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Government of Uruguay – Baa2 stable

Annual credit analysis

RATINGS

Uruguay

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

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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: baa3

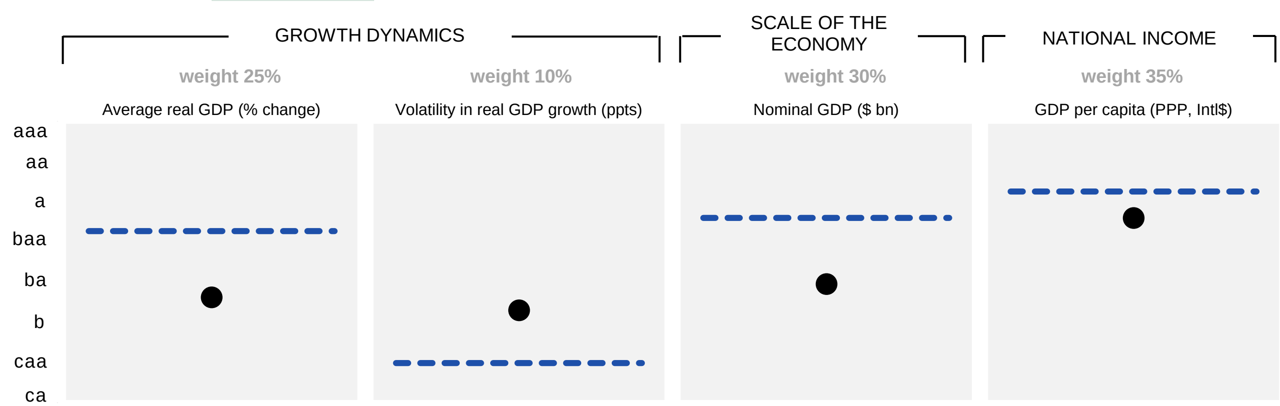
Factor 1: Overall score

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 **baa3**

● Score for Uruguay — Median of countries with Baa2 rating



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 a somewhat slower growth track record compared to similarly rated sovereigns, comparatively high income levels and a relatively small economy on a global basis. Other sovereigns with a similar score for economic strength include Bulgaria (Baa1 stable) and Croatia (Baa2 stable).

Exhibit 1

Peer comparison table factor 1: Economic strength

	Uruguay Baa2/STA	baa3 Median	Bulgaria Baa1/STA	Croatia Baa2/STA	Cyprus Ba1/POS	Kazakhstan Baa2/STA	Panama Baa2/STA	Peru Baa1/STA
Final score	baa3		baa3	baa3	baa3	baa2	baa2	baa2
Initial score	baa3		baa2	baa2	baa2	a3	baa2	baa3
Nominal GDP ($ billion)	59.3	82.9	80.0	67.7	27.7	190.8	63.6	225.7
GDP per capita (PPP, Intl$)	24,233.2	25,073.7	25,914.2	32,942.6	45,033.6	28,386.9	31,299.5	13,879.0
Average real GDP (% change)	1.7	2.4	2.2	2.6	3.3	3.4	3.4	2.6
Volatility in real GDP growth (ppts)	3.1	3.1	2.6	4.8	5.1	2.6	8.6	6.0

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

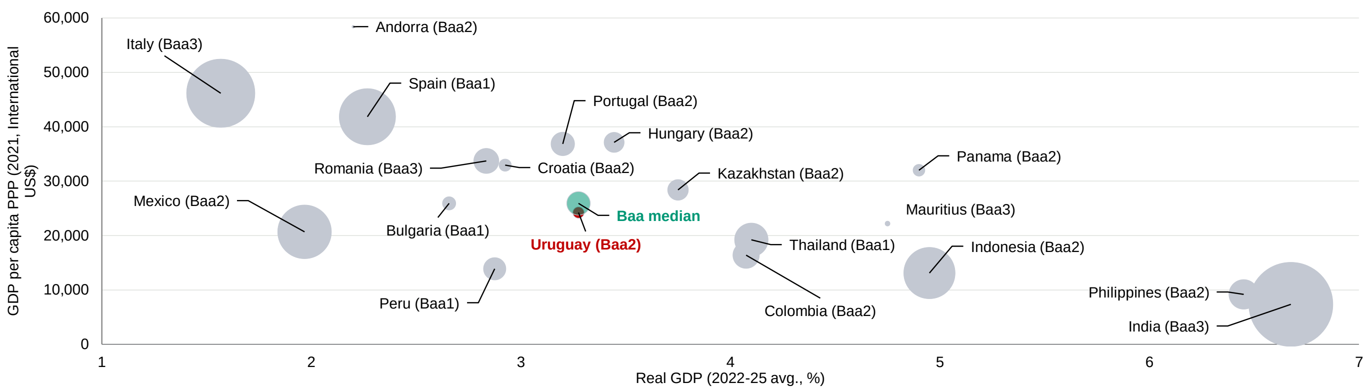
Despite smaller size, wealth levels and 2022-25 growth will be in line with Baa peers

During 2015-19, Uruguay's economic growth averaged 0.9% annually, below the Baa median of 3.2%. However, we expect that with average growth of 3.3% in 2022-25 it will be aligned with most peers (see Exhibit 2). In terms of wealth levels, Uruguay's $24,233 per capita GDP (PPP) in 2021 ranks slightly below the Baa-rated median of $25,914. And in terms of scale, Uruguay's GDP of $59 billion is much smaller than the median of $250 billion.

Exhibit 2

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

Size of bubble = nominal GDP (US$ billion, 2021)



Source: Moody's Investors Service

Pre-pandemic period was marked by material growth slowdown that pressured economic strength

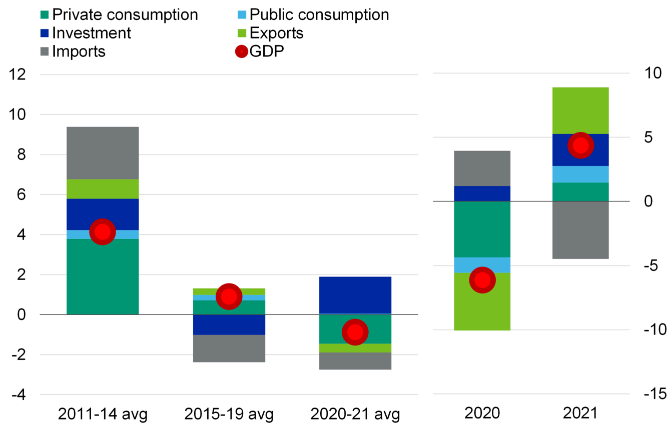
The International Monetary Fund (IMF) finds that long-term (1978-2019) economic growth – on average 2.5% – in Uruguay was primarily driven by capital accumulation, followed by total factor productivity, employment and human capital gains.[1] Slower population growth is a cause for Uruguay's comparatively weaker growth performance relative to other non-oil commodity exporters. As a small and open economy, Uruguay's economy has been more susceptible to external shocks, particularly benefiting from commodity price booms that led to increases in capital accumulation and labor gains, and had longlasting effects on the level of output although not on growth. This was the case during the 2004-14 period that followed its 2002 crisis, when Uruguay grew on average 5.4%, benefiting from the construction of two large-scale pulp mill plants. Moreover, the collapse in commodity prices led to a period (2015-19) of lower investment in the country, as well as weaker employment dynamics, when growth averaged only 0.9% compared to the average of 3.4% for the median Baa-rated peer.

Pandemic recovery supported by improving investment trend

Uruguay's GDP contracted 6.1% in real terms in 2020 due to the pandemic and expanded 4.4% in 2021. While the government did not establish forced lockdowns as in other Latin American countries, household consumption and exports of goods and services were the main drag on economic activity that year (see Exhibit 3). Moreover, investment posted a positive contribution because of the construction of the country's third large pulp mill plant UPM-Kymmene (Baa1 stable) in Paso de los Toros.[2] The Lacalle Pou administration also established a set of investment incentives under Decree 268/020, with a commission that oversees the application of the investment law (COMAP). Between 2021 and through May 2022, there had been 2,400 projects presented to COMAP for $2.2 billion.[3] The construction of the UPM plant and the materialization of some of the COMAP projects has led to double-digit growth for gross fixed capital formation since late 2020, which has contributed to an increase in the share of investment relative to GDP to 19% as of Q1 2022, from a low point of 15% in Q4 2018 (see Exhibit 4). Rapid exports growth has also been an important contributor to the economic recovery since the second half of 2022.

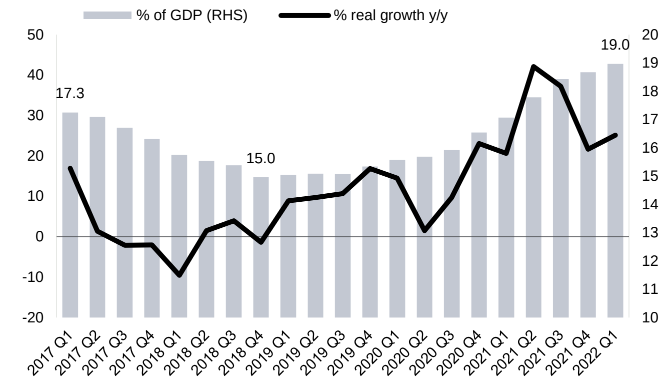
The labor market also recovered the 58,000 jobs lost due to the pandemic shock in 2020 by early 2022. A majority of this has taken place in the formal sector – the rate of workers in the informal sector as of May 2022 was 20.5%, down from 24.9% in 2019. A persistent loss of employment that started in the pre-pandemic period was a particular drag on economic growth. The employment rate fell to 57.8% of the labor force in late 2019 from a high of 61.1% in February 2014, reaching 52.1% in April 2020, but has recovered to its 2019 levels.

