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RATINGS

Uruguay

	Foreign Currency	Local Currency
Gov. Bond Rating	Baa2/STA	Baa2/STA
Country Ceiling	A2	A1

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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 could result from (1) continued progress on the government's reform agenda, in particular vis-à-vis compliance with the new fiscal rule and monetary policy framework that result in improving macroeconomic outcomes; (2) a material strengthening in the government's balance sheet, for example, through a reduction in the sovereign's debt and interest burdens and continued improvements in the debt structure; and, (3) a reduction in structural rigidities of Uruguay's credit profile such as those associated with low and declining productivity, which affects potential growth, as well as the relatively rigid government spending structure.

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, and likely leading to economic growth underperforming and fiscal strength deteriorating further in the medium term, with a continued 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.

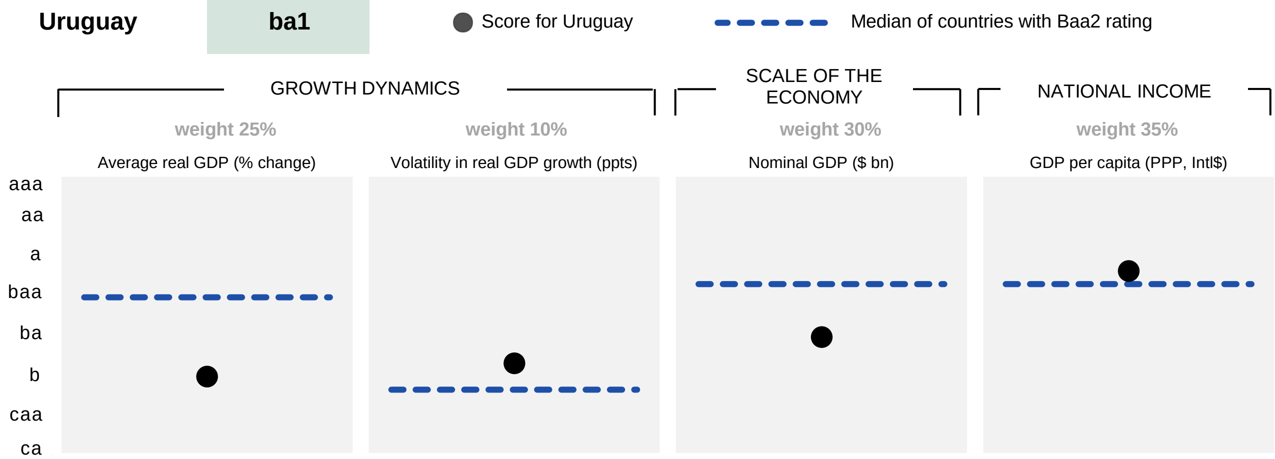
Economic strength score: ba1

Factor 1: Overall score

Scale	aaa	aa1	aa2	aa3	a1	a2	a3	baa1	baa2	baa3	ba1	ba2	ba3	b1	b2	b3	caa1	caa2	caa3	ca
+											Final									-

Factor 1: Sub-scores

Uruguay	ba1



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 "ba1," which balances somewhat slow growth dynamics compared to all other rated sovereigns, high income levels (GDP per capita of $22,459 in PPP terms in 2020) and a relatively small economy on a global basis ($54 billion in 2020). Other sovereigns with a similar score for economic strength include Mauritius (Baa2 negative) and Sharjah (Baa3 negative).

Exhibit 1

Peer comparison table factor 1: Economic strength

	Uruguay	ba1 Median	Croatia	Mauritius	Sharjah	Bulgaria	South Africa	Panama
	Baa2/STA		Ba1/STA	Baa2/NEG	Baa3/NEG	Baa1/STA	Ba2/NEG	Baa2/STA
Final score	ba1		ba1	ba1	ba1	baa3	baa3	baa2
Initial score	ba1		baa2	ba3	baa2	baa2	ba2	baa3
Nominal GDP ($ billion)	53.6	48.4	56.2	10.9	30.7	69.1	302.1	52.9
GDP per capita (PPP, Intl$)	22,459.5	16,013.3	27,717.4	20,292.3	43,133.0	23,817.5	12,032.4	27,002.9
Average real GDP (% change)	1.3	2.3	2.5	2.2	1.8	3.2	0.5	2.6
Volatility in real GDP growth (ppts)	3.1	3.0	3.6	6.0	2.3	2.5	2.9	8.1

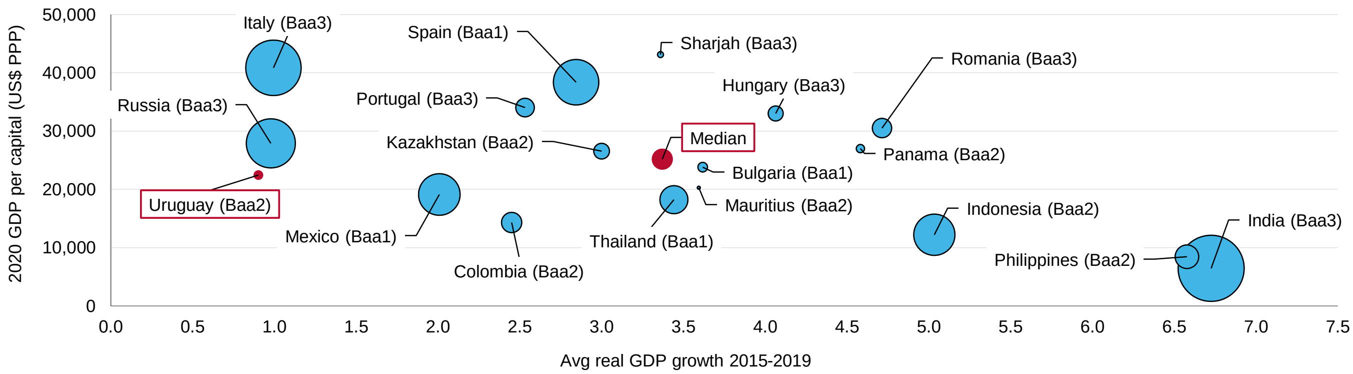
Sources: National authorities, IMF and Moody's Investors Service

Growth performance lags most peers, with wealth level near median for Baa-rated sovereigns

During 2015-19, Uruguay's economic growth averaged 0.9% annually, making it one of the slowest growing economies among those rated "Baa" (see Exhibit 2). In terms of wealth levels, Uruguay's $22,459 per capita GDP (PPP) in 2020 ranks slightly below the Baa-rated median of $25,191. And in terms of scale, Uruguay's GDP of $54 billion is much smaller than the median of $260 billion.

Exhibit 2

Uruguay's economic strength is supported by relatively high income levels
Size of bubble = nominal GDP (US$ billion, 2019)



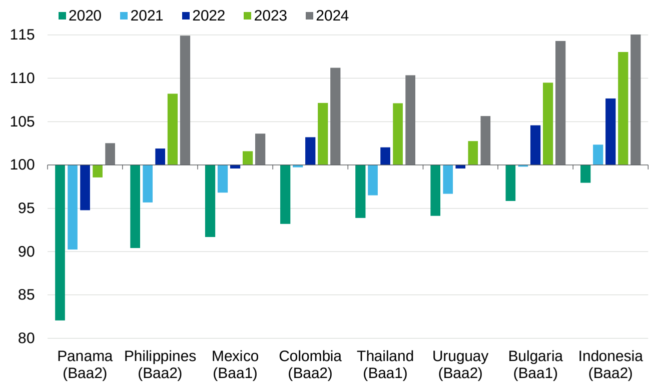
Source: Moody's Investors Service

Pandemic contributed to decline in GDP in 2020 but also weighing on rebound in 2021

In 2020, Uruguay's economy contracted by 5.9% in real terms. The decline in activity was primarily driven by the pandemic, although a rebasing of the country's national accounts – with 2016 as the new base year from 2005 previously – also influenced the magnitude of the fall. Unlike in other countries in Latin America, the Lacalle Pou administration abstained from imposing stay-at-home orders instead appealing to "responsible freedom" – advising individuals to follow social distancing and other safety measures. This strategy limited the impact on economic activity while effectively constraining the spread of the coronavirus locally between March and November 2020. Toward the end of 2020 and in particular during the first half of 2021, as new virus variants emerged, the pandemic intensified, likely weighing on economic activity. But this occurred as the government began implementing a comparatively rapid vaccination program, particularly compared to Latin American peers – as of 1 August, 64% of the population had been fully vaccinated (with 74% having received at least one dose) – which has stabilized the cumulative number of cases. Nonetheless, we expect that the first wave of the pandemic taking place in 2021 will constrain the rebound from last year's contraction, with GDP expanding around 2.5%-3.0% this year. This contrasts with the government's forecast of 3.5%.

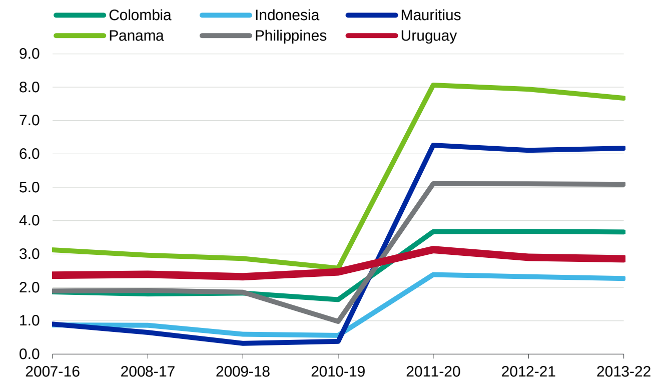
On a comparative basis, Uruguay's economic decline in 2020 was more moderate than for some of its Baa-rated peers, although the recovery relative to 2019 output levels will be more gradual (see Exhibit 3). We currently forecast GDP returning to its pre-pandemic level by early 2023, while for most peers this will take place in 2022. Of note, when assessing the volatility of the economy's performance before and after the pandemic, Uruguay's output is one of the most stable (see Exhibit 4).

Exhibit 3
Pandemic has moderate impact on Uruguay's growth in 2020, with recovery more gradual
(Real GDP level compared to 2019; 2019 = 100)



Source: Moody's Investors Service

Exhibit 4
Pandemic has small impact on Uruguay's growth volatility
(10-year standard deviation of real GDP growth)



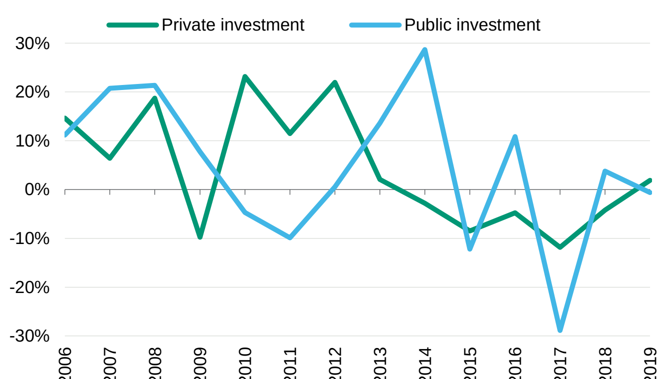
Source: Moody's Investors Service

Addressing pre-pandemic structural shortcomings will be key to supporting medium-term recovery and trend growth

The Uruguayan economy has exhibited a material deceleration in recent years. Over 2007-13, real GDP growth averaged 5.6%, driven by high commodity prices, a widening export base, aggregate growth in household incomes, an investment boom and strong economic activity in Argentina (Ca stable) and Brazil (Ba2 stable). Over 2015-19 these driving factors dissipated, and growth averaged just 0.9%. 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.[1]

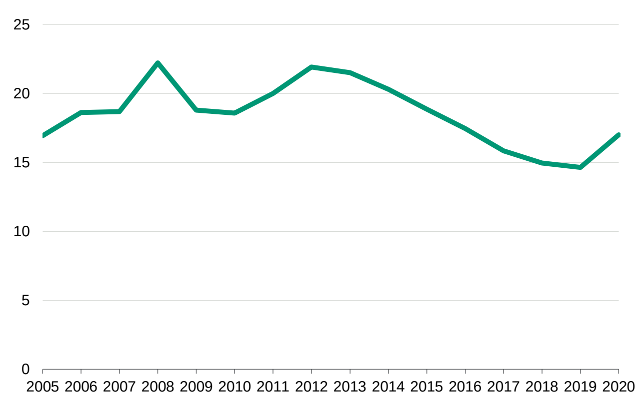
Investment (gross fixed capital formation and changes in inventories) as a share of GDP had been on a declining trend since 2012, reaching 14.6% in 2019 (see Exhibits 5 & 6). The IMF attributes the low level of private investment (with the exception of large FDI projects) to the small size of Uruguay's 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.

