R&I

NEWS RELEASE

Oct 21, 2022

R&I Upgrades to BBB+, Stable: Oriental Republic of Uruguay

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Oriental Republic of Uruguay

Foreign Currency Issuer Rating: BBB+, Previously BBB
Rating Outlook: Stable

RATIONALE:

Uruguay is a high-income country which stands out among South American countries in terms of institutional and political stability. Although the current account deficit has increased to a certain degree, it has been covered by the influx of capital, especially through foreign direct investments including foreign companies' large-size investment that has set the tone of economic invigoration. R&I has upgraded the Foreign Currency Issuer Rating to BBB+, based on the recognition of higher likelihood that the structural reforms which the current administration has been working on in various areas will lift up economic growth while the stability of financial system is maintained. Eyes are on whether the government is able to keep up the reform momentum which aims at speeding up economic growth and at further enhancing fiscal sustainability over the medium-term.

Uruguay's political and social stability is among the highest in South America. More than 90% of domestic power generation come from renewable energy, and the government is placing strategic emphasis on the policies to reduce the environmental load, such as reviewing the tax system and the development of green hydrogen energy, both aimed at curbing greenhouse gas emissions. As a country with strengths centered on natural resources such as tourism, agribusiness and forestry, the growing global awareness about the necessity to reduce environmental impact is a tailwind for Uruguay. UPM-Kymmene Corp., a major Finnish paper manufacturer, is constructing its second pulp mill in Uruguay, accompanied by public investments in the construction projects of related infrastructure such as railways and port facilities, which are in progress. Investment from the private sector has been increasing steadily in response to the expanded preferential treatment. These moves will help Uruguay's economic growth on a medium term basis.

The country's trade surplus has increased thanks to the rising prices of major exported goods such as soybean and meat. Meanwhile, exports of services such as tourism have decreased significantly under the COVID-19 pandemic and the payment of investment return is increasing against the backdrop of the economic recovery. The current account balance, which had been mostly in equilibrium until 2019, will likely remain in deficit going forward. However, there is no particular concern about liquidity, in light of the steady trend of foreign direct investment and the foreign exchange reserve standing at a sufficient level to cover short term external debt and import.

For a small-size economy like Uruguay, which is sensitive to changes in the external environment, to secure the stability of economy, it is important to maintain a sound fiscal condition. The current administration of Uruguay counts fiscal consolidation among the highest priorities, in order to deal with the fiscal deficit that has widened since 2012. It introduced new fiscal rules and has been working on the measures to curb expenditure, a key issue left untouched by the predecessor. The negative impact of the COVID-19 pandemic on the fiscal condition has been smaller than expected. The outlook for the structural fiscal balance, an indicator of fiscal condition after adjustment of cyclical factors etc., suggests that the government is aiming for a gradual reduction in the deficit after a large improvement in 2021, indicating its intention to strike a balance with economic growth. Eyes are on the effect of structural measures to rein in the government expenditure including the progress of public pension reform, on which the expert committee set up by the government submitted a comprehensive proposal.

According to the estimate of International Monetary Fund, the general government debt is relatively large and projected to reach 61.2% of gross domestic product (GDP) by the end of 2022. However, the

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net debt outstanding exclusive of the accumulated short-term borrowings to cover the debt repayment scheduled in the next 12-month period stands at 51.0% of GDP. The actual fiscal risk is mitigated, in light of the credit lines provided by other multilateral development banks, in addition to the above-mentioned factor.

Curbing the persistently high inflation rate, which is regularly in the upper single-digit range, is an important policy issue. Having once declined for the first time in three years within the central bank's target range due partly to the demand crunch under the COVID-19 pandemic, the inflation rate has rebounded to a level above the target range engulfed by the global inflationary trend and has stayed there ever since. While the central bank has been continuing to raise the policy interest rate, monetary policy alone is not sufficient to keep the lid on inflation. The government is required to continue to tackle this issue with patience, while striving to reduce the fiscal deficit and to rein in the rate of wage growth simultaneously.

The primary rating methodology applied to this rating is provided at "R&I's Analytical Approach to Sovereigns". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.
https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER:	**Oriental Republic of Uruguay**
	Foreign Currency Issuer Rating
RATING:	**BBB+, Previously BBB**
RATING OUTLOOK:	**Stable**

Japanese Yen Bonds No.4	**Issue Date**	**Maturity Date**	**Issue Amount (mn)**
	Dec 09, 2021	Dec 09, 2024	JPY 37,200
RATING:	**BBB+, Previously BBB**		
Japanese Yen Bonds No.5	**Issue Date**	**Maturity Date**	**Issue Amount (mn)**
	Dec 09, 2021	Dec 09, 2026	JPY 400
RATING:	**BBB+, Previously BBB**		
Japanese Yen Bonds No.6	**Issue Date**	**Maturity Date**	**Issue Amount (mn)**
	Dec 09, 2021	Dec 08, 2028	JPY 600
RATING:	**BBB+, Previously BBB**		
Japanese Yen Bonds No.7	**Issue Date**	**Maturity Date**	**Issue Amount (mn)**
	Dec 09, 2021	Dec 09, 2031	JPY 400
RATING:	**BBB+, Previously BBB**		

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Japanese Yen Bonds No.8	Issue Date	Maturity Date	Issue Amount (mn)
	Dec 09, 2021	Dec 09, 2036	JPY 11,400

RATING: **BBB+, Previously BBB**

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