Exhibit 3
Investment made positive contribution to growth in 2020-21
Contribution to real GDP, percentage points



Sources: BCU via Haver, Moody's Investors Service

Exhibit 4
Gross fixed capital formation growing strongly since 2020
Gross fixed capital formation as a share of GDP and quarterly growth rates

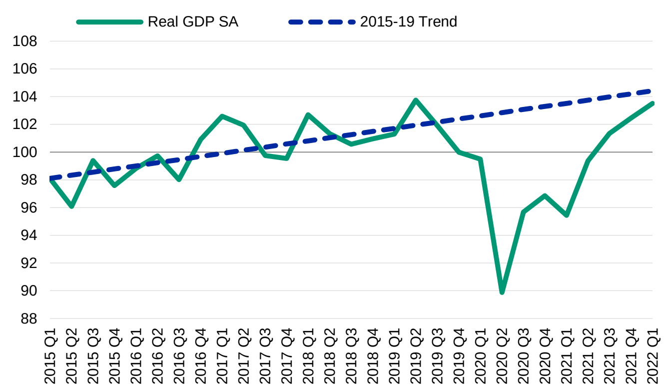


Sources: BCU via Haver, Moody's Investors Service

Uruguay will reduce gap with pre-pandemic trend growth path and GDP level in 2022

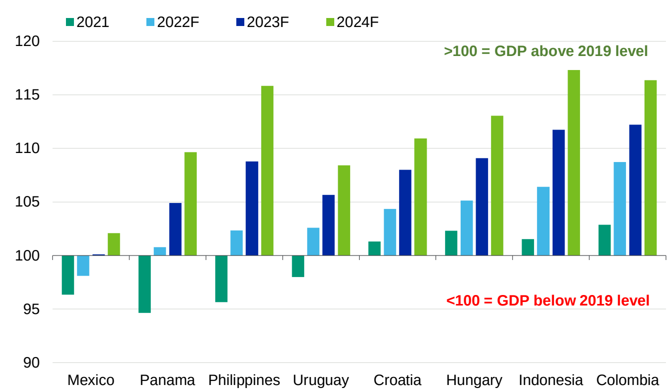
The improving investment trend and support from growing exports will contribute to GDP expanding about 4.7% in 2022. This would allow Uruguay to reduce the gap with its pre-pandemic (2015-19) growth path (see Exhibit 5), although that path based on a relatively weak growth performance. Uruguay is also on pace to return to its 2019 output level in 2022, in line with other Baa2-rated sovereigns (see Exhibit 6).

Exhibit 5
Uruguay's real GDP returning to pre-pandemic growth path
Index, 2019 Q4 = 100



Sources: BCU via Haver, Moody's Investors Service

Exhibit 6
Recovery in output in line with Baa2-rated peers
GDP level for 2021-24 compared with 2019, 2019 = 100

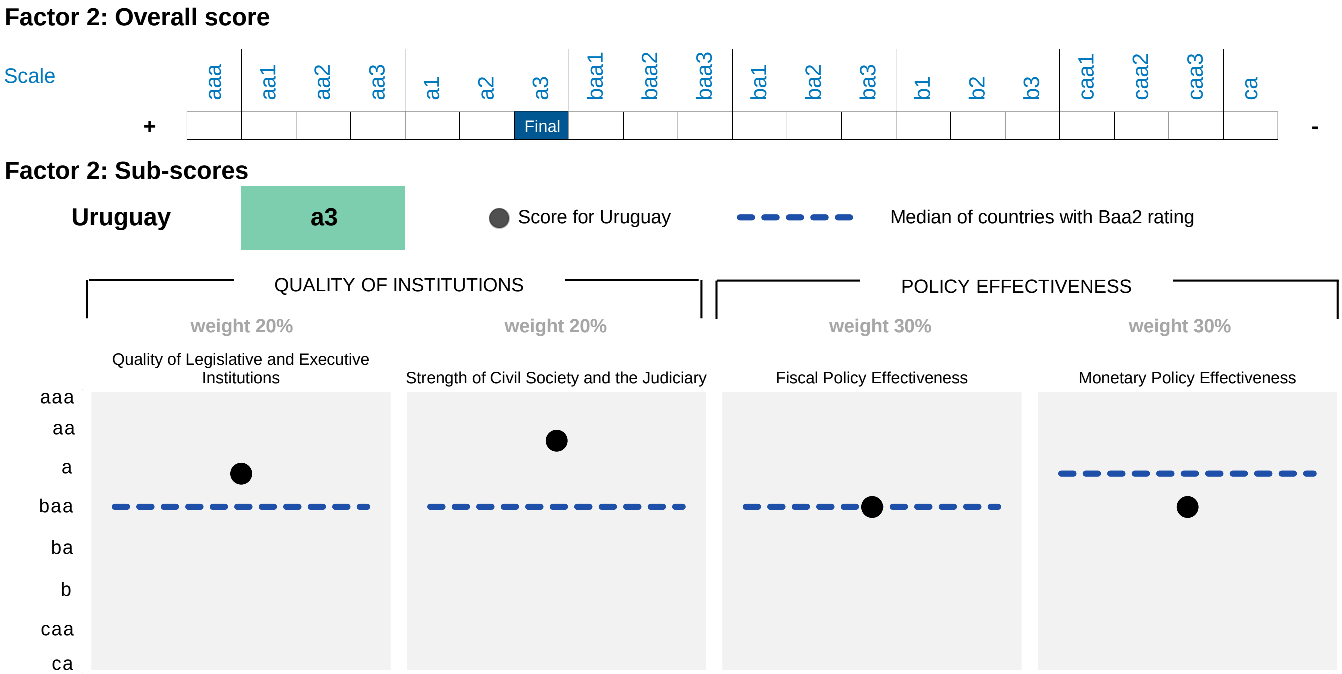


Source: Moody's Investors Service

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

After 2022, we expect that economic growth will moderate to rates closer to 2.5%-3.0%. This will depend on a broader improvement of investment trends beyond the UPM plant. A continued recovery of the labor market would also be supportive of stronger economic growth in the coming years. The IMF considers that a set of structural measures, including enhancing labor market flexibility, improving efficiency and competitiveness through reforms to the state-owned enterprises, and improving the quality of education in the country, would also help sustain stronger growth.

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 implemented 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 by effectively building a track record under the fiscal rules introduced in 2020. Other sovereigns with a similar score for institutions and governance strength include Malta (A2 negative) and Poland (A2 stable).

Exhibit 7

Peer comparison table factor 2: Institutions and governance strength

	Uruguay Baa2/STA	a3 Median	Poland A2/STA	Malta A2/NEG	Peru Baa1/STA	Philippines Baa2/STA	Spain Baa1/STA	Croatia Baa2/STA
Final score	a3		a3	a3	baa1	baa1	a2	a2
Initial score	a3		a3	a3	baa1	baa1	a2	a2
Quality of legislative & executive institutions	a	a	a	baa	ba	baa	aa	a
Strength of civil society & judiciary	aa	baa	ba	baa	b	b	aa	a
Fiscal policy effectiveness	baa	a	a	a	aa	a	baa	a
Monetary & macro policy effectiveness	baa	a	a	a	a	a	a	a
Fiscal balance/GDP (3-year average)	-3.7	-3.7	-3.3	-6.1	-2.1	-3.5	-5.7	-2.7
Average inflation (% change)	7.4	4.1	4.1	1.5	3.1	3.5	2.4	2.2
Volatility of inflation (ppts)	1.0	1.0	1.9	0.8	0.9	1.3	1.3	1.3

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

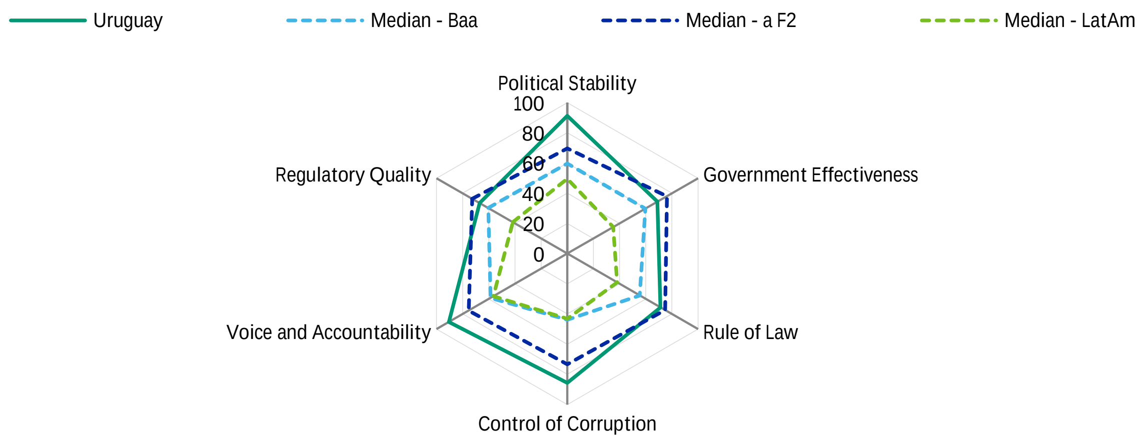
Strong institutional framework relative to rating peers

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 8). As of 2020, 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 “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, 2020



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.