Exhibit 5
Private investment in Uruguay declined between 2014 and 2018, while public investment remained volatile
(Changes in gross fixed capital formation in real terms, % y/y 2005 base year)



Sources: BCU via Haver and Moody's Investors Service

Exhibit 6
Leading to record low level of investment in 2019
(% of GDP)



Sources: BCU via Haver and Moody's Investors Service

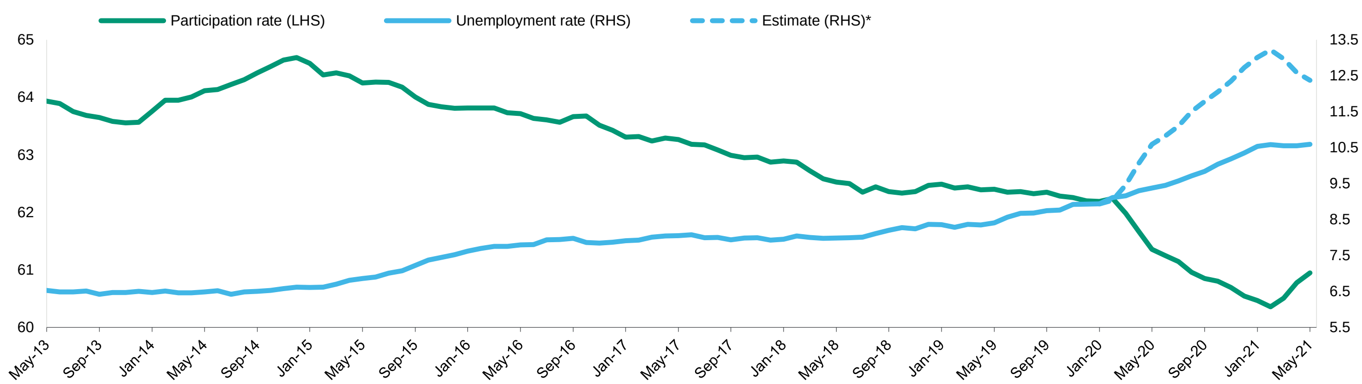
The construction of the country's third large pulp mill plant UPM-Kymmene (Baa1 stable) in Paso de los Toros already changed the trend in 2020 when construction activity began – investment-to-GDP rose to 17% last year. Over 2020-21, UPM itself will invest around $3 billion in the plant and infrastructure in the port of Montevideo (about 5.4% of GDP). In addition, the government has committed to investing around $1 billion in railway infrastructure connecting the port of Montevideo with the plant – this is a key project implemented through a public-private partnership model. The government expects the plant to start producing and exporting at 100% capacity by the second half of 2022.

While these projects will provide support to economic activity through 2022, a broader based increase in private investment would boost future trend growth. The government made changes to the General Investment Promotion Regime (COMAP) to provide more tax incentives, encouraging employment creation and clean technologies that apply to both domestic and foreign investors. Investments presented under the COMAP regime rose significantly over the past year, reaching $2 billion (3.6% of GDP) in cumulative projects by April 2021 from around $500 million a year earlier. The government also relaunched the Capital Market Promotion Commission this year, to help develop the local capital market and mobilize domestic resources to support the development of these investments, including through the public-private partnership mechanism. The materialization of these projects would likely accelerate the gradual recovery we currently expect for the Uruguayan economy over the coming years and potentially also contribute to reversing some of the negative trends seen in the labor market in the last six years.

The labor market also shows signs of structural limitations. Unemployment has been rising since 2014, while participation rates have been steadily falling (see Exhibit 7). 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 2014-19 period. 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 International Monetary Fund (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.[2] Both unemployment and participation rates worsened in the context of the pandemic but began showing a turnaround in early 2021.

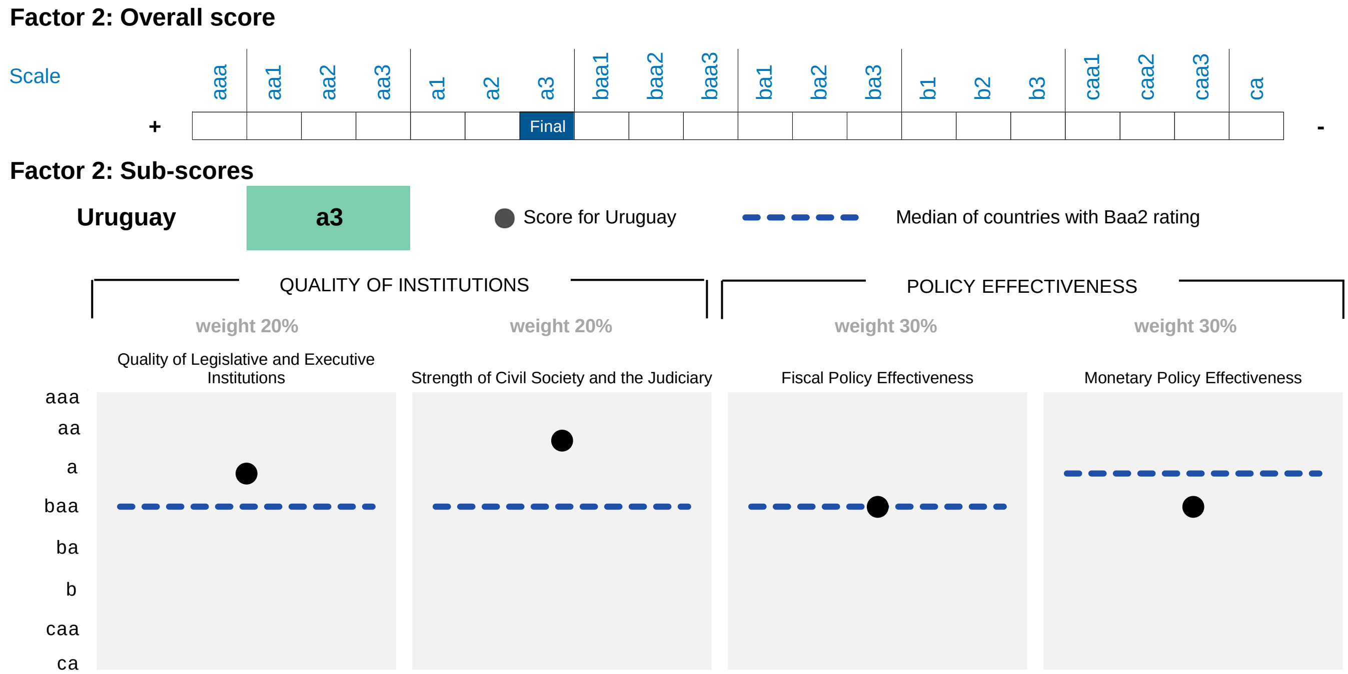
Exhibit 7

Uruguay's employment metrics were deteriorating before the pandemic
(% of labor force)



Note: The estimate assumes that, instead of leaving the labor market when the pandemic started, participants remained and were counted toward unemployed instead.
Sources: INE via Haver and Moody's Investors Service

Institutions and governance strength score: a3



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 "a3," balancing the country's strong civil society and political institutions, with still-evolving capabilities in terms of fiscal and monetary policy. The government has proposed a number of institutional changes with the goal of resolving the long-standing challenge of inflation exceeding targets. In addition, the administration also aims to improve on a mixed track record of fiscal management through the introduction of a new set of fiscal rules. Other sovereigns with a similar score for institutions and governance strength include Mauritius and Poland (A2 stable).

Exhibit 8

Peer comparison table factor 2: Institutions and governance strength

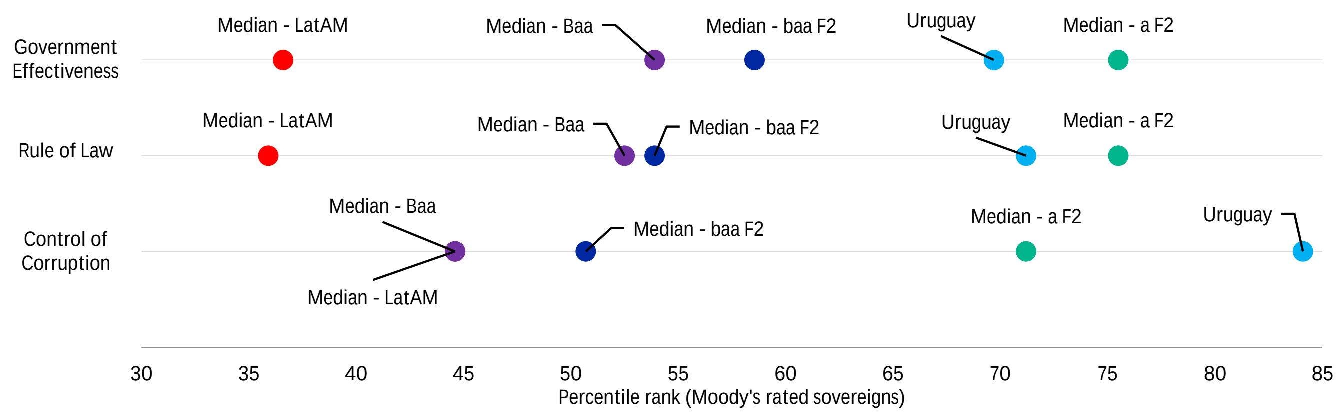
	Uruguay Baa2/STA	a3 Median	Croatia Ba1/STA	Hungary Baa3/POS	Bulgaria Baa1/STA	Thailand Baa1/STA	Romania Baa3/NEG	Indonesia Baa2/STA
Final score	a3		a2	baa2	baa1	baa1	baa3	baa3
Initial score	a3		a2	baa2	baa1	baa1	baa3	baa3
Quality of legislative & executive institutions	a	a	a	a	baa	baa	ba	baa
Strength of civil society & judiciary	aa	a	a	ba	ba	ba	ba	ba
Fiscal policy effectiveness	baa	a	a	baa	a	a	baa	ba
Monetary & macro policy effectiveness	baa	a	a	baa	a	a	baa	a
Fiscal balance/GDP (3-year average)	-4.9	-5.6	-4.9	-7.0	-2.7	-5.9	-7.6	-5.7
Average inflation (% change)	7.4	2.4	1.3	2.8	1.6	0.7	2.4	2.7
Volatility of inflation (ppts)	1.0	1.4	1.3	1.8	1.8	1.6	2.1	1.9

Sources: National authorities, IMF and 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 9). As of 2019, 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 in both categories) and the median for Latin American countries (around the 35th percentile in both categories). Uruguay is a very strong performer in terms of control of corruption, ranking 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 9
Uruguay's institutional framework outperforms most Baa-rated and Latin American sovereigns
(Percentile rank among Moody's rated sovereigns, 2019)



Sources: Worldwide Governance Indicators and Moody's Investors Service

We score Uruguay's quality of executive and legislative institutions at "a." 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 a 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 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.

