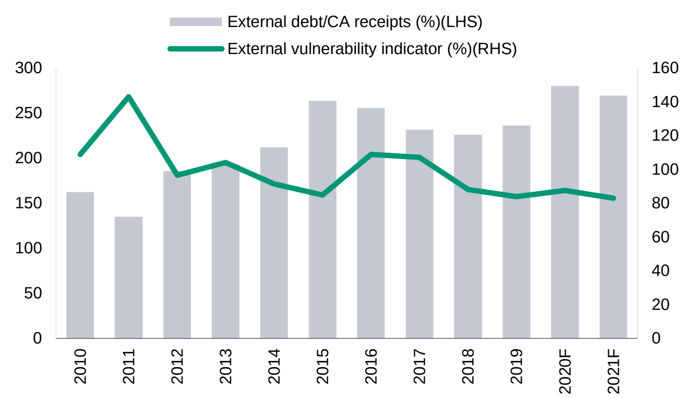
Source: Moody's Investors Service

Exhibit 35
Government liquidity risk



Source: Moody's Investors Service

Exhibit 36
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 37

Uruguay [1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
Baa2	**Baa2**	**STA**	**-**	**-**	**-**	**-**	**13-Jul-17**
Baa2	Baa2	NEG	-	-	-	-	22-Jun-16
Baa2	Baa2	STA	-	-	-	-	29-May-14
Baa3	Baa3	POS	-	-	-	-	31-Jul-12
Ba1	Ba1	POS	-	-	-	-	26-Jan-12
Ba1	Ba1	STA(m)	-	-	-	-	8-Dec-10
Ba3	Ba3	STA	Possible Upgrade	Possible Upgrade	-	-	15-Jul-10
Ba3	Ba3	STA	-	-	-	-	12-Jan-09
B1	B1	RUR	Possible Upgrade	Possible Upgrade	-	-	14-Aug-08
B1	B1	STA	-	-	-	-	21-Dec-06
B3	B3	RUR	Possible Upgrade	Possible Upgrade	-	-	12-Sep-06
B3	B3	STA	-	-	-	-	10-Nov-04
B3	B3	NEG	-	-	-	-	15-Nov-03
B3	B3	-	Confirmed	Confirmed	-	-	9-May-03
B3	B3	-	-	-	-	-	31-Jul-02
B1	B1	-	-	-	-	-	10-Jul-02
Ba2	Ba2	-	Possible Downgrade	Possible Downgrade	-	-	21-May-02
Ba2	Ba2	-	-	-	-	-	3-May-02
Baa3	Baa3	-	Possible Downgrade	Possible Downgrade	-	-	4-Apr-02
Baa3	Baa3	-	-	-	-	-	2-Oct-98
Baa3	-	-	-	-	-	-	10-Jun-97
Ba1	-	-	-	-	-	-	15-Oct-93