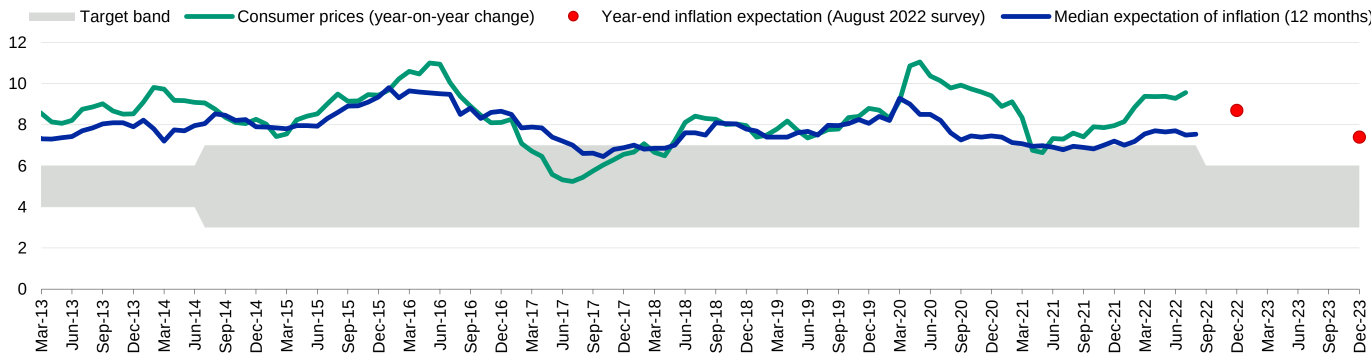
The strength of civil society and the judiciary also scores at “aa,” reflecting a strong control of corruption, rule of law and judicial independence.

Central bank has redoubled efforts to tackle persistently high inflation

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, particularly following the 2002 crisis. Additionally, the willingness and ability of the Lacalle Pou administration to promote reforms to address macroeconomic imbalances, including a reform of the social security system, by enhancing in particular policymaking credibility has been positive. This is important for Uruguay given the difficulty to rein in high inflation.

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% but will narrow to 3.0%-6.0% in September 2022. Over the past decade, headline inflation has tended to exceed the upper bound of the band (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 persistently high levels of dollarization in the economy.

Exhibit 9
Uruguay's policymakers expect to rein in a historically intractable inflation rate
%



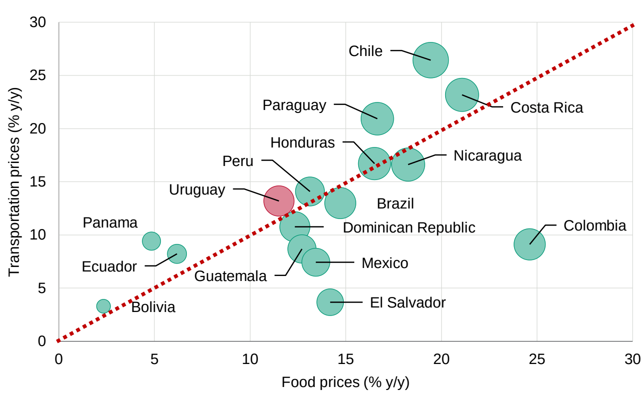
Sources: Central Bank of Uruguay, Ministry of Finance and Moody's Investors Service

In September 2020, the central bank (BCU) relaunched its inflation targeting regime, readopting a monetary policy rate as its main policy instrument. In addition to changing instruments, and to increase its influence over inflation expectations, the BCU has increased 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. 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.[4]

Global inflationary shock testing central bank's ability to deliver on targets

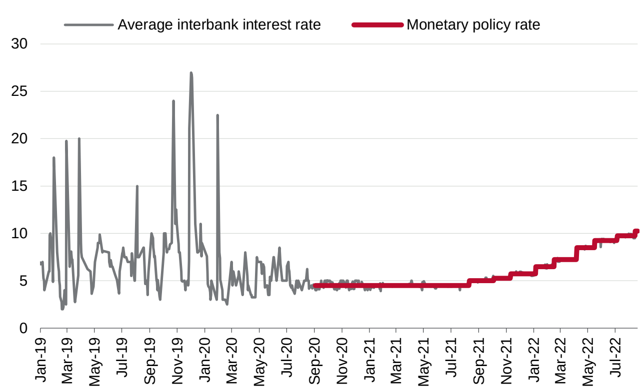
Uruguay, as most Latin American countries, has been impacted by rising food and fuel prices in 2022 (see Exhibit 10). As of July 2022, Uruguay's inflation rate was 9.6%, in line with the Latin American median (9.5%). In response to the inflationary pressures that began in 2021, the Monetary Policy Committee (COPOM) raised its policy rate to 10.25% in August 2022, from a level of 4.5% in 2020 (see Exhibit 11). The change in the policy tool has reduced the volatility in interest rates in the country, as seen by the dynamics of the interbank interest rate before and after the policy rate was implemented again. At its current level, the COPOM policy stance has become more restrictive, with the authorities signaling additional tightening is likely to support a reduction of inflation over the coming months and anchor expectations.

Exhibit 10
High food and fuel prices driving inflation in LatAm
%, size of bubble = annual inflation as of July 2022



Sources: National sources and Moody's Investors Service

Exhibit 11
BCU has responded by tightening its policy rate
%



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

In addition to external pressures, the government's policy related to wages could be a source of price pressures over the coming years given the past inertial relationship between inflation and wages. 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 new guidelines were presented in July 2021 for the ninth round of wage negotiations. The government stated goal is for workers to recoup wages' purchasing power losses in real terms by the end of the administration's tenure in 2025. In April 2022, the authorities also announced special adjustments to public sector wages and pensions.

The combination of uncertainty related to external sources of inflation and the expected adjustment in wages, may be factors that contribute to inflation expectations remaining above the target range. 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. The convergence of inflation with policy targets, as well as the continued anchoring of inflation expectations and progress in the de-dollarization of the domestic financial system will strengthen the credibility of monetary policy in Uruguay.

Administration is building a track record of compliance with new fiscal policy framework

We score fiscal policy effectiveness as "baa." As with inflation, the government had struggled to comply with its own fiscal targets before the pandemic. The current administration entered office in March 2020, with the publicly stated goal of pursuing fiscal consolidation and improving Uruguay's fiscal policy institutions.

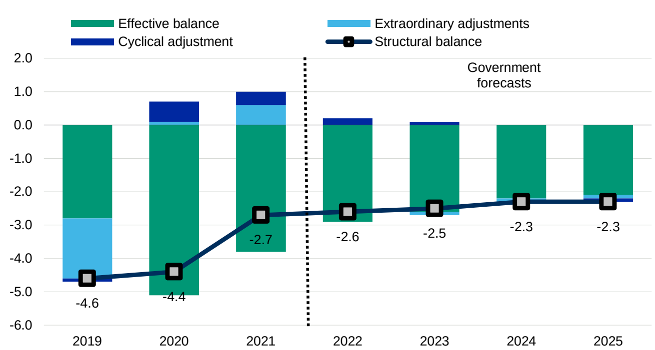
In mid-2020, the administration secured the passage of its "Urgent Law" bill, an omnibus bill that among other measures reworked the institutional framework of fiscal policymaking. The law includes a three-pillar fiscal rule: (i) a structural fiscal balance pillar, which accounts for business cycle fluctuations;[5] (ii) a cap on real primary expenditure growth, 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 now performed by the ministry of finance with inputs from an independent expert committee. A Fiscal Advisory Council was also established and it has published reports commenting on compliance with the fiscal rule as well as progress made in implementation of and improvements to the new fiscal framework.

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. In 2020 and 2021, the government met all three fiscal rule targets: (i) the structural deficit was 4.4% of GDP and 2.7%, respectively, below the 4.4% and 3.2% indicative targets (see Exhibit 12), (ii) real primary spending growth below the 2.1% target (see Exhibit 13), and (iii) net indebtedness was $2.6 billion in 2021, below the $3.0 billion target. We expect the administration to remain committed to fiscal consolidation until its term ends in 2025.

Compliance with the new fiscal framework will help build a track record of policy credibility for Uruguay and address a source of credit pressures that had weighed on the sovereign prior to the pandemic.

Exhibit 12

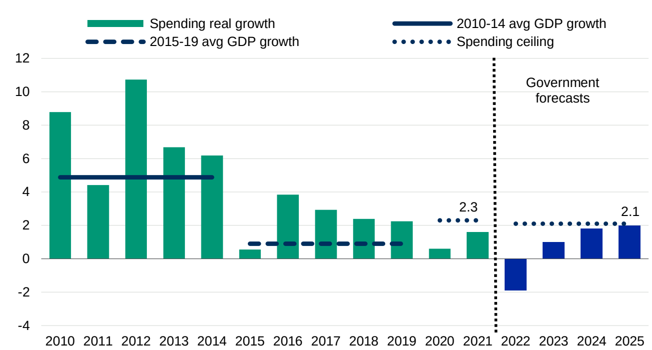
Structural balance rule would lead to decline in actual deficit
% of GDP



Sources: Ministry of Finance and Fiscal Advisory Council

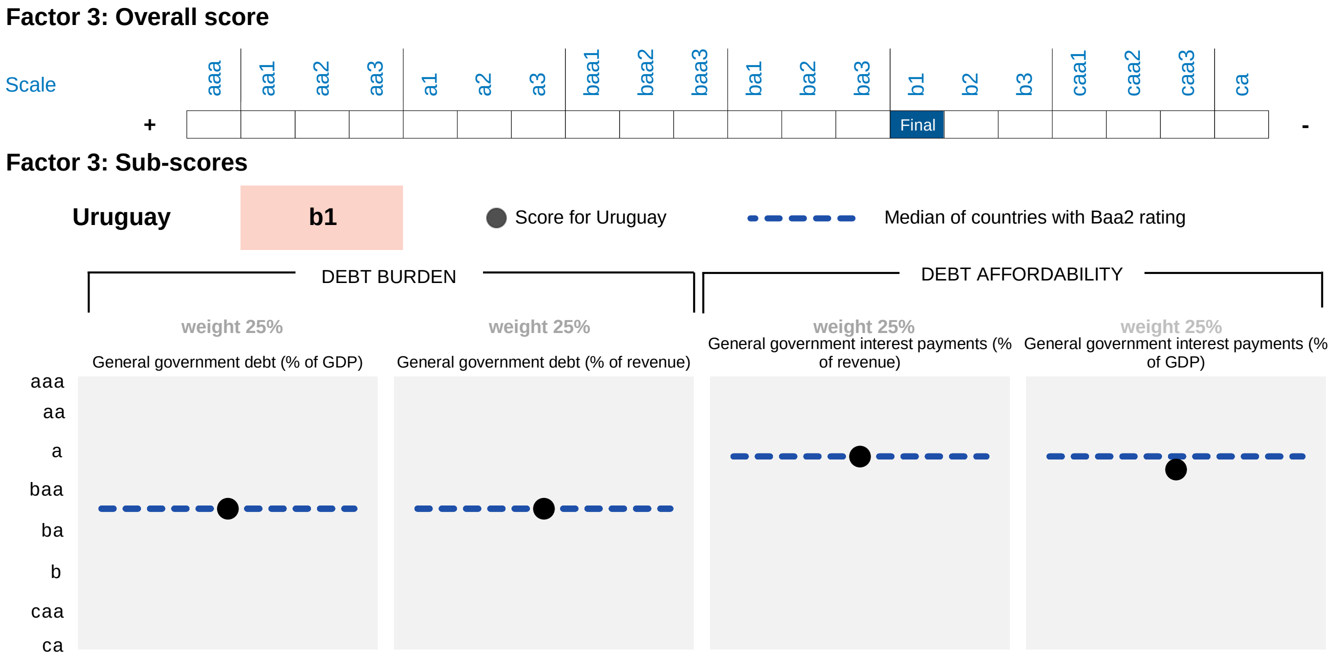
Exhibit 13

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



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

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.