Central bank has redoubled efforts to tackle persistently high inflation

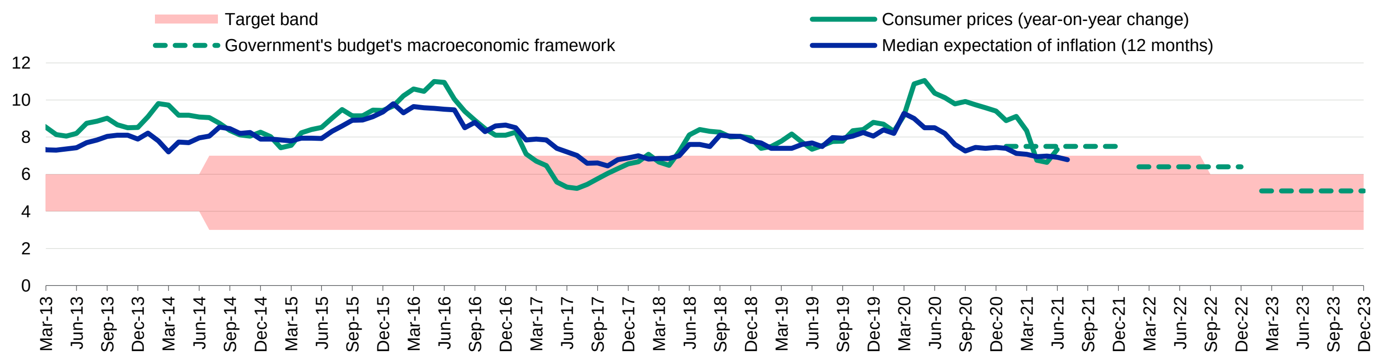
For most countries, we gauge the credibility and effectiveness of macroeconomic policymaking by looking at the evolution of inflation – both in terms of levels and volatility – because monetary policy can address inflationary pressures, while loose fiscal policy can push prices up. We score Uruguay's monetary and macroeconomic policy effectiveness at "baa." Since the early 2000s, the authorities have implemented a strong set of macroprudential tools to mitigate systemic risks but have struggled to contain inflation. The new officials at the Central Bank of Uruguay (BCU) have made controlling inflation an avowed goal.

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 and the finance ministry, and is currently 3.0%-7.0%. Headline inflation has been inside the band for only 15 of the last 102 months, denoting lackluster performance in terms of compliance with the inflation target (see Exhibit 10). 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 persistently high levels of dollarization in the economy.

In September 2020, the central bank relaunched its inflation targeting regime, abandoning its monetary aggregates as its policy instrument in favor of a monetary policy rate. In addition to changing instruments, and with the aim of increasing its influence over inflation expectations, the BCU has also attempted to increase transparency and communications with the markets. Measures have included: increasing the frequency of monetary policy meetings, the publication of meeting minutes, and more transparency regarding the models used by the BCU's technical teams. Both the ministry of finance and the central bank expect the latter's renewed focus on inflation control to be successful, with the BCU announcing it will lower its target band starting in September 2022 and the finance ministry including a declining inflation in its multiyear macroeconomic framework. The authorities have also made explicit their effort to reduce financial dollarization in the country as a complementary and necessary condition to strengthen the monetary policy framework.[3]

Exhibit 10

Uruguay's policymakers expect to rein in a historically intractable inflation rate
(%)



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

Central bank's ability to deliver on targets may be tested in the coming months

Following an initial spike in inflation primarily caused by the exchange rate depreciation in early 2020, inflation has trended lower, as have inflation expectations. However, the BCU's capacity to deliver a consistent decline in inflation rates may be tested in the coming months.

In 2020, the government, trade unions and business groups reached agreements on wages, which resulted in a 2% reduction in real wages, the first contraction since 2004. The agreements have since expired and a new three-way negotiation is underway. Unions are keen on making up lost ground, while the government's stance is that job creation is more important than wages, although it is still committing itself to having real wages grow during the remainder of its term. We note that wage policy in the past resulted in an element of inflation inertia.

A second challenge to the BCU's goals is the still-weak, albeit recovering, state of the Uruguayan economy. The BCU maintained its policy rate at an expansionary level 4.5% per annum (i.e. negative level in real terms once inflation and inflation expectations are considered) since inception in September 2020, in the midst of an economic contraction. Moreover, at the August 2021 meeting, in light with an improving economy and health situation in the country, the Monetary Policy Committee (COPOM) raised its policy rate to 5.0%. The authorities commitment remains at anchoring expectations within the target band and for these to converge with the middle target over the coming years. Inflationary pressures could resume in the near term either due to exogenous shocks or because of economic policy decisions outside of the BCU's control.[4] Importantly, although the decision to increase the policy rate may have started a tightening cycle, monetary policy is still supportive of the recovey – the BCU calculate the "neutral" real rate to be around 2%, close to 9% in nominal terms currently, so the COPOM would need to raise rates above this level for it to adopt a truly contractive stance.

Building a track record of credibility will be important for monetary policymakers as past BCU leadership opted to retain economic dynamism at the expense of inflation targets. We expect the BCU will exhibit an increased commitment to inflation control than it has in the past, although meeting its targets over 2021-23 will be challenging. We expect inflation to fall to around 6.5% by end-2022 from its current 7.3% (July 2021), putting it within the BCU's target.

Administration addressing its 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. The current administration entered office in March 2020, with the publicly stated goal of pursuing fiscal consolidation and improving Uruguay's fiscal policy institutions.

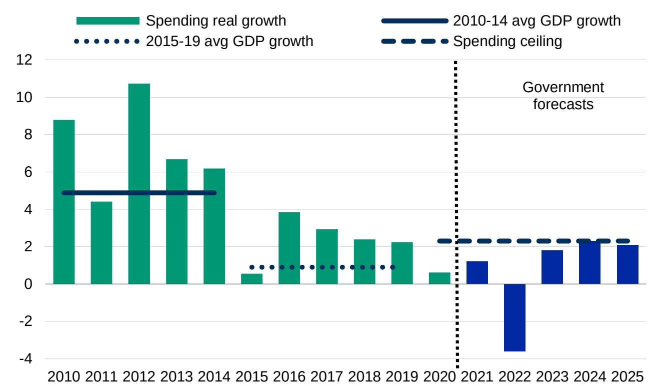
In mid-2020, the administration secured the passage of its "Urgent Law" bill, an omnibus bill that among other measures reworked the institutional framework of fiscal policymaking. The law includes a three-pillar fiscal rule: (i) a structural fiscal balance pillar, which accounts for business cycle fluctuations; (ii) a cap on expenditure growth in real terms, set to match potential real GDP growth; and (iii) a debt ceiling set by the legislature in dollar terms. The unobservable variables and forecasts necessary for the calculation of (i) and (ii) are currently being performed by the ministry of finance, but will eventually be undertaken by an independent expert committee. The "Urgent Law" also established a committee of experts to discuss pension reform, a spending item that is currently tied to real wages and has steadily risen from 8% of GDP in 2014 to 10% in 2020. This committee has already begun its work, but the government has yet to present a reform plan and any reform would likely require extensive legislative discussion.

The administration hopes that the new fiscal institutions will overcome the persistent upward pressures on spending that emerged from what the previous administration referred to as "endogenous" (i.e., difficult to adjust) spending items (e.g., pensions, transfers). These pressures limited the previous administration's (2015-19) attempt to consolidate government finances (see Exhibit 11). The new fiscal policy institutions, however, are not universally popular and part of the opposition is attempting to overturn the "Urgent Law" bill, which could include removing the fiscal rule, via a referendum (see the "susceptibility to event risk" section of this report for more). We expect that even if the fiscal rule were struck down, the authorities would continue to design fiscal policy within the limits, although the continuity of the revised framework would be threatened if it were not enshrined in the law.

In 2020, the government met all three fiscal rule targets: (i) the structural deficit was 4.3% of GDP, below the 4.4% target (see Exhibit 12), (ii) real primary spending growth was 0.4%, below the 2.3% target, and (iii) net indebtedness was $3.1 billion, below the $3.5 billion target. We expect the administration to remain committed to fiscal consolidation until its term ends in 2025.

Exhibit 11

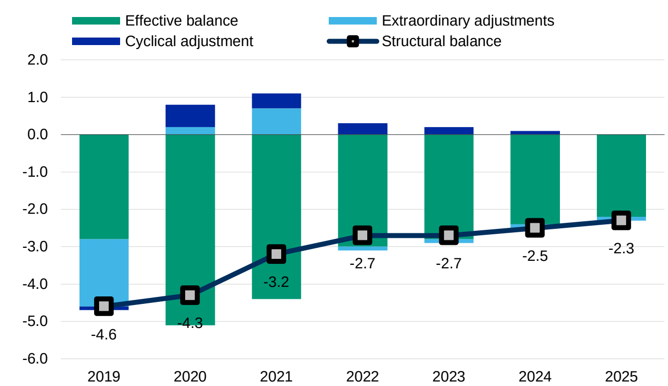
Real spending growth historically exceeded GDP growth; trend would change with new rule
(% change y/y)



Note: Decline in 2022 reflects expectation that pandemic-related spending will be phased out.
Sources: Ministry of Finance and Moody's Investors Service

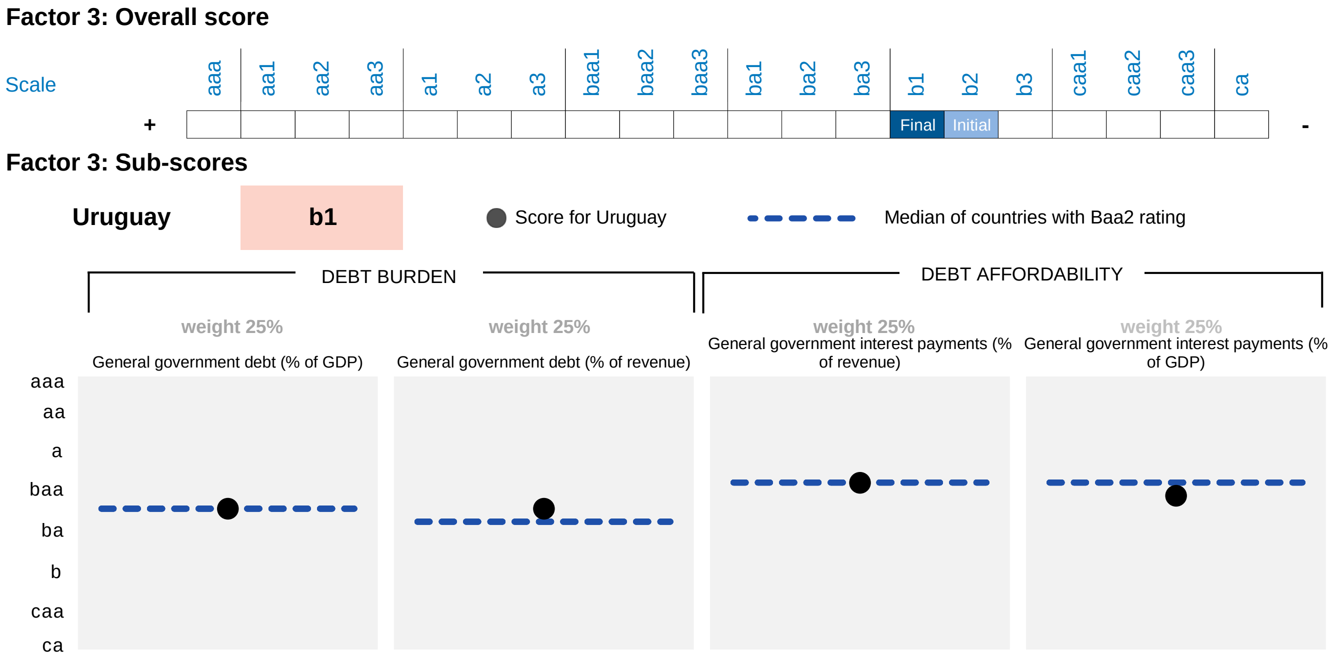
Exhibit 12

Structural balance rule would lead to decline in actual deficit
(% of GDP)



Source: Ministry of Finance

Fiscal strength score: b1



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 "b1," balancing its high government debt burden, moderate interest burden, very strong liability management practices and fiscal reserve assets, with lingering vulnerabilities from an elevated share of foreign-currency debt. The "b1" score differs from the initial "b2" score because we consider that the negative adjustment informed by the debt trend (i.e., the change in the debt/GDP ratio for 2016-21) incorporates the deterioration already captured by the 2020 debt metrics. Moreover, we expect the debt burden to stabilize in 2022. Uruguay shares this score with Colombia (Baa2 negative) and Indonesia (Baa2 stable).