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

Annual statistics

Exhibit 38

Uruguay

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Economic structure and performance												
Nominal GDP (US$ bil.)	40.3	48.0	51.3	57.5	57.2	53.3	52.7	59.5	59.6	56.0	47.4	52.2
Population (Mil.)	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
GDP per capita (US$)	11,859	14,053	14,963	16,724	16,571	15,366	15,140	17,043	16,999	15,927	13,438	14,727
GDP per capita (PPP basis, US$)	16,623	17,763	18,669	19,798	20,736	20,948	21,442	22,328	23,158	23,581	24,221	--
Nominal GDP (% change, local currency)	13.1	14.6	12.4	13.2	12.9	9.4	9.2	7.4	7.3	7.9	4.9	12.7
Real GDP (% change)	7.8	5.2	3.5	4.6	3.2	0.4	1.7	2.6	1.6	0.2	-3.3	4.0
Inflation (CPI, % change Dec/Dec)	6.9	8.6	7.5	8.5	8.3	9.4	8.1	6.6	8.0	7.5	9.5	8.0
Gross investment/GDP	19.4	20.9	22.9	22.5	21.2	19.7	17.8	15.2	16.5	16.2	15.0	19.3
Gross domestic saving/GDP	20.4	20.5	19.7	19.5	19.2	19.3	19.3	18.3	18.6	18.6	16.3	20.1
Nominal exports of G & S (% change, US$ basis)	23.7	19.4	4.9	1.1	0.3	-11.1	-5.7	13.0	-1.9	-2.7	-15.0	4.0
Nominal imports of G & S (% change, US$ basis)	22.7	26.0	16.1	1.5	-3.6	-16.7	-13.9	4.2	3.7	-4.4	-10.0	6.0
Openness of the economy[1]	51.7	53.2	55.1	49.7	49.1	45.3	41.3	39.8	40.0	41.0	42.3	40.4
Government Effectiveness[2]	0.6	0.6	0.4	0.4	0.5	0.5	0.6	0.4	0.6	--	--	--
Government finance												
Gen. gov. revenue/GDP[3]	26.9	27.0	26.9	28.0	27.6	27.2	27.8	28.8	29.3	28.8	28.9	29.2
Gen. gov. expenditures/GDP	28.0	27.6	28.9	29.5	29.9	30.0	31.5	31.8	32.6	33.1	36.0	33.9
Gen. gov. financial balance/GDP[3]	-1.1	-0.6	-2.0	-1.5	-2.3	-2.8	-3.7	-3.0	-3.4	-4.3	-7.1	-4.7
Gen. gov. primary balance/GDP	1.3	1.9	0.3	0.9	0.0	-0.5	-1.0	-0.3	-0.6	-1.6	-4.0	-1.6
Gen. gov. debt (US$ bil.)	16.4	19.2	21.2	21.5	22.3	23.6	26.1	28.7	29.4	29.8	31.3	32.5
Gen. gov. debt/GDP	40.7	41.2	39.5	39.1	40.9	48.4	48.0	48.3	52.0	56.4	65.0	64.7
Gen. gov. debt/gen. gov. revenue	151.4	152.6	146.8	139.7	148.2	178.1	172.9	167.6	177.6	195.6	225.2	221.5
Gen. gov. interest payments/gen. gov. revenue	8.8	9.0	8.6	8.5	8.3	8.5	9.6	9.3	9.6	9.3	10.8	10.6
Gen. gov. FC & FC-indexed debt/gen. gov. debt	65.9	50.7	45.0	45.6	48.2	54.8	54.7	48.7	53.8	56.0	60.0	54.0
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	20.1	19.9	19.4	21.4	24.3	29.9	29.3	28.8	32.4	37.3	43.0	46.5
Real eff. exchange rate (% change)	11.0	2.1	2.7	6.0	-3.9	0.6	0.9	6.1	1.5	-3.2	--	--
Current account balance (US$ bil.)	-0.8	-1.3	-2.1	-2.1	-1.8	-0.5	0.3	0.4	0.0	0.3	-1.1	-1.8
Current account balance/GDP	-1.9	-2.8	-4.0	-3.6	-3.2	-0.9	0.6	0.7	0.0	0.6	-2.4	-3.5
External debt (US$ bil.)	18.4	18.3	36.4	38.1	41.2	43.8	40.0	41.3	41.4	42.7	44.6	44.9
Public external debt/total external debt	71.5	78.7	45.8	47.4	46.0	43.4	44.9	45.1	46.3	47.3	42.0	38.6
Short-term external debt/total external debt	28.1	22.2	21.2	23.5	22.7	20.7	17.2	16.0	14.7	14.3	15.0	14.7