Uruguay's fiscal strength scores at "b1," balancing its moderately 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. While the pandemic shock led to an increase in the debt burden, we expect Uruguay to reverse some of the deterioration in 2022. Uruguay shares this score with Colombia (Baa2 stable) and Indonesia (Baa2 stable).

Exhibit 14

Peer comparison table factor 3: Fiscal strength

	Uruguay Baa2/STA	b1 Median	Colombia Baa2/STA	Indonesia Baa2/STA	Italy Baa3/NEG	India Baa3/STA	Panama Baa2/STA	Mauritius Baa3/STA
Final score	b1		b1	b1	b2	b3	ba3	ba2
Initial score	b1		b2	b1	b2	caa1	ba3	b1
Gen. gov. debt (% of GDP)	61.4	60.0	66.6	41.2	150.8	82.3	63.7	83.3
Gen. gov. debt (% of revenue)	234.3	270.9	246.8	347.6	312.2	413.6	351.6	384.8
Gen. gov. interest payments (% of GDP)	2.3	1.9	3.4	2.0	3.5	5.2	2.4	2.7
Gen. gov. int. payments (% of revenue)	8.8	7.0	12.8	17.1	7.3	26.2	13.4	12.6

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.[6] 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.

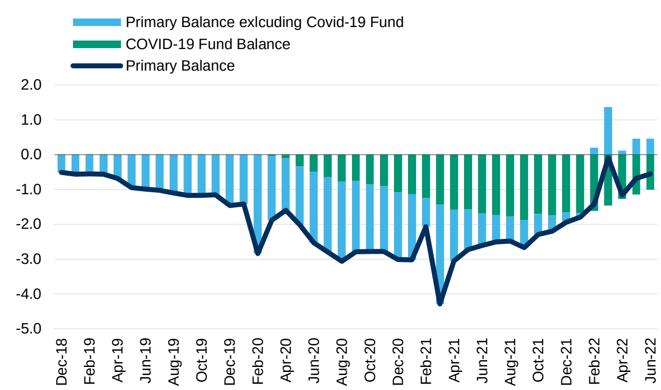
Prudent fiscal management for pandemic response design conducive to reduction in fiscal deficit

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 "COVID-19 fund" – this allows the government to phase out the additional spending as the pandemic emergency ended 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 in 2020-21. As the pandemic-related spending is phased out in 2022, there has been a material improvement in the primary balance (see Exhibit 15). This prudent fiscal management is key given the relative rigidity of Uruguay's spending structure. The largest spending item for the consolidated central government is pensions at 31% of spending in the 12 months to June 2022, followed by transfers and wages (27% and 16%, respectively). Because these expenditures are indexed – pensions are directly linked to the evolution of the average nominal wage growth – they have shown a consistent growth trajectory over time (see Exhibit 16). Meanwhile, faster nonpersonnel spending growth in 2021 was associated with the pandemic response and will slow down going forward. The remaining flexible spending, associated with capital expenditures, only represents 4% of total spending. Given this spending rigidity, and the continuous growth of pensions in particular as the population ages, the pension reform will be a key policy measure to support long-term fiscal health.

Exhibit 15

Phasing out of COVID-related spending helping with narrowing primary balance

% of GDP, 12-months rolling balance

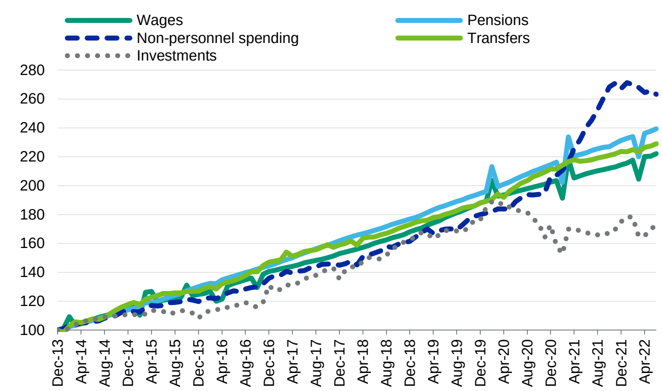


Source: Ministry of Finance

Exhibit 16

Indexed expenditures have grown steadily over the past decade

Index, 12-month rolling in nominal terms; December 2013 = 100



Source: Ministry of Finance

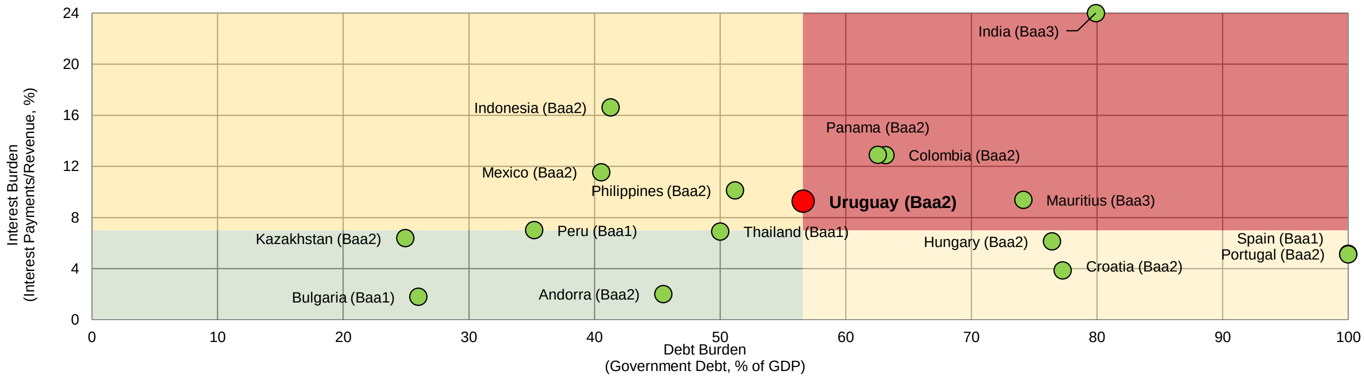
Uruguay's debt metrics broadly aligned with Baa-median

Given our expectation of deficit reduction in 2022, along with continued robust nominal GDP growth and somewhat favorable exchange rate dynamics, we expect Uruguay's debt burden to decline to about 57% of GDP from 61% in 2021 (still above the 52% ratio in 2019), coming in line with the Baa median (see Exhibit 16). Meanwhile, the interest burden will be 9.3% of revenue, above the 8.8% level in 2021 and the Baa median of 7.0%. At these levels, Uruguay's debt metrics will be positioned in line with other Baa2-rated peers, which outside of Europe tend to have higher interest burdens than most other Baa-rated peers.

Exhibit 17

Uruguay's debt metrics are in line with the median Baa peer

2022 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

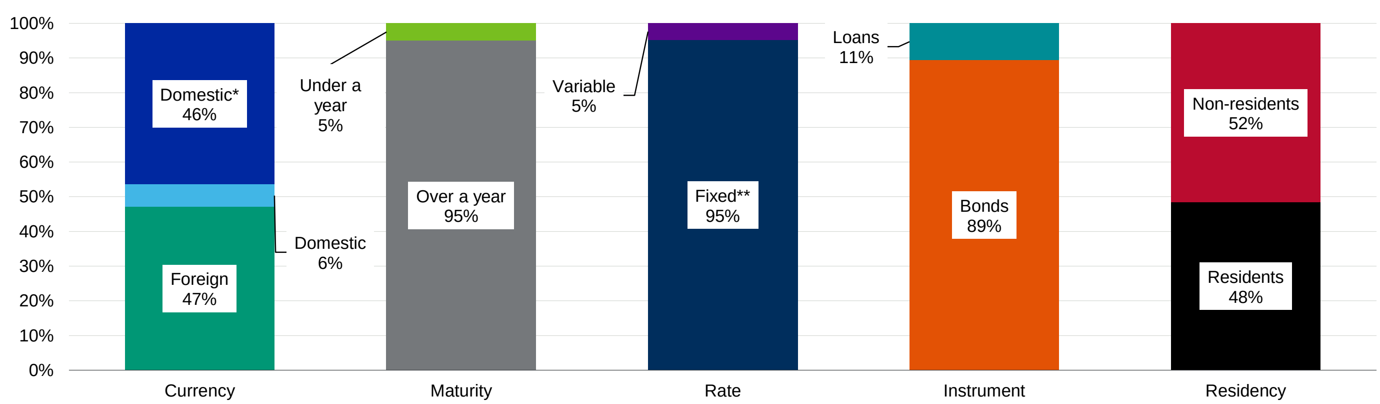
Uruguay's debt burden is exposed to exchange rate shocks because a still-significant portion of government debt is denominated in foreign currency – the share dropped to 45% in 2012 from more than 70% before 2008, rising again to 56% in 2019 and coming down to 47% in June 2022. A depreciation of the Uruguayan peso can thus have a material impact on government debt metrics.[7] Importantly, as of June 2022 the government had $3.2 billion in assets – including $2.1 billion in liquid assets – and another $1.9 billion in contingent credit lines with multilateral institutions that would allow it to fully cover 12 months of debt-service requirements ($3.6 billion, of which $1.5 billion is in foreign currency), 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 12.8 years as of June 2022) and by maintaining a high share of debt at fixed rates – over 95% of debt is at a fixed rate, including local currency instruments with fixed real rates (see Exhibit 18). 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 average interest rate paid on its debt – for US dollar debt the average interest rate was 4.7% in June 2022, down from 5.0% in 2019, while the rate for nominal pesos was 8.7%, down from 10.6% in 2019.