Exhibit 13

Peer comparison table factor 3: Fiscal strength

	Uruguay Baa2/STA	b1 Median	Colombia Baa2/NEG	Indonesia Baa2/STA	Brazil Ba2/STA	Mauritius Baa2/NEG	Panama Baa2/STA	India Baa3/NEG
Final score	b1		b1	b1	b1	ba3	ba3	b2
Initial score	b2		b2	b2	b1	b1	b2	caa2
Gen. gov. debt (% of GDP)	61.8	61.8	66.9	39.8	88.8	73.4	69.8	88.9
Gen. gov. debt (% of revenue)	233.6	258.3	258.3	373.2	302.5	275.4	378.6	436.6
Gen. gov. interest payments (% of GDP)	2.8	2.2	2.9	2.2	4.2	3.1	2.7	5.2
Gen. gov. int. payments (% of revenue)	10.5	8.1	11.2	20.6	14.3	11.0	14.5	25.5

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

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

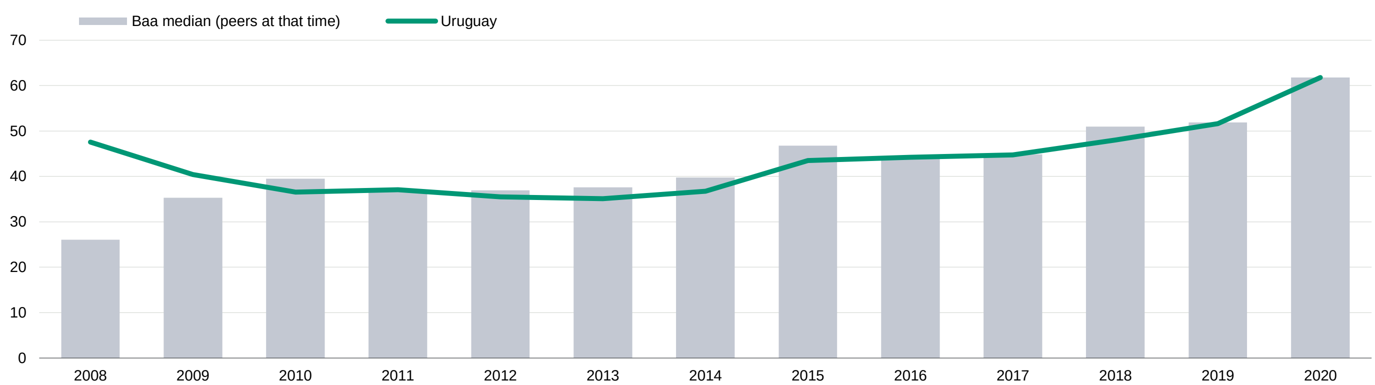
For peer comparison purposes, our analysis of sovereign fiscal strength focuses on the general government level of aggregation. For Uruguay, based on the available data, we use the consolidated central government, which best approximates the general government definition because it includes the central 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.[5] 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.

Fiscal deficit had been deteriorating prior to the pandemic

Uruguay's fiscal accounts deteriorated in 2015-19 (during the administration of Tabare Vazquez) 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. During this period the deficit averaged 3.1% of GDP, although it came in at 4.0% in 2019 (above the official target of 2.5%). A tax reform announced in 2016 contributed to a rise in revenue in 2017-18, but greater gains were limited by sluggish economic activity. As a share of GDP, revenue peaked in 2018 at 27.1% from 24.4% in 2015. Meanwhile, expenditures rose to over 30% of GDP by 2018 from 26.8% in 2015.

These fiscal trends, along with weak GDP growth and the depreciation of the peso, contributed to an increase in the debt burden to 51.6% of GDP in 2019 from 36.7% in 2014, while interests represented 9.5% of revenue from 8.3%. Despite the upward trend in Uruguay's debt burden, when looking at the "Baa" peer group at the end of each year, Uruguay's debt burden has been aligned with the median since 2010 (see Exhibit 14).

Exhibit 14
Uruguay's debt burden has been aligned with the median for the past decade
(% of GDP; Baa median for peer group at the end of each year)



Source: Moody's Investors Service

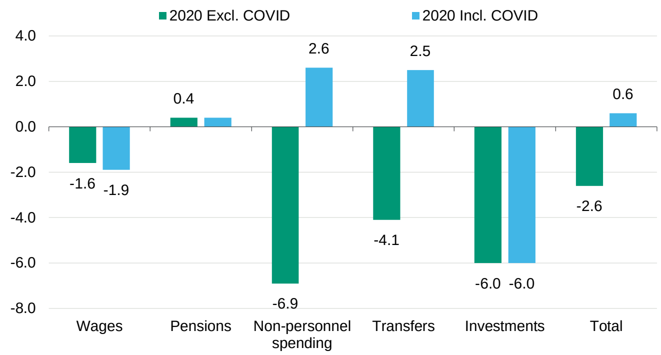
Pandemic response had moderate impact on fiscal accounts and debt metrics

A key component of the Lacalle Pou administration's policy agenda is its intent to reduce the fiscal imbalance in line with the new fiscal rules. The fiscal response to the pandemic involved allowing the existing social safety net to provide support to workers that lost employment while also establishing new programs contained within a "coronavirus fund" – this is expected to allow the government to phase out the additional spending once the pandemic emergency ends in the country. Concurrently, the government established an austerity program across ministries that sought to reduce non-pandemic-related spending by 15%. A temporary wage agreement with civil servants also contributed to contain total spending through a reduction of the wage bill in real terms. Excluding the pandemic response, total primary expenditures (i.e., excluding interest payments) would have declined in real terms last year (see Exhibit 15). This fiscal effort is important given the relative rigidity of Uruguay's spending structure (for more detail, see pages 10-11 of our 2020 annual credit analysis). In 2021, authorities expect to increase the size of the fiscal response relative to 2020 through the "coronavirus fund" (see Exhibit 16), although the fiscal deficit would still decline as a share of GDP because of the recovery in the economy and in revenue, as well as continued efforts to contain spending. In 2022, the deficit will likely decline as additional spending to address the pandemic is phased out.

Exhibit 15

Expenditures rose marginally in real terms in 2020 because of the pandemic

(% change y/y in real terms between 2019 and 2020)

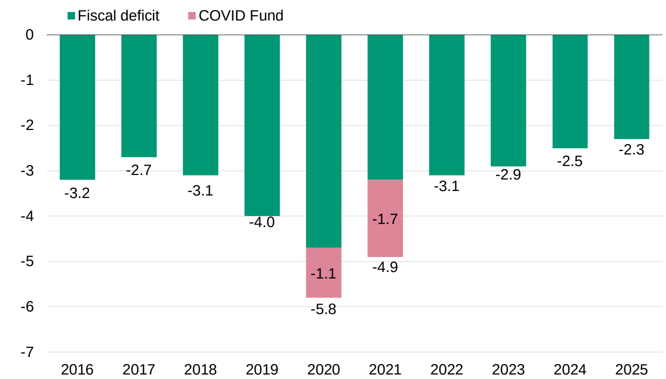


Source: Ministry of Finance

Exhibit 16

Direct pandemic spending explains part of 2020-21 deficits

(% of GDP; government projections)



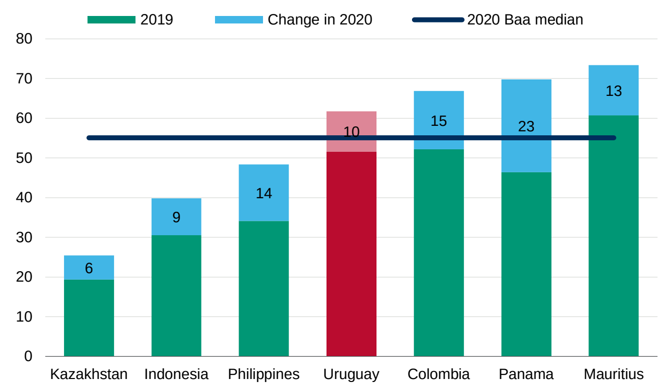
Source: Ministry of Finance

Through lower economic growth and a higher deficit, the pandemic contributed to a deterioration in Uruguay's debt metrics in 2020. Its debt-to-GDP ratio rose 10 percentage points in 2020 (the seventh smallest increase among 18 sovereigns rated "Baa" and second smallest among Baa2-rated peers, see Exhibit 17), while the interest-to-revenue ratio rose by one percentage point to 10.4%, with the increase mainly attributable to higher interest payments given the larger debt stock and currency depreciation, although higher revenue mitigated some of the deterioration (see Exhibit 18).

Exhibit 17

Uruguay's debt burden increase in 2020 was lower than for most Baa2-rated peers

(% of GDP)

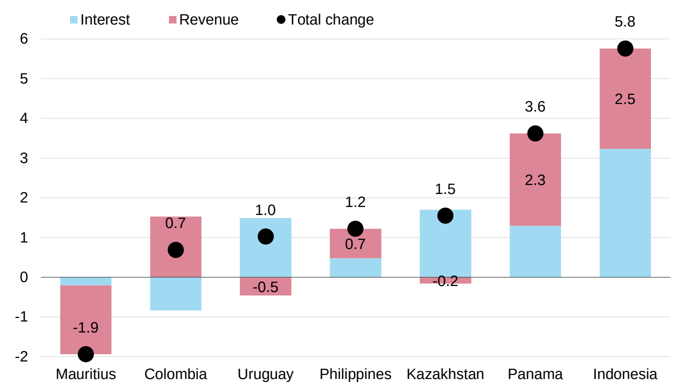


Source: Moody's Investors Service

Exhibit 18

Higher revenue contained deterioration in interest burden

(Drivers of interest-to-revenue change between 2019 and 2020, percentage points)

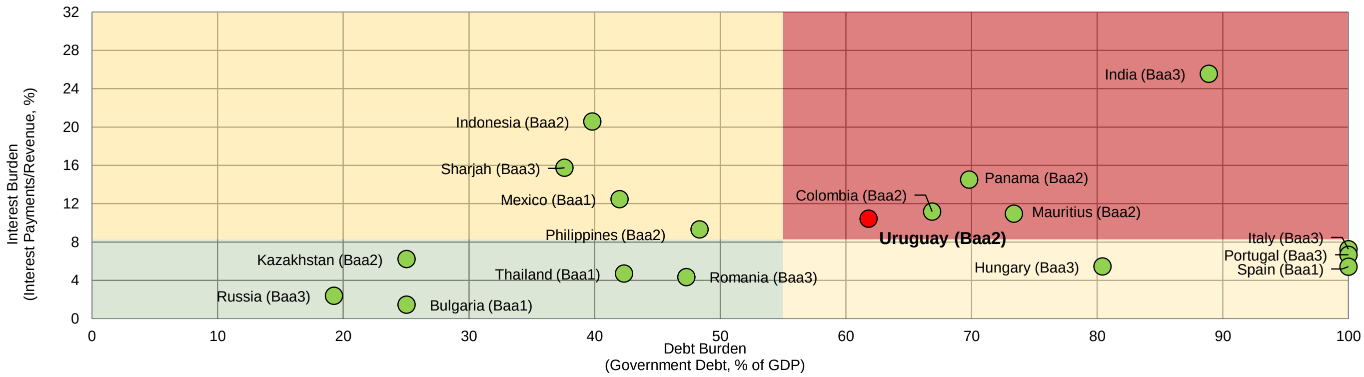


Source: Moody's Investors Service

Overall, Uruguay's debt metrics in 2020 were positioned somewhat worse off than the Baa median (see Exhibit 19), although our current forecasts point to a convergence between Uruguay's debt burden, which we expect to stabilize at around 63% by 2022, and the Baa median, which we expect to increase from 55% of GDP in 2020 to 58% by 2022.