Source: Moody's Investors Service

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
External payments and debt												
External debt/GDP	45.7	38.2	71.0	66.2	72.0	82.1	75.9	69.3	69.5	76.2	93.9	86.1
External debt/CA receipts[4]	162.4	134.9	185.7	193.1	212.0	263.6	255.7	231.4	227.8	236.4	280.1	269.3
Interest paid on external debt (US$ bil.)[5]	0.8	0.9	0.7	1.0	0.9	1.1	0.9	0.8	0.8	0.8	0.8	0.8
Amortization paid on external debt (US$ bil.)[5]	0.9	2.0	1.8	2.2	1.7	1.6	3.1	1.9	1.9	1.8	1.5	1.3
Net foreign direct investment/GDP	5.8	5.2	4.2	4.9	4.4	1.5	-2.1	-3.8	-1.9	-0.8	1.5	1.8
Net international investment position/GDP	--	--	-33.7	-27.1	-30.4	-28.7	-30.0	-28.5	-25.5	-26.6	--	--
Official forex reserves (US$ bil.)	7.2	9.8	13.1	15.7	17.0	15.2	13.1	15.6	15.1	14.1	15.5	15.0
Net foreign assets of domestic banks (US$ bil.)	4.9	4.8	3.7	3.0	3.0	4.8	6.0	5.9	6.2	--	--	--
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	31.0	22.1	10.3	13.7	6.4	9.0	14.4	13.3	10.5	5.7	--	--
Monetary policy rate (% per annum, Dec 31)[6]	6.5	8.8	9.0	--	--	--	--	--	--	--	--	--
Domestic credit (% change Dec/Dec)	27.7	6.2	20.2	27.4	13.8	11.8	5.0	7.7	9.9	13.1	--	--
Domestic credit/GDP	31.7	29.4	31.4	35.4	35.6	36.4	35.0	35.1	36.0	37.7	--	--
M2/official forex reserves (X)	0.9	0.8	0.7	0.6	0.5	0.5	0.7	0.6	0.6	0.6	--	--
Total external debt/official forex reserves	257.0	187.9	278.8	242.3	242.0	288.7	306.5	265.2	273.5	303.2	287.4	299.5
Debt service ratio[7][5]	15.5	21.3	12.8	15.8	13.3	16.0	25.2	15.0	14.8	14.4	14.5	13.0
External vulnerability indicator (EVI)[8]	108.8	143.0	96.5	104.2	91.3	84.9	108.9	107.1	88.1	83.9	87.6	83.0
Liquidity ratio[9]	20.7	33.6	49.2	57.4	70.8	60.6	62.0	64.1	61.2	66.1	--	--
Total liabilities due BIS banks/total assets held in BIS banks	41.9	50.7	53.6	63.2	67.7	53.0	51.8	62.6	59.9	58.1	--	--
"Dollarization" ratio[10]	68.6	67.2	66.9	68.8	72.4	75.7	72.5	69.0	69.3	72.1	--	--
"Dollarization" vulnerability indicator[11]	67.5	67.2	65.4	64.9	67.5	71.4	79.1	72.6	73.6	138.1	--	--

[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

Moody's related publications

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» **Issuer Comment:** Government of Uruguay: Consensus-building coalition will be key to passing reforms after elections, 28 October 2019

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» Sovereign risk group webpage

» Sovereign ratings list

» Uruguay Ministry of Economics and Finance

Authors

Renzo Merino
VP-Senior Analyst

Fernando Freijedo
Associate Analyst

Endnotes

1 The IMF's overall peer group for Uruguay comprises countries that were once at a similar development stage – proxied by their GDP per capita relative to the US level – to Uruguay in 2018, at any point in time since 1950. The countries with the fastest rate of economic convergence in the subsequent 10 years are then chosen as the high-growth peer group, provided that there has not been any significant reversal in the country's convergence process until 2018.

2 We note that despite these positive changes, for some companies wages continue to represent a significant rigid cost that weighs on their profitability and therefore may limit their ability to invest.

3 The endpoint of this plan is fixed, so as each administration's tenure advances the plan loses its medium-term outlook. This in turn can contribute to procyclical fiscal policy. Alternatively, should fiscal targets be changed in response to changing macroeconomic conditions, then it can weigh on policy credibility.

4 The "cincuentones" transfers will only positively contribute to the fiscal position while the transfers from the AFAPs (private pension managers) take place. The AFAPs will continue to make these transfers to the trust through 2022. The trust will invest these funds over the subsequent three years and after the seventh year the trust will provide one twentieth of the accumulated capital plus earnings generated to the "cincuentones" over a period of 20 year. Additionally, the "cincuentones" effect will create a future liability for the BPS that will be negative for fiscal performance because public pension outlays will enlarge without a matching revenue source, unless there is a push for pension reform in the near future.

5 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.

6 For 2017, 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. In 2018, a customs duty was raised to increase collections.

7 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.

8 In 2008, the government made changes to the public system 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. In 2017, the cincuentones law allowed for people over 50 years old as of 1 April 2016 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.

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

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