Exhibit 18

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

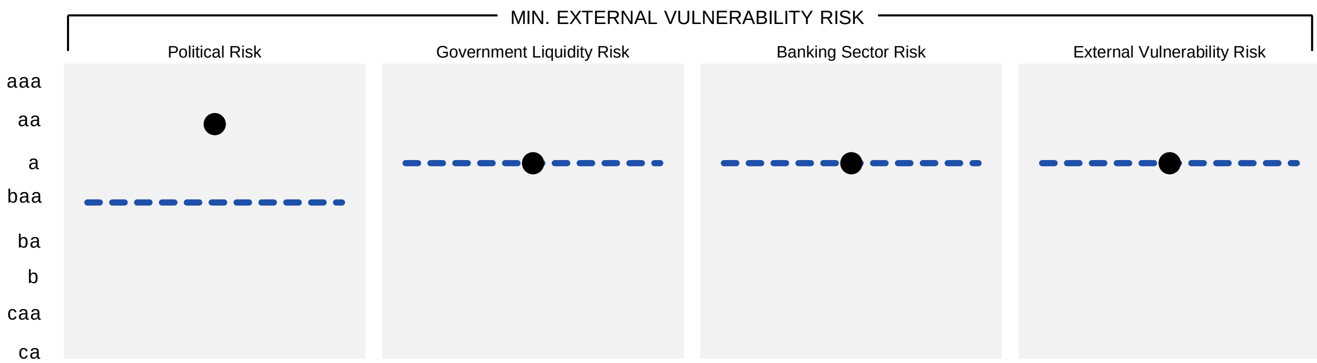
Scale	aaa	aa	a	baa	ba	b	caa	ca	
+			Final						-

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 moderately low, scoring "a" in government liquidity risk, banking sector risk and external vulnerability risk, and "aa'" for political risk.

Political risk: aa

Exhibit 19

Peer comparison table factor 4a: Political risk

	Uruguay Baa2/STA	aa Median	Iceland A2/STA	Chile A1/NEG	India Baa3/STA	Indonesia Baa2/STA	Mauritius Baa3/STA	Panama Baa2/STA
Final score	aa		aa	a	a	a	a	a
Voice & accountability, score[1]	1.3	0.9	1.4	1.0	0.1	0.1	0.7	0.6
Political stability, score[1]	1.1	1.1	1.4	0.1	-0.8	-0.5	0.9	0.2

[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 policymaking. 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.

The administration led by president Lacalle Pou took office on 1 March 2020. The 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), opposed some of the reforms. A referendum on the "Urgent Law" took place in early 2022, which resulted in the upholding of the bill. After this development, we expect that attention will now focus on the pension reform with the traditional consensus-building process prevailing.

Government liquidity risk: a

Exhibit 20

Peer comparison table factor 4b: Government liquidity risk

	Uruguay Baa2/STA	a Median	Colombia Baa2/STA	Croatia Baa2/STA	Hungary Baa2/STA	Indonesia Baa2/STA	Kazakhstan Baa2/STA	Mexico Baa2/STA
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
Ease of access to funding	a	a	a	a	a	a	a	a
Gross borrowing requirements (% of GDP)	6.4	9.4	9.1	10.6	--	--	6.5	10.1

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.

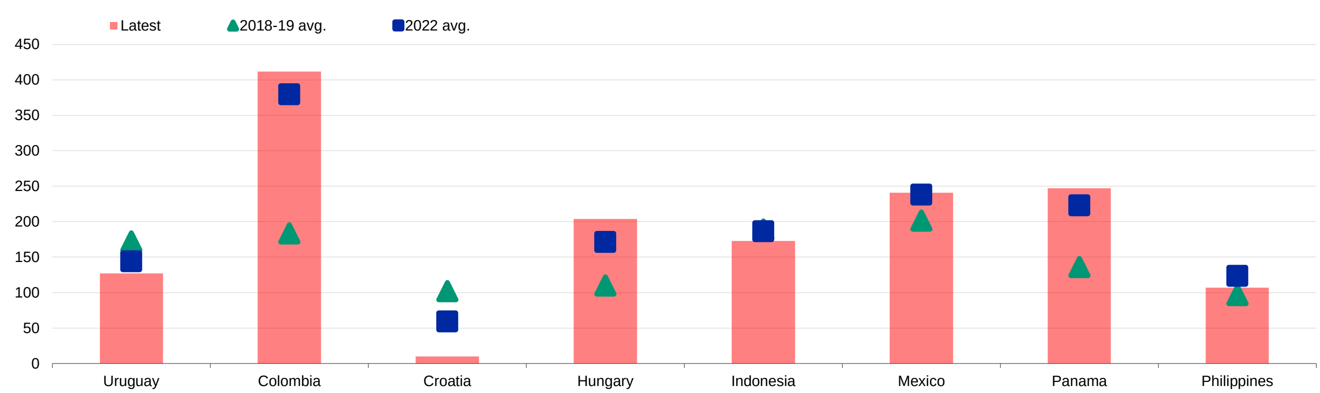
A favorable maturity profile translates into low rollover risks. To achieve this, the government has maintained a very long maturity profile, with current central government debt having an average maturity of 12.8 years. Given Uruguay's extended debt maturity, the government faces modest refinancing requirements over the medium term, with yearly principal payments averaging 3% of GDP over 2022-25 and never exceeding 4%. Combined with moderate fiscal deficits, the modest amounts of maturing debt result in fairly low gross financing needs. As the fiscal deficit narrows, government gross financing needs will fall to a relatively low 6% of GDP in 2022. 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.

According to the Ministry of Finance, over the past five years, external government debt by jurisdiction has been on average about 77% of total debt. However, the share of nonresident holders is actually closer to 56% 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. Investor perception has been very stable for Uruguay, even in the context of the pandemic. Its current risk premia on global bonds, as measured by the EMBI sovereign spread, is now lower than it was in the two years prior to the pandemic and compares well relative to other Baa2-rated peers (see Exhibit 21).

Exhibit 21

Uruguay's risk premia compares well relative to Baa2-rated peers

EMBI global sovereign spread (EMBI+ for Mexico and Philippines); basis points



Sources: J.P. Morgan via Haver, Moody's Investors Service

Banking sector risk: a

Exhibit 22

Peer comparison table factor 4c: Banking sector risk	Uruguay Baa2/STA	a Median	Colombia Baa2/STA	Indonesia Baa2/STA	Panama Baa2/STA	Peru Baa1/STA	Philippines Baa2/STA	Thailand Baa1/STA
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
BCA[1]	baa3	baa1	ba1	baa3	baa3	baa2	baa3	baa2
BSCE[2]	baa3	baa2	ba1-ba2	baa3	baa3	baa3	baa3	baa2
Total domestic bank assets (% of GDP)	76.8	141.1	69.4	--	--	--	93.1	178.6

[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 2021, of which about 40% were loans. We rate banks in Uruguay that held almost 80% of total assets as of 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.

The Uruguayan banking system's key strengths include: (1) good asset quality; (2) limited risk to the sovereign's balance sheet given the small size of the system; and (3) relatively high liquidity – around 85% of the system's funding mix consists of deposits, mostly short-term demand deposits. These strengths offset lingering concerns about the elevated level of financial dollarization, especially in terms of deposits. Foreign-currency-denominated deposits account for around 80% of the total, of which 72% are foreign-currency resident deposits.

External vulnerability risk: a

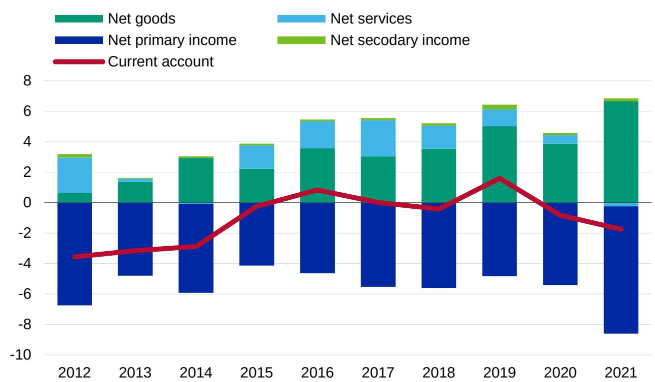
Exhibit 23

Peer comparison table factor 4d: External vulnerability risk	Uruguay Baa2/STA	a Median	Colombia Baa2/STA	Croatia Baa2/STA	Hungary Baa2/STA	Indonesia Baa2/STA	Mauritius Baa3/STA	Mexico Baa2/STA
Final score	a		a	a	a	a	a	a
Initial score	a		a	a	a	a	a	a
Current account balance (% of GDP)	-1.7	-1.2	-5.7	3.3	-3.1	0.3	-13.8	-0.4
Net IIP (% of GDP)[1]	-24.7	-39.2	-51.0	-32.5	-41.9	--	--	-40.6
External debt (% of current account receipts)	233.6	120.8	250.8	114.0	90.4	157.2	39.4	104.2
External vulnerability indicator (EVI)[2]	103.2	57.2	67.6	57.8	106.7	46.3	2.3	48.4

[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

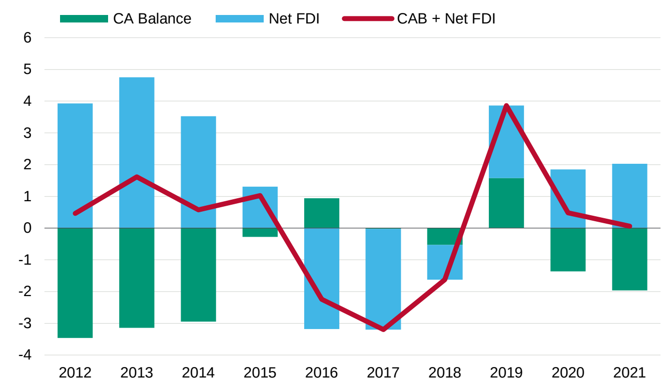
Uruguay's current account has been close to balance consistently since 2016 (see Exhibit 24). The goods surplus has expanded in recent years because imports fell as oil prices declined, economic growth slowed and lower investment – and FDI – led to a decrease in imports of capital goods. In 2021, Uruguay posted a small (1.7% of GDP) current account deficit, driven by a widening primary income deficit. An important 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 2020-21, 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 25).