Exhibit 19

Uruguay's debt metrics now positioned weaker than the median Baa peer
(2020 debt metrics; color quadrants determined by Baa medians)



Source: Moody's Investors Service

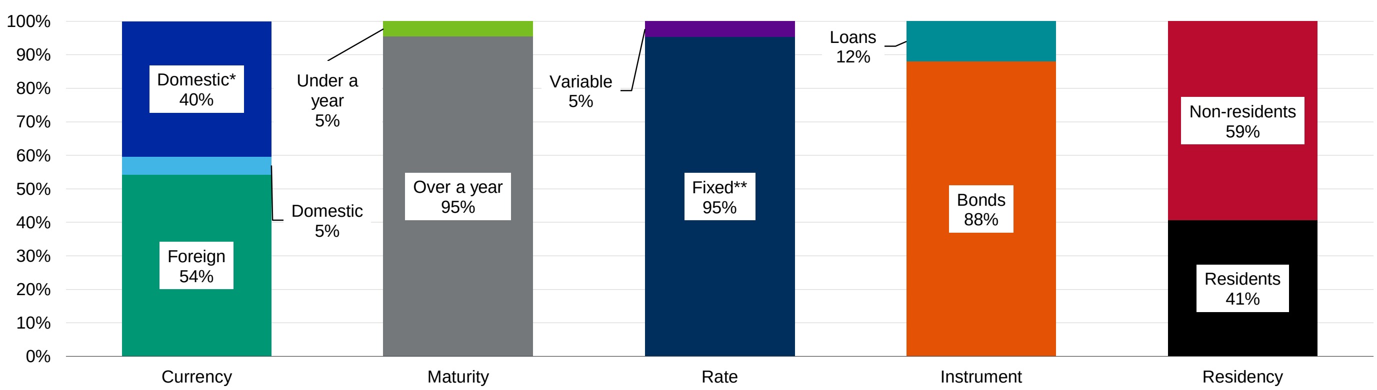
Financial buffers and favorable debt profile limit credit risks associated with exchange rate composition

Uruguay's debt burden is exposed to exchange rate shocks because a still-significant portion of government debt is denominated in foreign currency – although the share dropped to 45% in 2012 from more than 70% before 2008, it has since risen again to 56% in 2019. A depreciation of the Uruguayan peso can thus have a material impact on government debt metrics.[6] Importantly, as of May 2021 the government had $3.9 billion in assets – including $2.8 billion in liquid assets – and another $1.8 billion in contingent credit lines with multilateral institutions that would allow it to fully cover 12 months of debt-service requirements ($2.9 billion), 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.

Additionally, because of effective liability management, the government has reduced potential risks by extending the average maturity on its debt (which stood at 13.2 years as of May 2021) 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 20). As the government has been refinancing old debt issued over the past decade with new bonds issued at lower coupons in recent years, it has also been able to lower the effective interest rate paid on its debt (interest payments-to-total debt) to 4.7% in 2020 from 5.2% in 2019.

Exhibit 20

Uruguay has a favorable debt profile
(% of total, as of March 2021)



* Domestic currency with indexed principal.** Includes debt with indexed principal
Sources: Ministry of Finance and Moody's Investors Service

Susceptibility to event risk score: a

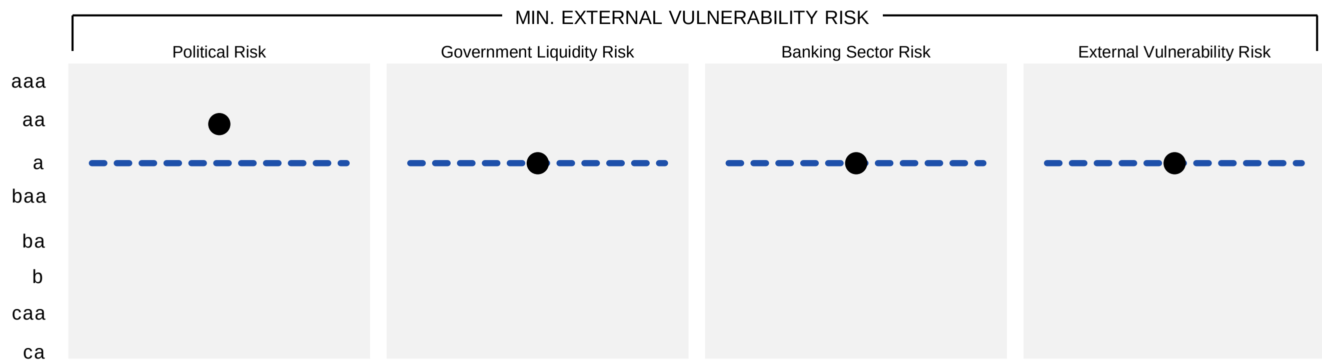
Factor 4: Overall score

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 Portugal (Baa3 positive) and Panama (Baa2 stable).

Political risk: aa

Exhibit 21

Peer comparison table factor 4a: Political risk

	Uruguay Baa2/STA	aa Median	Trinidad & Tobago Ba1/NEG	Portugal Baa3/POS	Luxembourg Aaa/STA	New Zealand Aaa/STA	Panama Baa2/STA	Bulgaria Baa1/STA
Final score	aa		aa	aa	aaa	aaa	a	a
Voice & accountability, score[1]	1.3	1.3	0.6	1.2	1.5	1.6	0.6	0.4
Political stability, score[1]	1.0	1.0	0.1	1.1	1.4	1.5	0.3	0.5

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

Political event risk is "aa". Political actors' have demonstrated a long-standing and continued preference for consensus-building around policy direction. When differences arise, conflict resolution is typically channeled via political institutions, and is rarely done via judicial channels or via polarized legislative processes where minorities are excluded. This feature results in broad policy continuity, and progressive and telegraphed changes in policy. Furthermore, successive administrations have repeatedly endorsed principles that have led to conservative economic policies and the maintenance of macroeconomic stability. As a result, credit risks resulting from political events are very low.

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. In mid-2020 the administration secured passage of its "Urgent Law" bill, an omnibus bill that included the framework for a fiscal rule, and a number of pro-market reforms including deregulation in the telecom and fuel sector (where state-owned companies have had a large presence). Although the "Urgent Law" bill was watered down to secure its passage in the legislature, the former ruling coalition, the left-wing Frente Amplio (FA), remans opposed to the reforms. In mid-2020, after months of campaigning, a sector of the FA secured enough signatures to trigger a referendum on around one-third of the "Urgent Law" articles. They seek to remove articles not only on educational and criminal reform, but also on key credit-risk relevant reforms, including the fiscal rule framework. The referendum does not yet have a date, but we expect it to take place by June 2022. Regardless of the result, we expect the Lacalle Pou administration, whose term ends in 2025, to remain committed to fiscal consolidation.

Government liquidity risk: a

Exhibit 22

Peer comparison table factor 4b: Government liquidity risk

	Uruguay Baa2/STA	a Median	Colombia Baa2/NEG	Mauritius Baa2/NEG	Slovakia A2/STA	Philippines Baa2/STA	Armenia Ba3/STA	Portugal Baa3/POS
Final score	a		a	a	aa	aa	baa	baa
Initial score	a		a	a	aa	aa	baa	baa
Ease of access to funding	a	a	a	a	aa	aa	baa	baa
Gross borrowing requirements (% of GDP)	7.9	10.1	10.1	--	10.7	15.8	7.1	20.9

Sources: National authorities, IMF and 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.

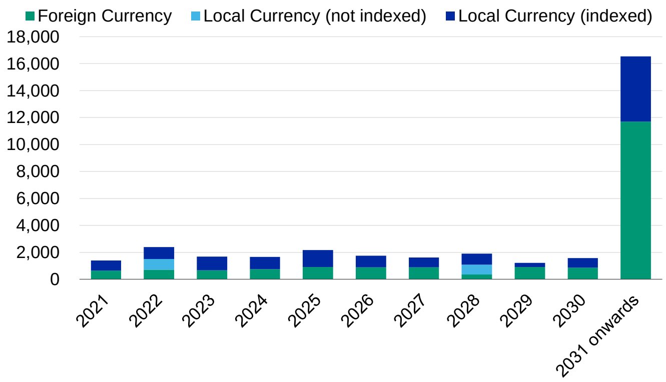
A favorable maturity profile translates into low rollover risks. To achieve this, the government has maintained a very long maturity profile, with current central government debt having an average maturity of 13.2 years. Given Uruguay's extended debt maturity, the government faces modest refinancing requirements over the medium term, with yearly principal payments averaging 3% of GDP over 2021-25 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 8% of GDP in 2021, which is slightly below the median of Baa-rated sovereigns, at 10% of GDP. We expect financing needs to narrow alongside narrowing fiscal deficits going forward.

According to the Ministry of Finance, over the past five years, external government debt by jurisdiction has been on average about 75% of total debt. However, the share of nonresident holders is actually closer to 60% of the total, which is above the Baa median of about 35%. While this may expose Uruguay to lower investor risk appetite when there is flight to safe haven instruments, 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 June 2020 at favorable rates. This was later followed by around $1.6 billion issued in May 2021. Crucially, about $1.1 billion were issued in a non-indexed, fixed-rate, local currency bond. Markets seem to view Uruguay favorably when compared to other emerging economies in the Baa-rated space, with Uruguay's risk premia now among the lowest in its peer group (see Exhibit 24).

Exhibit 23

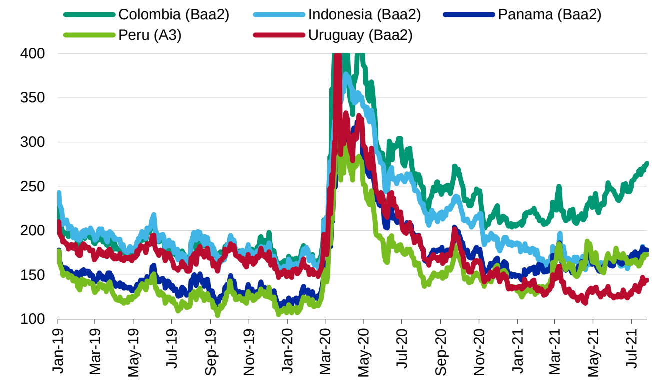
Debt exhibits a long maturity profile
($ million)



Data as of March 2021. Local currency debt at then-current dollar valuation
Source: Ministry of Finance

Exhibit 24

Uruguay's premia have fallen since the pandemic
(EMBI Global, bp)



Source: J.P. Morgan via Haver

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 25

Peer comparison table factor 4c: Banking sector risk

	Uruguay Baa2/STA	a Median	Mexico Baa1/NEG	Colombia Baa2/NEG	Singapore Aaa/STA	Cayman Islands Aa3/STA	Hungary Baa3/POS	Slovenia A3/STA
Final score	a		a	a	aa	aa	baa	baa
Initial score	a		a	a	a	aa	baa	baa
BCA[1]	baa3	baa1	baa2	ba1	a1	--	ba1	ba1
BSCE[2]	baa3	baa2	baa3	ba1-ba2	aaa-a3	baa2	ba1-ba2	ba1-ba2
Total domestic bank assets (% of GDP)	76.9	159.8	48.5	72.8	738.4	46.4	99.3	99.7

[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 and 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 77% of GDP in 2020, of which about 40% were loans. We rate banks in Uruguay that held almost 80% of total assets as of June 2021. The rated banks' average adjusted weighted-average Baseline Credit Assessment (BCA) 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 47% 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 2021, key strengths of the banking system include: (1) good asset quality, with nonperforming loans (NPLs) at a moderate 1.7% for private banks and 3.5% 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 36% 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 26

Peer comparison table factor 4d: External vulnerability risk

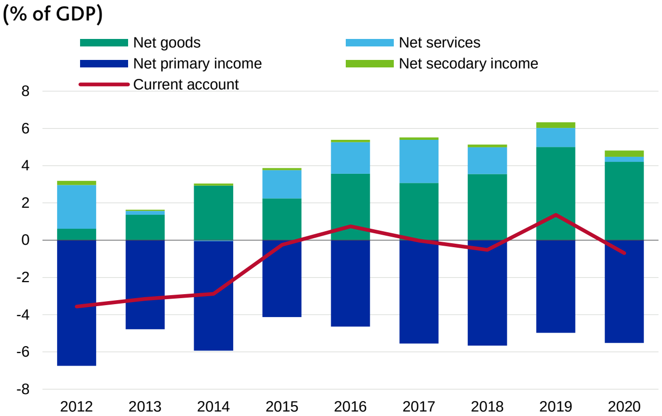
	Uruguay Baa2/STA	a Median	Colombia Baa2/NEG	Indonesia Baa2/STA	Philippines Baa2/STA	Brazil Ba2/STA	Hungary Baa3/POS	Romania Baa3/NEG
Final score	a		a	a	aa	aa	baa	baa
Initial score	a		a	a	aa	aa	baa	baa
Current account balance (% of GDP)	-0.7	-1.2	-3.4	-0.4	3.6	-1.7	0.1	-5.2
Net IIP (% of GDP)[1]	-32.0	-45.9	-64.9	-26.5	-5.6	-38.3	-49.2	-50.5
External debt (% of current account receipts)	306.0	132.8	291.4	215.1	83.0	251.0	92.7	145.9
External vulnerability indicator (EVI)[2]	83.5	51.7	56.3	51.7	21.5	40.1	77.7	141.7

[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 and Moody's Investors Service

Uruguay's current account has been close to balance consistently since 2016 (see Exhibit 27). The goods surplus has expanded in recent years because imports fell as oil prices declined, economic growth slowed and lower investment – and FDI – led to a decrease in imports of capital goods. Last year, Uruguay posted a small (0.4% of GDP) current-account deficit, driven by a sharp contraction in primary exports and a sharp contraction of services exports (the result of the collapse of tourism). Services exports have been declining since 2017, driven by a decline in economic fortunes in Argentina. 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 current account deficits; in 2020, this process was in full display thanks to the FDI inflows associated with the large pulp mill under construction in Paso de los Toros (see Exhibit 28).