Exhibit 24
Uruguay's current account has been close to balance consistently since 2016
(% of GDP)



Sources: BCU via Haver and Moody's Investors Service

Exhibit 25
Balances in the current account and FDI flows reversed as the economy cooled in 2016-19
% of GDP



Sources: BCU via Haver and Moody's Investors Service

ESG considerations

Uruguay's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 26
ESG Credit Impact Score

CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

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 27
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-2	G-2
Neutral-to-Low	Neutral-to-Low	Neutral-to-Low

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.

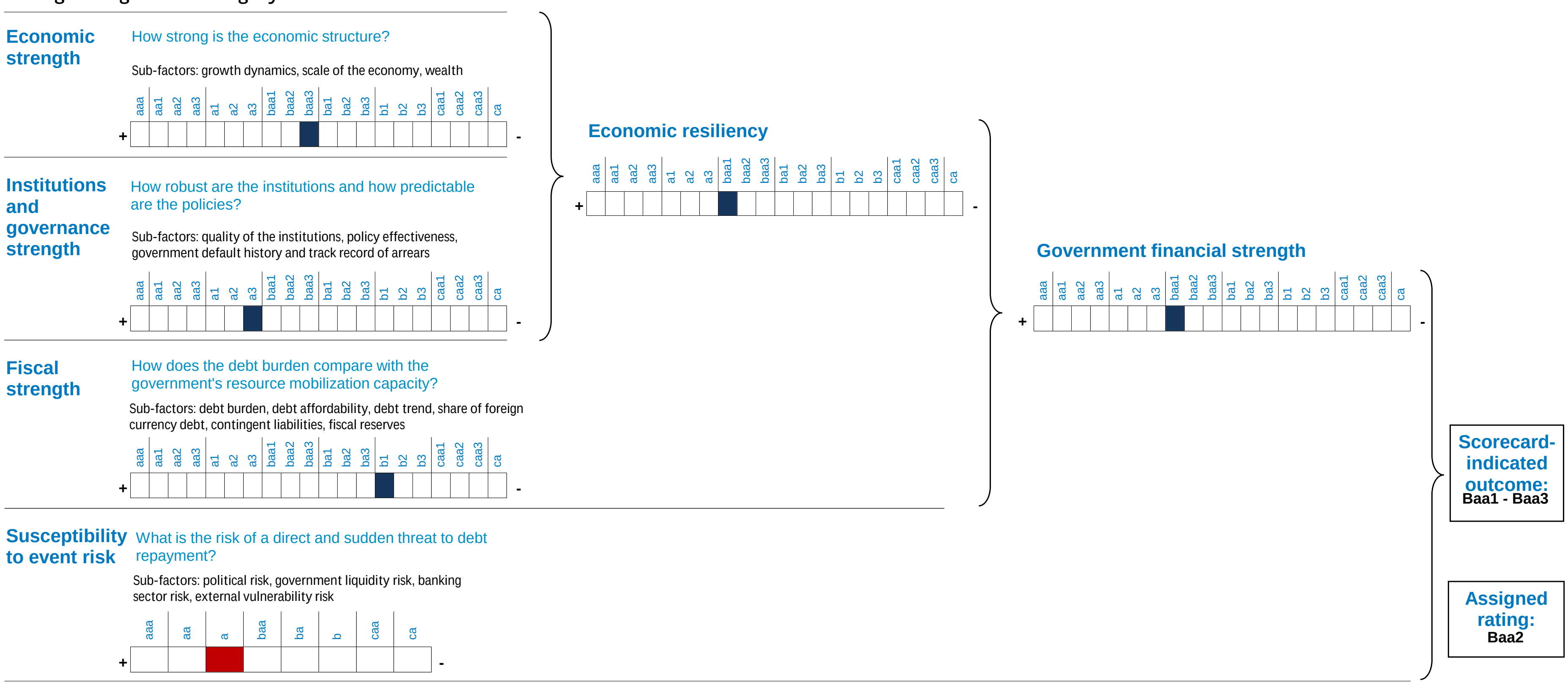
All of these considerations are further discussed in the "Credit profile" section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social 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 28

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 29

Uruguay's key peers

	Year	Uruguay	Colombia	Romania	Spain	Portugal	Bulgaria	Baa2 Median	Latin America and Caribbean Median
Rating/outlook		Baa2/STA	Baa2/STA	Baa3/STA	Baa1/STA	Baa2/STA	Baa1/STA	Baa2	Ba3
Scorecard-indicated outcome		Baa1 - Baa3	Baa1 - Baa3	Baa2 - Ba1	A2 - Baa1	A3 - Baa2	A3 - Baa2	Baa1 - Baa3	Ba2 - B1
Factor 1		**baa3**	**baa1**	**a3**	**a2**	**baa1**	**baa3**	**baa1**	**ba3**
Nominal GDP ($ bn)	2021	59.3	314.5	284.1	1425.2	249.9	80.0	190.8	39.7
GDP per capita (PPP, Intl$)	2021	24,233	16,387	33,715	41,839	36,844	25,914	28,387	15,464
Avg. real GDP (% change)	2017 - 2026F	1.7	3.1	3.2	1.3	2.0	2.2	3.1	1.7
Volatility in real GDP growth (ppts)	2012 - 2021	3.1	4.4	2.9	4.7	4.0	2.6	4.0	4.4
Factor 2		**a3**	**baa2**	**baa3**	**a2**	**aa3**	**baa1**	**baa2**	**ba2**
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	a	a	baa	ba
Monetary & macro policy effectiveness	Latest available	baa	a	baa	a	aa	a	a	ba
Gen. gov. fiscal balance (% of GDP)	2021 - 2023F	-3.7	-5.4	-6.2	-5.7	-1.9	-4.6	-3.7	-3.7
Average inflation (% change)	2017 - 2026F	7.4	4.2	3.6	2.4	1.4	3.3	3.5	4.0
Volatility of inflation (ppts)	2012 - 2021	1.0	1.6	1.9	1.3	0.9	1.8	1.3	1.6
Factor 3		**b1**	**b1**	**ba1**	**baa3**	**baa3**	**aa3**	**baa3**	**b1**
Gen. gov. debt (% of GDP)	2021	61.4	66.6	48.8	118.4	127.4	25.1	61.4	67.4
Gen. gov. debt (% of revenue)	2021	234.3	246.8	148.7	270.8	281.2	64.0	234.3	289.7
Gen. gov. interest payments (% of revenue)	2021	8.8	12.8	4.1	5.0	5.4	1.3	8.8	10.3
Gen. gov. interest payments (% of GDP)	2021	2.3	3.4	1.4	2.2	2.4	0.5	2.0	2.1
Factor 4		**a**	**baa**	**ba**	**baa**	**ba**	**ba**	**baa**	**ba**
Political risk	Latest available	**aa**	**baa**	**ba**	**baa**	**baa**	**baa**	**baa**	**baa**
Government liquidity risk	Latest available	**a**	**a**	**a**	**a**	**a**	**aa**	**a**	**baa**
Gross borrowing requirements (% of GDP)	2022F	6.4	9.1	11.0	18.3	18.9	1.5	10.1	7.5
Banking sector risk	Latest available	**a**	**a**	**a**	**baa**	**ba**	**ba**	**a**	**baa**
BSCE[1]	Latest available	baa3	ba1-ba2	ba1-ba2	baa2	ba1-ba2	ba3-b3	ba1-ba2	ba3-b3
Total domestic bank assets (% of GDP)	2021	76.8	69.4	58.7	249.2	207.6	--	93.1	82.1
External vulnerability risk	Latest available	**a**	**a**	**baa**	**a**	**a**	**a**	**a**	**baa**
Current account balance (% of GDP)	2021	-1.7	-5.7	-7.0	0.9	-1.1	-1.1	-1.4	-2.0
External vulnerability indicator (EVI)	2023F	103.2	67.6	149.8	--	--	49.4	57.8	56.9
External debt (% of current account receipts)	2021	233.6	250.8	117.0	448.3	358.3	98.1	141.2	150.6
Net international investment position (% of GDP)	2021	-24.7	-51.0	-43.5	-70.0	-95.9	--	-40.5	-38.6

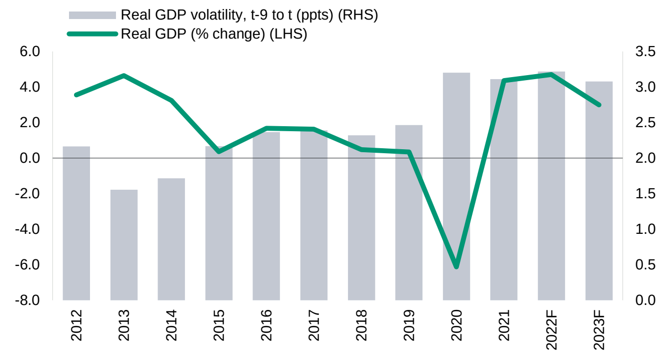
[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.

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

DATA, CHARTS AND REFERENCES

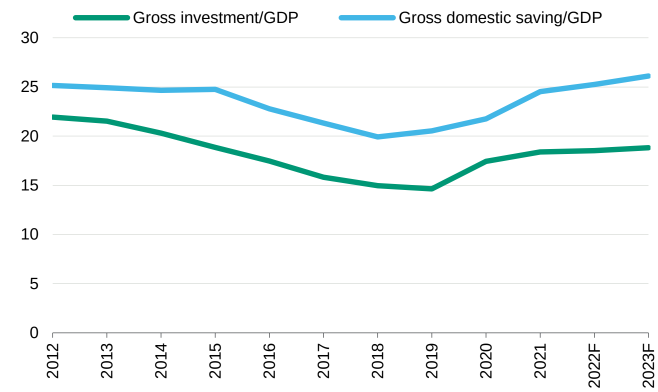
Chart pack: Uruguay

Exhibit 30
Economic growth



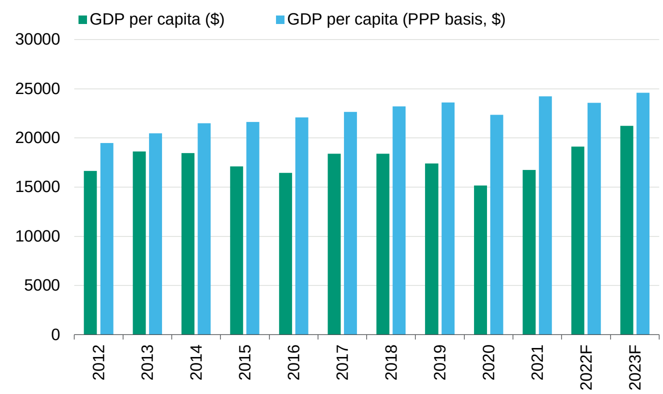
Source: Moody's Investors Service

Exhibit 31
Investment and saving



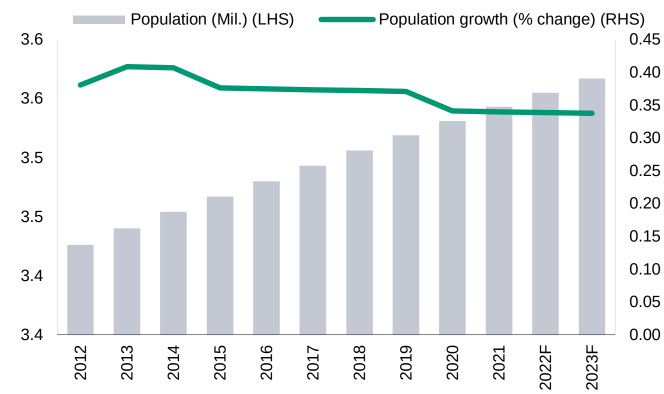
Source: Moody's Investors Service

Exhibit 32
National income



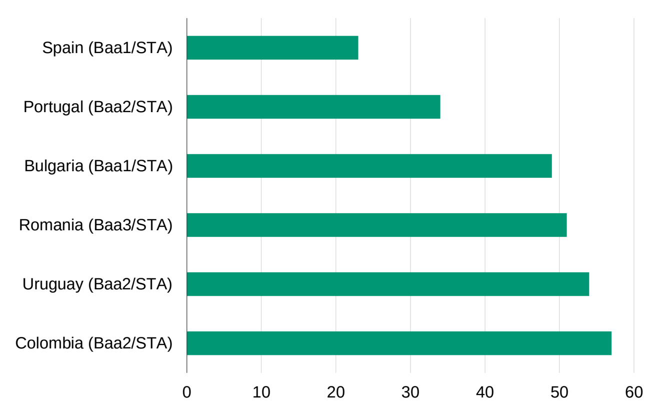
Source: Moody's Investors Service

Exhibit 33
Population



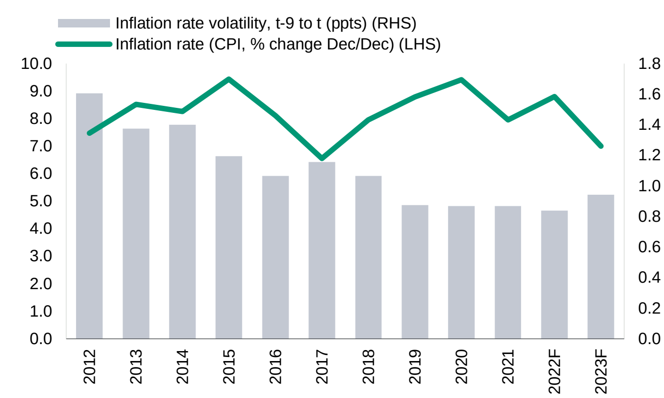
Source: Moody's Investors Service

Exhibit 34
Global Competitiveness Index
Rank 54 out of 141 countries



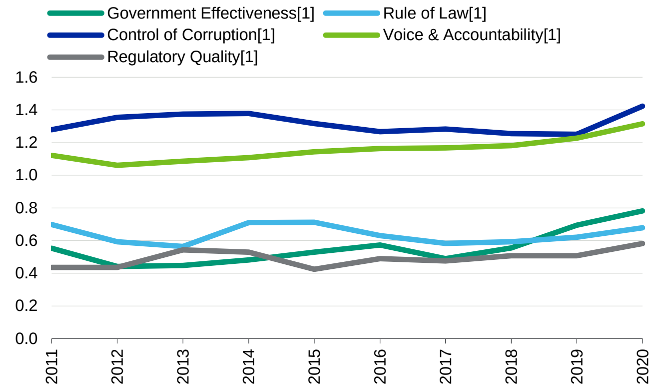
Source: World Economic Forum

Exhibit 35
Inflation and inflation volatility



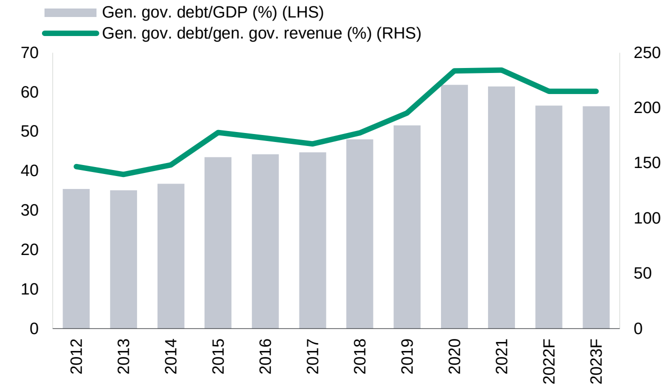
Source: Moody's Investors Service

Exhibit 36
Institutional framework and effectiveness



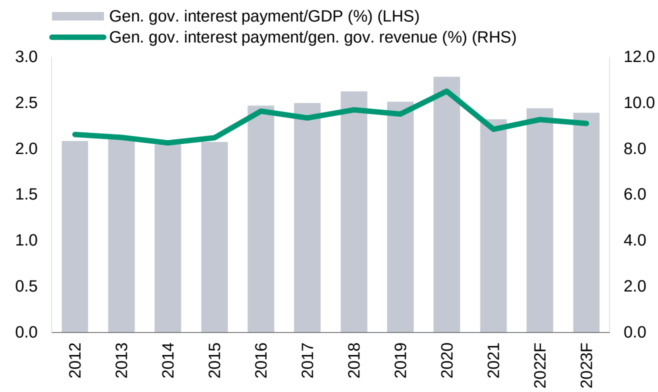
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 37
Debt burden