Exhibit 27

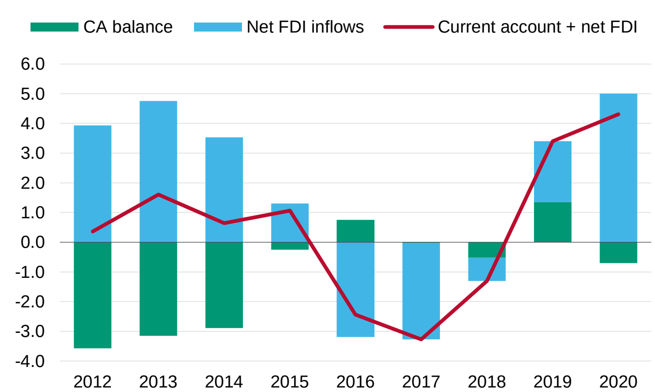
Uruguay's current account has been close to balance consistently since 2016
(% of GDP)



Sources: Haver Analytics and Moody's Investors Service

Exhibit 28

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

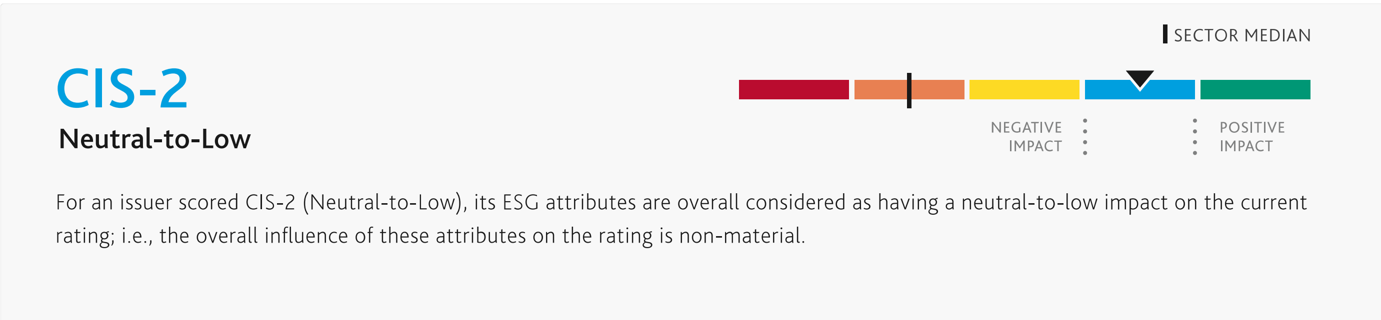


Sources: Haver Analytics and Moody's Investors Service

ESG considerations

Uruguay's ESG Credit Impact Score is neutral to low (CIS-2)

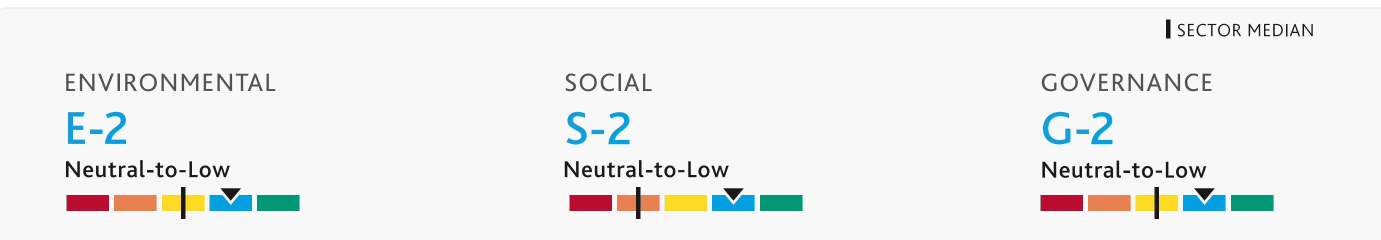
Exhibit 29
ESG Credit Impact Score



Source: Moody's Investors Service

Uruguay's ESG Credit Impact Score is neutral-to-low (**CIS-2**) reflecting its exposure to social risks, exposure to environmental risks and broad societal consensus that supports its governance.

Exhibit 30
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

We assess Uruguay's exposure to environmental risks as neutral-to-low (**E-2** issuer profile score). 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

Exposure to social risks is neutral-to-low (**S-2** issuer profile score). The country's aging population, coupled with the population's predilection for social expenditure, will weigh on public finances in the coming years. A deterioration in the labor market, for the younger population in particular, also poses social risks. However, adequate provision of social services and a mature political system that develops policy on a consensus basis help mitigate social risks.

Governance

The influence of governance on Uruguay's credit profile is neutral-to-low (**G-2** issuer profile). The country has a long history of sustainable macroeconomic policies, strong institutions and a broad societal consensus on retaining the country's institutional arrangements.

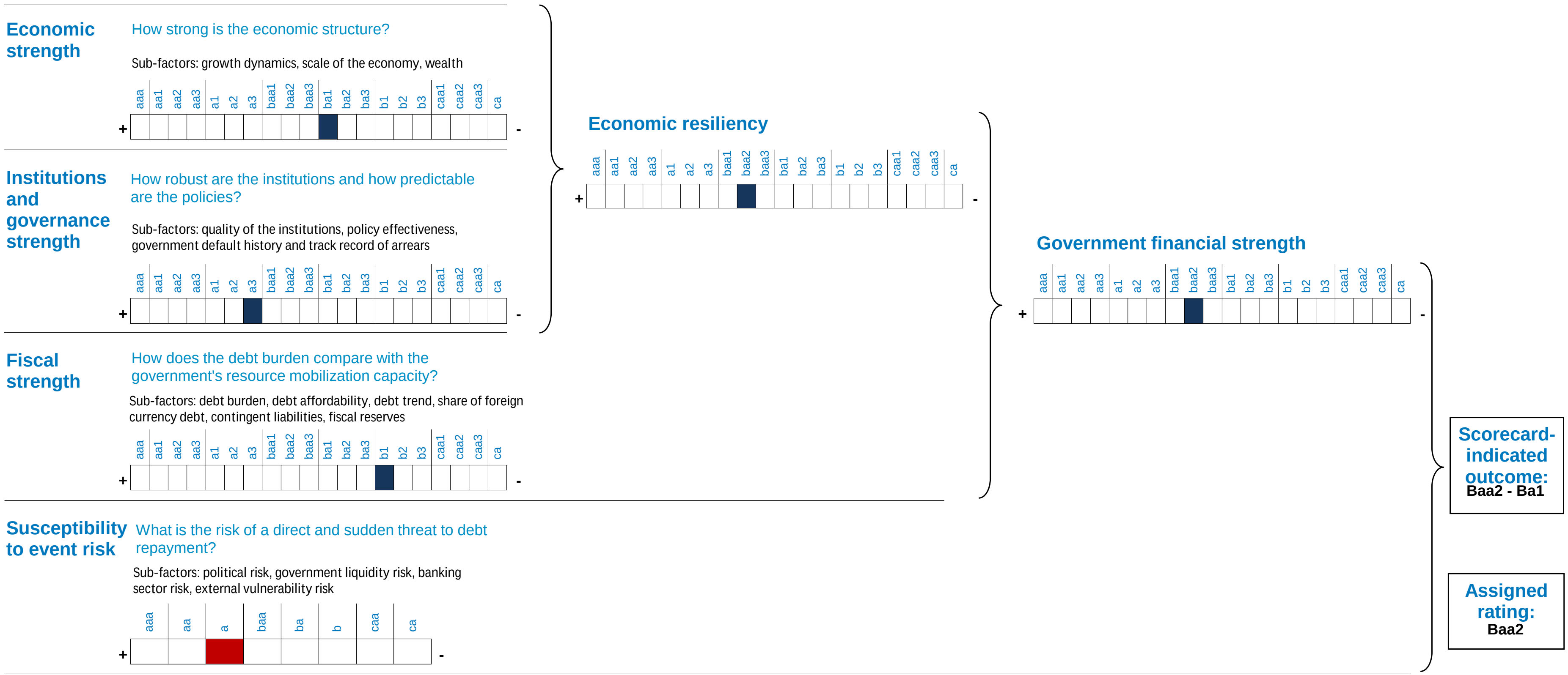
All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

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 31

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 weaker than that of its peers, not because of its fiscal ratios but rather because of its large proportion of foreign-currency debt.