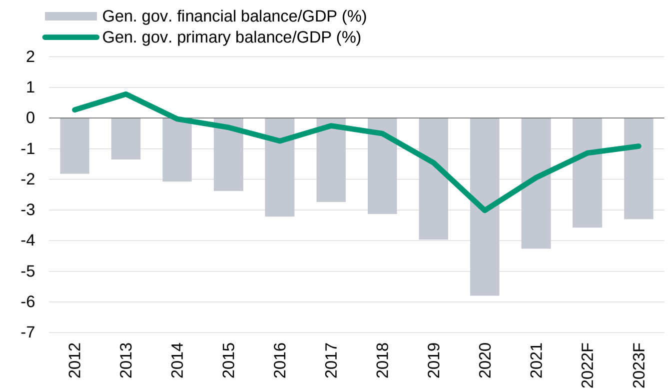
Source: Moody's Investors Service

Exhibit 38
Debt affordability



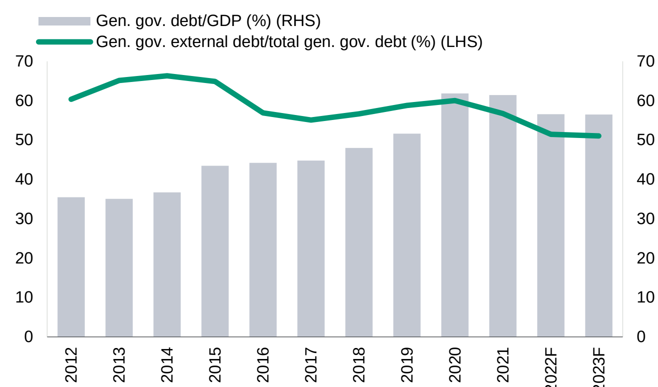
Source: Moody's Investors Service

Exhibit 39
Financial balance



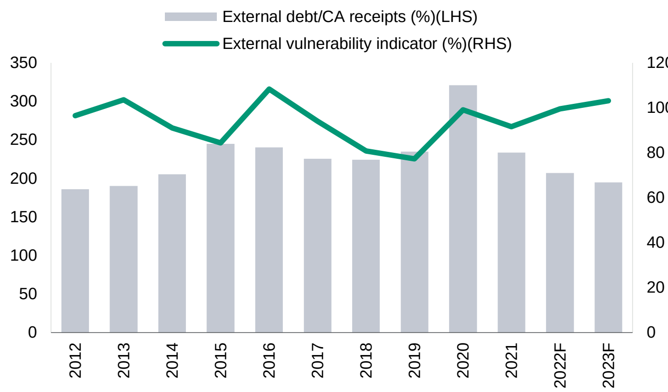
Source: Moody's Investors Service

Exhibit 40
Government liquidity risk



Source: Moody's Investors Service

Exhibit 41
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 42

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 43

	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022F	2023F
Economic structure and performance												
Nominal GDP (US$ bil.)	57.1	64.0	63.7	59.3	57.2	64.2	64.5	61.2	53.6	59.3	68.0	75.7
Population (Mil.)	3.4	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.6	3.6
GDP per capita (US$)	16,654	18,614	18,443	17,102	16,447	18,389	18,401	17,400	15,169	16,742	19,126	21,224
GDP per capita (PPP basis, US$)	19,489	20,475	21,492	21,614	22,093	22,637	23,204	23,617	22,362	24,233	--	--
Nominal GDP (% change, local currency)	12.4	13.2	12.9	9.4	6.5	6.7	7.6	8.9	4.2	14.8	14.1	11.1
Real GDP (% change)	3.5	4.6	3.2	0.4	1.7	1.6	0.5	0.4	-6.1	4.4	4.7	3.0
Inflation (CPI, % change Dec/Dec)	7.5	8.5	8.3	9.4	8.1	6.6	8.0	8.8	9.4	8.0	8.8	7.0
Gross investment/GDP	21.9	21.5	20.3	18.9	17.5	15.8	15.0	14.6	17.4	18.4	18.5	18.8
Gross domestic saving/GDP	25.2	24.9	24.6	24.7	22.8	21.3	19.9	20.5	21.8	24.5	25.3	26.1
Nominal exports of G & S (% change, US$ basis)	4.9	1.1	0.3	-11.1	-5.7	8.9	1.4	-0.2	-20.9	39.0	13.0	8.0
Nominal imports of G & S (% change, US$ basis)	16.1	1.5	-3.6	-16.7	-13.9	7.2	4.2	-3.2	-17.0	35.2	10.0	4.5
Openness of the economy[1]	62.8	56.7	56.0	51.8	48.6	46.8	47.8	49.6	45.8	56.8	55.3	52.9
Government Effectiveness[2]	0.4	0.4	0.5	0.5	0.6	0.5	0.6	0.7	0.8	--	--	--
Government finance												
Gen. gov. revenue/GDP[3]	24.2	25.1	24.8	24.4	25.6	26.7	27.1	26.4	26.5	26.2	26.3	26.3
Gen. gov. expenditures/GDP[4]	26.0	26.5	26.8	26.8	28.8	29.5	30.2	30.4	32.3	30.5	29.9	29.6
Gen. gov. financial balance/GDP[5]	-1.8	-1.4	-2.1	-2.4	-3.2	-2.7	-3.1	-4.0	-5.8	-4.3	-3.6	-3.3
Gen. gov. primary balance/GDP[5]	0.3	0.8	0.0	-0.3	-0.7	-0.2	-0.5	-1.5	-3.0	-1.9	-1.1	-0.9
Gen. gov. debt (US$ bil.)	21.2	21.5	22.3	23.6	26.1	28.7	29.4	29.8	32.9	35.5	39.7	41.5
Gen. gov. debt/GDP	35.5	35.1	36.7	43.5	44.2	44.8	48.0	51.6	61.9	61.4	56.6	56.5
Gen. gov. debt/gen. gov. revenue	146.8	139.7	148.2	177.8	172.6	167.5	177.5	195.4	233.5	234.3	215.0	214.9
Gen. gov. interest payments/gen. gov. revenue	8.6	8.5	8.3	8.5	9.6	9.3	9.7	9.5	10.5	8.8	9.3	9.1
Gen. gov. FC & FC-indexed debt/gen. gov. debt	44.7	45.6	48.2	54.8	54.7	49.2	53.8	56.1	54.5	52.7	49.0	48.6

Source: Moody's Investors Service

	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022F	2023F
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	19.4	21.4	24.3	29.9	29.3	28.8	32.4	37.3	42.3	44.7	42.0	44.5
Real eff. exchange rate (% change)	2.7	6.0	-3.9	0.7	0.9	6.0	1.5	-3.1	-4.7	-2.1	--	--
Current account balance (US$ bil.)	-2.0	-2.0	-1.8	-0.1	0.5	0.0	-0.3	1.0	-0.4	-1.0	-0.9	-1.0
Current account balance/GDP	-3.6	-3.1	-2.9	-0.2	0.8	0.0	-0.4	1.6	-0.8	-1.7	-1.4	-1.3
External debt (US$ bil.)	37.1	38.6	41.4	43.8	40.4	42.3	42.8	45.0	46.7	47.1	46.0	45.8
Public external debt/total external debt	44.9	46.8	45.4	42.5	43.5	43.0	43.7	44.0	46.4	48.4	44.4	46.2
Short-term external debt/total external debt	20.6	23.1	22.4	20.4	17.5	17.3	16.0	15.0	14.6	15.1	15.0	14.9
External debt/GDP	65.0	60.2	65.0	73.9	70.7	65.9	66.4	73.4	87.2	79.4	67.7	60.6
External debt/CA receipts[6]	185.9	190.4	205.5	245.0	240.3	225.5	224.2	234.9	320.9	233.6	206.9	194.8
Interest paid on external debt (US$ bil.)[7]	0.7	1.0	0.9	1.1	0.9	--	--	--	0.8	0.8	0.8	0.8
Amortization paid on external debt (US$ bil.)[7]	1.8	2.2	1.7	1.6	3.1	--	--	--	2.2	2.1	2.1	2.1
Net foreign direct investment/GDP	3.9	4.8	3.5	1.3	-3.2	-3.2	-1.1	2.3	1.9	2.0	2.0	1.8
Net international investment position/GDP	-31.2	-26.0	-28.2	-26.8	-28.2	-26.0	-23.7	-25.1	-30.9	-24.7	--	--
Official forex reserves (US$ bil.)	13.1	15.7	17.0	15.2	13.1	15.6	15.1	14.1	15.8	15.9	15.7	15.9
Net foreign assets of domestic banks (US$ bil.)	3.7	3.0	3.0	4.8	6.0	5.9	6.2	7.5	9.3	10.7	--	--
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	10.3	13.7	6.4	9.0	14.4	13.3	10.5	5.7	16.8	16.2	--	--
Monetary policy rate (% per annum, Dec 31)[8]	9.0	--	--	--	--	--	--	--	4.5	5.8	--	--
Domestic credit (% change Dec/Dec)	20.2	27.4	13.8	11.8	5.0	7.7	9.9	13.1	4.1	9.3	--	--
Domestic credit/GDP	28.2	31.8	32.0	32.7	32.2	32.5	33.2	34.5	34.5	32.8	--	--
M2/official forex reserves (X)	0.7	0.6	0.5	0.5	0.7	0.6	0.6	0.6	0.6	0.6	--	--
Total external debt/official forex reserves	284.0	245.3	243.1	289.2	309.9	272.0	282.8	319.3	295.9	296.0	293.2	288.3
Debt service ratio[9][7]	12.6	15.4	12.8	14.8	23.4	0.0	0.0	0.0	20.6	14.6	13.1	12.6
External vulnerability indicator (EVI)[10]	96.5	103.5	91.1	84.3	108.3	94.0	80.8	77.3	99.1	91.5	99.6	103.2
Liquidity ratio[11]	49.2	57.1	69.9	60.3	61.5	64.1	61.2	65.7	51.9	56.1	--	--
Total liabilities due BIS banks/total assets held in BIS banks	53.6	62.8	66.9	52.6	51.3	62.6	60.2	58.2	46.6	53.1	--	--
"Dollarization" ratio[12]	66.9	68.8	72.4	75.7	72.5	69.0	69.3	72.1	73.8	73.8	--	--
"Dollarization" vulnerability indicator[13]	65.4	64.9	67.5	71.4	79.1	72.6	73.6	76.0	74.6	79.0	--	--

[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] Includes interest payments made to the 'cincuentones' fund starting in 2018
[5] Excludes pension transfers related to the 'cincuentones' law starting in 2018; Includes interest payments made to the 'cincuentones' fund starting in 2018
[6] Current Account Receipts
[7] Public sector
[8] During 2013-19 Uruguay did not employ a monetary policy rate as its policy tool. It resumed the practice in 2020.
[9] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[10] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves
[11] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[12] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[13] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Moody's related publications

- **Credit Opinion:** Government of Uruguay - Baa2 stable: Regular update, 12 August 2022
- **Sector In-Depth:** Financial Stability – Latin America & Caribbean: Frequently asked questions on inflation and interest rate rises in Latin America, 18 July 2022
- **Sector In-Depth:** Sovereigns – Global: Russia-Ukraine crisis dents but does not derail global economic recovery; impact on emerging markets most acute, 12 May 2022
- **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

Endnotes

1 For more detail, see the IMF's **Selected Issues report on Uruguay** from January 2022

2 Over 2020-22, UPM itself will invest around $3 billion in the plant and infrastructure in the port of Montevideo (about 5% of 2021 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.

3 If all the projects presented to COMAP and the Large Dimension and Social Interest Housing projects are considered, the total amount of projects presented exceeds $3.8 billion.

4 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; adjustments to the level and differentiation of the rates levied on interest generated by bank deposits and market securities; and encouragement to the participation of public enterprises in the exchange rate derivatives markets.

5 The first pillar also makes adjustments to the structural balance caused by extraordinary spending items.

6 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.

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

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