Exhibit 32

Uruguay's key peers

	Year	Uruguay	Colombia	Romania	Spain	Portugal	Bulgaria	Baa2 Median	Latin America and Caribbean Median
Rating/outlook		Baa2/STA	Baa2/NEG	Baa3/NEG	Baa1/STA	Baa3/POS	Baa1/STA	Baa2	Ba3
Scorecard-indicated outcome		Baa2 - Ba1	Baa1 - Baa3	Baa1 - Baa3	A2 - Baa1	Baa1 - Baa3	A3 - Baa2	Baa1 - Baa3	Ba2 - B1
Factor 1		**ba1**	**baa1**	**baa1**	**a2**	**baa1**	**baa3**	**baa2**	**ba2**
Nominal GDP ($ bn)	2020	53.6	271.4	248.7	1278.4	230.7	69.1	171.1	45.6
GDP per capita (PPP, Intl$)	2020	22,459	14,324	30,526	38,392	34,043	23,817	20,292	14,419
Avg. real GDP (% change)	2016 - 2025F	1.3	2.4	4.0	1.7	1.9	3.2	2.6	1.3
Volatility in real GDP growth (ppts)	2011 - 2020	3.1	3.7	2.9	4.4	3.5	2.5	3.7	4.0
Factor 2		**a3**	**baa2**	**baa3**	**a2**	**a1**	**baa1**	**baa2**	**ba3**
Quality of legislative & executive institutions	Latest available	a	baa	ba	aa	aa	baa	baa	ba
Strength of civil society & judiciary	Latest available	aa	ba	ba	aa	aa	ba	ba	ba
Fiscal policy effectiveness	Latest available	baa	baa	baa	baa	baa	a	baa	ba
Monetary & macro policy effectiveness	Latest available	baa	a	baa	a	aa	a	a	ba
Gen. gov. fiscal balance (% of GDP)	2020 - 2022F	-4.9	-6.9	-7.6	-8.8	-4.5	-2.7	-5.7	-6.5
Average inflation (% change)	2016 - 2025F	7.4	3.6	2.4	1.3	0.9	1.6	3.2	3.3
Volatility of inflation (ppts)	2011 - 2020	1.0	1.6	2.1	1.3	1.2	1.8	1.9	1.9
Factor 3		**b1**	**b1**	**baa3**	**ba1**	**ba3**	**aa3**	**ba3**	**b1**
Gen. gov. debt (% of GDP)	2020	61.8	66.9	47.3	120.0	133.6	25.0	61.8	67.8
Gen. gov. debt (% of revenue)	2020	233.6	258.3	142.7	290.4	312.4	63.5	258.3	302.3
Gen. gov. interest payments (% of revenue)	2020	10.5	11.2	4.3	5.4	6.7	1.4	11.0	12.5
Gen. gov. interest payments (% of GDP)	2020	2.8	2.9	1.4	2.2	2.9	0.6	2.7	2.6
Factor 4		**a**	**baa**	**baa**	**baa**	**ba**	**ba**	**baa**	**ba**
Political risk	Latest available	**aa**	**baa**	**baa**	**a**	**aa**	**a**	**a**	**baa**
Government liquidity risk	Latest available	**a**	**a**	**a**	**a**	**baa**	**aaa**	**a**	**baa**
Gross borrowing requirements (% of GDP)	2021F	7.9	10.1	11.2	24.1	20.9	0.8	10.1	10.1
Banking sector risk	Latest available	**a**	**a**	**a**	**baa**	**ba**	**ba**	**a**	**baa**
BSCE[1]	Latest available	baa3	ba1-ba2	ba1-ba2	baa2	ba3-b3	ba3-b3	baa3	ba3-b3
Total domestic bank assets (% of GDP)	2020	76.9	72.8	57.5	257.9	204.2	104.6	74.8	80.9
External vulnerability risk	Latest available	**a**	**a**	**baa**	**a**	**a**	**a**	**a**	**baa**
Current account balance (% of GDP)	2020	-0.7	-3.4	-5.2	0.7	-1.2	-0.7	-0.7	-0.1
External vulnerability indicator (EVI)	2022F	83.5	56.3	141.7	--	--	67.6	51.7	58.3
External debt (% of current account receipts)	2020	306.0	291.4	145.9	584.7	480.4	111.0	215.1	161.2
Net international investment position (% of GDP)	2020	-32.0	-64.9	-50.5	-84.3	-105.4	-30.6	-32.0	-38.3

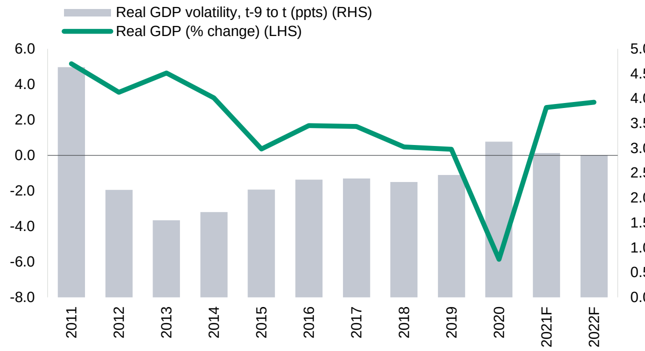
[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

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

DATA, CHARTS AND REFERENCES

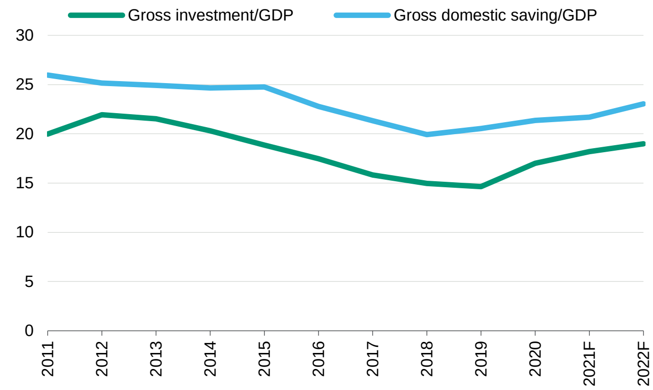
Chart pack: Uruguay

Exhibit 33
Economic growth



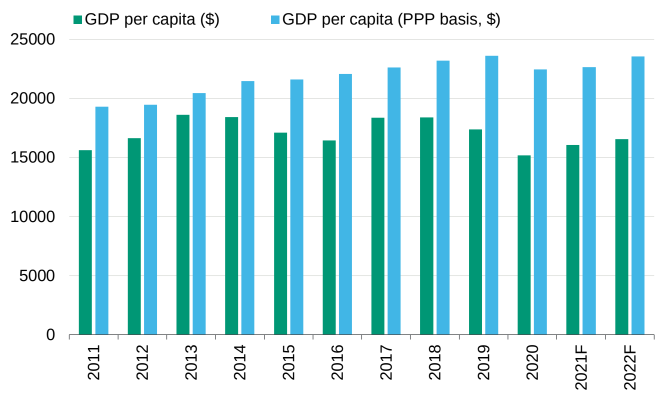
Source: Moody's Investors Service

Exhibit 34
Investment and saving



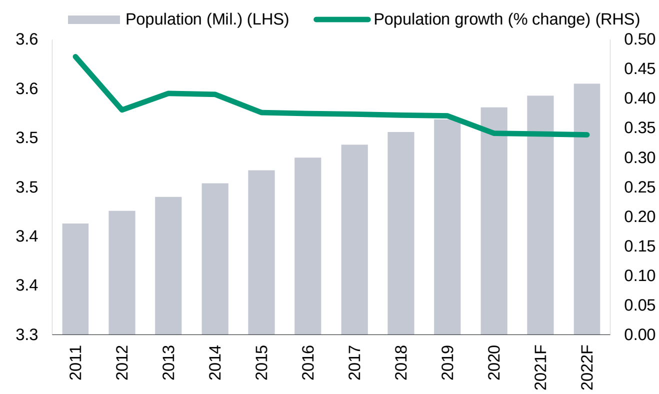
Source: Moody's Investors Service

Exhibit 35
National income



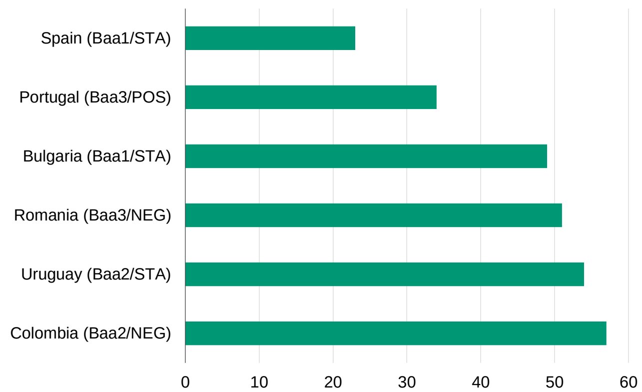
Source: Moody's Investors Service

Exhibit 36
Population



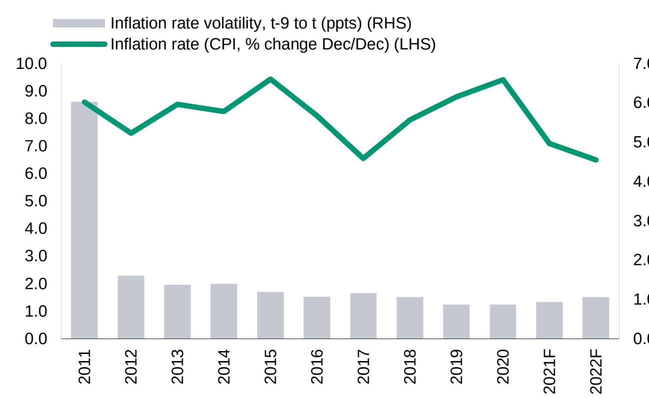
Source: Moody's Investors Service

Exhibit 37
Global Competitiveness Index
Rank 54 out of 141 countries



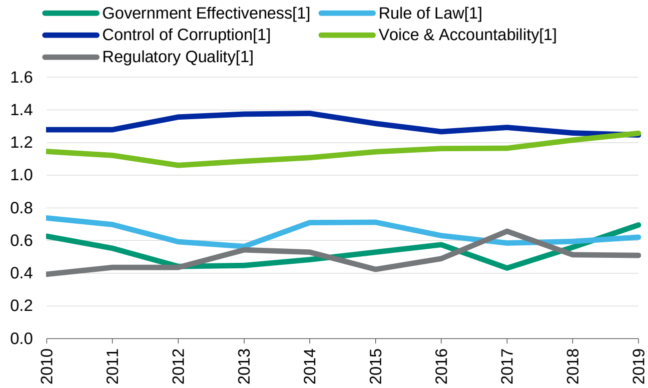
Source: World Economic Forum

Exhibit 38
Inflation and inflation volatility



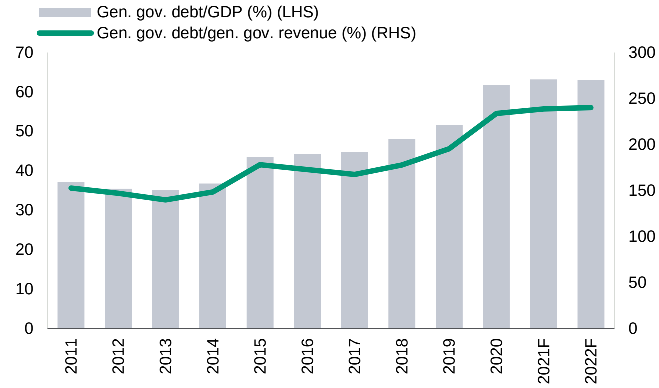
Source: Moody's Investors Service

Exhibit 39
Institutional framework and effectiveness



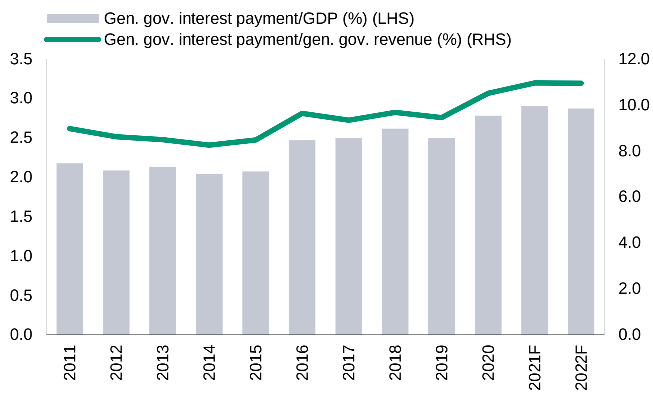
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 40
Debt burden



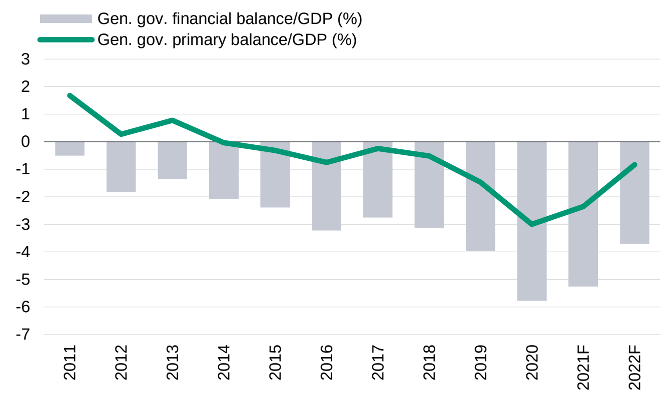
Source: Moody's Investors Service

Exhibit 41
Debt affordability



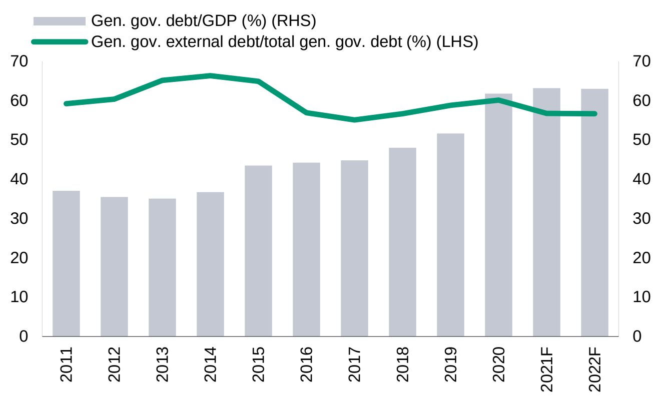
Source: Moody's Investors Service

Exhibit 42
Financial balance



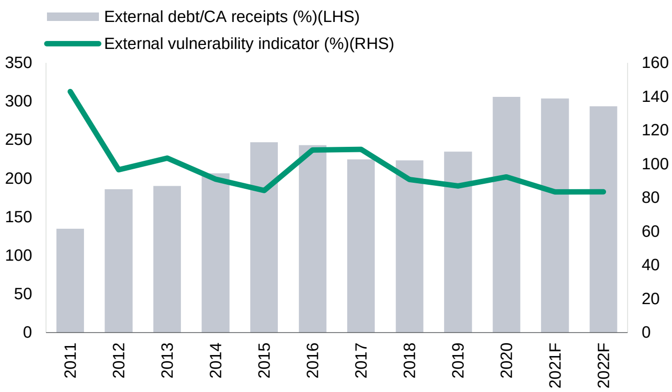
Source: Moody's Investors Service

Exhibit 43
Government liquidity risk



Source: Moody's Investors Service

Exhibit 44
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 45

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	-	-	-	-	Jul-17
Baa2	Baa2	NEG	-	-	-	-	Jun-16
Baa2	Baa2	STA	-	-	-	-	May-14
Baa3	Baa3	POS	-	-	-	-	Jul-12
Ba1	Ba1	POS	-	-	-	-	Jan-12
Ba1	Ba1	STA(m)	-	-	-	-	Dec-10
Ba3	Ba3	STA	Possible Upgrade	Possible Upgrade	-	-	Jul-10
Ba3	Ba3	STA	-	-	-	-	Jan-09
B1	B1	RUR	Possible Upgrade	Possible Upgrade	-	-	Aug-08
B1	B1	STA	-	-	-	-	Dec-06
B3	B3	RUR	Possible Upgrade	Possible Upgrade	-	-	Sep-06
B3	B3	STA	-	-	-	-	Nov-04
B3	B3	NEG	-	-	-	-	Nov-03
B3	B3	-	Confirmed	Confirmed	-	-	May-03
B3	B3	-	-	-	-	-	Jul-02
B1	B1	-	-	-	-	-	Jul-02
Ba2	Ba2	-	Possible Downgrade	Possible Downgrade	-	-	May-02
Ba2	Ba2	-	-	-	-	-	May-02
Baa3	Baa3	-	Possible Downgrade	Possible Downgrade	-	-	Apr-02
Baa3	Baa3	-	-	-	-	-	Oct-98
Baa3	-	-	-	-	-	-	Jun-97
Ba1	-	-	-	-	-	-	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 46

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021F	2022F
Economic structure and performance												
Nominal GDP (US$ bil.)	53.4	57.1	64.0	63.7	59.3	57.2	64.2	64.5	61.2	53.6	57.0	58.8
Population (Mil.)	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.6
GDP per capita (US$)	15,641	16,654	18,614	18,443	17,102	16,447	18,389	18,401	17,400	15,188	16,075	16,550
GDP per capita (PPP basis, US$)	19,307	19,489	20,475	21,492	21,614	22,093	22,637	23,207	23,614	22,459	--	--
Nominal GDP (% change, local currency)	14.6	12.4	13.2	12.9	9.4	6.5	6.7	7.6	8.9	4.4	10.8	10.0
Real GDP (% change)	5.2	3.5	4.6	3.2	0.4	1.7	1.6	0.5	0.4	-5.9	2.7	3.0
Inflation (CPI, % change Dec/Dec)	8.6	7.5	8.5	8.3	9.4	8.1	6.6	8.0	8.8	9.4	7.1	6.5
Gross investment/GDP	20.0	21.9	21.5	20.3	18.9	17.5	15.8	15.0	14.6	17.0	18.2	19.0
Gross domestic saving/GDP	26.0	25.2	24.9	24.6	24.7	22.8	21.3	19.9	20.5	21.4	21.7	23.0
Nominal exports of G & S (% change, US$ basis)	19.4	4.9	1.1	0.3	-11.1	-5.7	8.9	1.4	-0.2	-19.9	4.0	7.0
Nominal imports of G & S (% change, US$ basis)	26.0	16.1	1.5	-3.6	-16.7	-13.9	7.2	4.2	-3.2	-15.9	8.0	5.0
Openness of the economy[1]	60.9	62.8	56.7	56.0	51.8	48.6	46.8	47.8	49.6	46.4	46.2	47.4
Government Effectiveness[2]	0.6	0.4	0.4	0.5	0.5	0.6	0.4	0.6	0.7	--	--	--
Government finance												
Gen. gov. revenue/GDP[3]	24.3	24.2	25.1	24.8	24.4	25.6	26.7	27.1	26.4	26.5	26.5	26.2
Gen. gov. expenditures/GDP	24.8	26.0	26.5	26.8	26.8	28.8	29.5	30.2	30.4	32.2	31.7	29.9
Gen. gov. financial balance/GDP[3]	-0.5	-1.8	-1.4	-2.1	-2.4	-3.2	-2.7	-3.1	-4.0	-5.8	-5.3	-3.7
Gen. gov. primary balance/GDP	1.7	0.3	0.8	0.0	-0.3	-0.7	-0.2	-0.5	-1.5	-3.0	-2.4	-0.8
Gen. gov. debt (US$ bil.)	19.2	21.2	21.5	22.3	23.6	26.1	28.7	29.4	29.8	32.9	34.8	36.0
Gen. gov. debt/GDP	37.1	35.5	35.1	36.7	43.5	44.2	44.8	48.0	51.6	61.8	63.2	63.0
Gen. gov. debt/gen. gov. revenue	152.6	146.8	139.7	148.2	177.8	172.6	167.5	177.5	195.4	233.2	238.6	240.1
Gen. gov. interest payments/gen. gov. revenue	9.0	8.6	8.5	8.3	8.5	9.6	9.3	9.7	9.5	10.4	11.0	10.9
Gen. gov. FC & FC-indexed debt/gen. gov. debt	50.7	44.7	45.6	48.2	54.8	54.7	49.2	53.8	56.1	54.5	54.0	54.0

Source: Moody's Investors Service

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021F	2022F
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	19.9	19.4	21.4	24.3	29.9	29.3	28.8	32.4	37.3	42.3	45.3	48.0
Real eff. exchange rate (% change)	2.1	2.7	6.0	-3.9	0.7	0.9	6.0	1.5	-3.1	-4.7	--	--
Current account balance (US$ bil.)	-1.3	-2.0	-2.0	-1.8	-0.1	0.4	0.0	-0.3	0.8	-0.4	-1.1	-0.8
Current account balance/GDP	-2.5	-3.6	-3.1	-2.9	-0.2	0.7	0.0	-0.5	1.4	-0.7	-1.9	-1.4
External debt (US$ bil.)	18.3	37.1	38.6	41.6	44.2	40.8	42.1	42.6	44.6	46.1	46.7	47.0
Public external debt/total external debt	78.7	44.9	46.8	45.6	42.9	44.0	44.3	45.1	45.3	48.1	42.2	43.4
Short-term external debt/total external debt	22.2	20.6	23.1	22.3	20.3	17.4	16.7	15.4	14.3	13.4	14.6	14.3
External debt/GDP	34.4	65.0	60.2	65.3	74.5	71.2	65.5	66.0	72.8	86.0	82.0	79.9
External debt/CA receipts[4]	134.9	185.9	190.4	206.5	247.1	243.1	224.8	223.3	234.9	306.0	303.7	293.6
Interest paid on external debt (US$ bil.)[5]	0.9	0.7	1.0	0.9	1.1	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Amortization paid on external debt (US$ bil.)[5]	2.0	1.8	2.2	1.7	1.6	3.1	1.9	1.9	1.8	1.6	1.4	1.3
Net foreign direct investment/GDP	4.7	3.9	4.8	3.5	1.3	-3.2	-3.2	-0.8	2.0	5.0	2.1	1.4
Net international investment position/GDP	-28.3	-31.2	-26.0	-28.2	-26.8	-28.1	-26.5	-24.1	-25.4	-32.0	--	--
Official forex reserves (US$ bil.)	9.8	13.1	15.7	17.0	15.2	13.1	15.6	15.1	14.1	15.8	16.5	16.8
Net foreign assets of domestic banks (US$ bil.)	4.8	3.7	3.0	3.0	4.8	6.0	5.9	6.2	7.5	9.3	--	--
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	22.1	10.3	13.7	6.4	9.0	14.4	13.3	10.5	5.7	17.2	--	--
Monetary policy rate (% per annum, Dec 31)[6]	8.8	9.0	--	--	--	--	--	--	--	4.5	--	--
Domestic credit (% change Dec/Dec)	6.2	20.2	27.4	13.8	11.8	5.0	7.7	9.9	13.1	4.1	--	--
Domestic credit/GDP	26.4	28.2	31.8	32.0	32.7	32.2	32.5	33.2	34.5	34.4	--	--
M2/official forex reserves (X)	0.8	0.7	0.6	0.5	0.5	0.7	0.6	0.6	0.6	0.6	--	--
Total external debt/official forex reserves	187.9	284.0	245.3	244.2	291.6	312.4	270.3	281.3	316.6	292.0	283.1	279.8
Debt service ratio[7][5]	21.3	12.6	15.4	12.8	14.8	23.5	14.3	14.1	13.7	15.9	14.3	13.4
External vulnerability indicator (EVI)[8]	143.0	96.5	103.5	91.1	84.3	108.3	108.6	90.8	86.9	92.4	83.4	83.5
Liquidity ratio[9]	33.6	49.2	57.1	69.9	60.3	61.5	64.1	61.2	66.1	51.9	--	--
Total liabilities due BIS banks/total assets held in BIS banks	50.7	53.6	62.8	66.9	52.6	51.3	62.6	60.2	58.2	46.6	--	--
"Dollarization" ratio[10]	67.2	66.9	68.8	72.4	75.7	72.5	69.0	69.3	72.1	73.7	--	--
"Dollarization" vulnerability indicator[11]	67.2	65.4	64.9	67.5	71.4	79.1	72.6	73.6	76.0	74.6	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[3] Excludes pension transfers related to the 'cincuentones' law starting in 2018Excludes pension transfers related to the 'cincuentones' law starting in 2018
[4] Current Account Receipts
[5] Public sector
[6] During 2013-19 Uruguay did not employ a monetary policy rate as its policy tool. It resumed the practice in 2020.
[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)

Moody's related publications

- » **Issuer Comment:** Government of Uruguay: Planned consolidation and new fiscal framework will support stabilization of debt metrics, 14 September 2020
- » **Credit Opinion:** Government of Uruguay - Baa2 stable: Annual credit analysis, 12 August 2020
- » **Rating Methodology:** Sovereign Ratings Methodology, 25 November 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

- » Sovereign risk group web page
- » Sovereign ratings list

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Endnotes

1 The 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.

2 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.

3 Measures have included: the BCU working on administrative/regulatory changes to reduce transaction costs on its short-term peso-denominated debt; increased debt issuance in short-term peso-denominated debt by the BCU; modifying reserve requirements for peso-denominated credit; roundtables with market participants to explore private sector needs to engage in peso-denominated financial transactions.

4 For instance, due to the above mentioned wage-setting, or due to an rising commodity energy prices. The latter one is a key determinant of inflation given the government's dominant position in fuel importation and distribution, and its commitment to fiscal consolidation. Past administrations have taken financial losses in order to avoid increasing prices for consumers.

5 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 years. Additionally, the "cincuentones" effect will create a future liability for the BPS that will be negative for fiscal performance because public pension outlays will grow without a matching revenue source, unless there is a push for pension reform in the near future.

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

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REPORT NUMBER 1274296

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