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# DBRS Morningstar Upgrades Uruguay to BBB, Trend Changed to Stable

**Industry Group:** Public Finance – Sovereigns
**Region:** Americas

DBRS, Inc. (DBRS Morningstar) upgraded the Oriental Republic of Uruguay's Long-Term Foreign and Local Currency – Issuer Ratings to BBB. At the same time, DBRS Morningstar upgraded the Oriental Republic of Uruguay's Short-Term Foreign and Local Currency – Issuer Ratings to R-2 (high). The trend on all ratings has been changed from Positive to Stable.

## KEY RATING CONSIDERATIONS

The upgrade to BBB reflects DBRS Morningstar's assessment that Uruguay's fiscal outlook has materially improved due to fiscal consolidation efforts and institutional improvements to the budgetary framework. The headline central government deficit (excluding the 'cincuentones' pension transfers) narrowed from 5.8% of GDP in 2020 to 4.3% in 2021, and is expected to decline to 3.1% in 2022. The government forecasts the deficit to narrow to 2.1% of GDP in 2026, which should be sufficient to stabilize government debt ratios. An overhaul of the fiscal framework enhances the credibility of the fiscal plan. In addition, a proposed pension reform, which the government presented to Congress in October, could help alleviate medium-term spending pressures related to an ageing population. These factors, which underpin the rating upgrade, are reflected in the Fiscal Management and Policy building block.

The Uruguayan economy experienced strong and broad-based growth in the first half of 2022. Investment increased sharply, in part due to the construction of a large pulp mill in central Uruguay, and consumption continued to recover from the pandemic, particularly services. At the same time, the export sector benefited from high prices and robust global demand for agricultural commodities. Labor markets have tightened considerably but do not appear to be overheating. High frequency indicators point to slowing but still solid momentum going into the second half of the year and into next year. The IMF projects GDP growth of 5.3% in 2022 and 3.6% in 2023.

The BBB ratings balance Uruguay's predictable macroeconomic policymaking and strong governing institutions with the country's modest level of productivity, partially dollarized financial system, and limited financial depth. The Stable trend reflects our view that risks to the BBB ratings are broadly balanced. The global environment is becoming less favorable, with slowing external demand and tightening financial conditions. Risks stemming from global and regional volatility are elevated. However, ample foreign exchange reserves, conservative public debt management, and sound regulation of the banking system bolster the economy's defenses to potential shocks.

## RATING DRIVERS

The ratings could be upgraded if one or a combination of the following factors occurs: (1) continued fiscal consolidation, which places the public debt ratio on a firm downward trajectory over the medium term and provides greater fiscal space; or (2) increased levels of investment boost medium-term growth prospects.

The ratings could be downgraded if (1) there is a sustained reversal in the fiscal trajectory, or (2) external buffers erode over time, thereby weakening Uruguay's resilience to adverse shocks.

**RATING RATIONALE**

The Government Has Made Substantial Progress In Its Multi-Year Fiscal Consolidation Plan

The headline central government deficit (excluding the 'cincuentones' pension transfers) narrowed from 5.8% of GDP in 2020 to 4.3% in 2021, and is expected to decline to 3.1% in 2022, which is nearly 1 percentage point better than in 2019. The consolidation has been expenditure-based, primarily by limiting public sector wage growth and controlling discretionary spending. The government expects the deficit to gradually decline over the next few years, reaching 2.1% of GDP by 2026. In our view, institutional improvements to the budgetary framework enhance the credibility of the fiscal plan. In particular, the structural fiscal balance rule and the real primary expenditure cap should foster counter-cyclicality and sustainability over the medium term.

The government's efforts to reform the pension system and alleviate pressures of an aging population on the fiscal accounts is another positive development. Pension spending amounts to approximately 10% of GDP. Without reform, pensions are projected to increase to around 13% of GDP over the long term. In October 2022, the Lacalle Pou administration sent Congress a draft pension reform bill. The bill includes an increase in the retirement age and links the retirement age to life expectancy, a harmonization of different pension regimes, and increases flexibility workers to work past the statutory retirement age. If the proposed reform passes, pension spending as a share of GDP should stabilize over the medium term, thereby reducing the impact of demographic pressures on the fiscal accounts.

Notwithstanding the markedly improved fiscal results and outlook, we believe that the government may fall slightly short of the expected deficit trajectory. Spending pressures could increase, particularly as the government is committed to restoring public sector wages to pre-pandemic levels in real terms by 2024 and as public investment may need to increase given it is currently running at low levels. This view, combined with the statistical effect of the 'cincuentones' transfers, accounts for the one-notch adjustment to the Fiscal Management and Policy building block assessment.

Post-Pandemic Growth Outlook Is Solid But Strengthening Global Headwinds Pose Downside Risks

Prior to the pandemic, the Uruguayan economy was growing at a slow pace. GDP growth averaged just 0.9% from 2015 to 2019. This followed a decade (2005-2014) of rapid growth when the economy expanded 5.3% per year. The slowdown was partly due to lower commodity prices and deep recessions in neighboring Brazil and Argentina, but weak underlying domestic dynamics were also contributing factors. The two most salient features during this period of weak economic growth were declining investment and rising unemployment.

However, growth prospects look better in the post-pandemic period. Investment has increased, especially with the construction of a large new pulp mill in central Uruguay by Finnish firm UPM along with various railway and port facility projects. Operations at the new pulp mill are expected to begin in the first quarter of 2023. The labor market appears to have recovered without any clear signs of scarring. The employment rate has fully recovered and the unemployment rate is running below the pre-pandemic level. In addition, micro-reforms that promote greater efficiency in the domestic market (i.e. reforms to state-owned utilities) and that foster greater integration in global markets (i.e. potential trade agreements) could have a positive impact on productivity and investment over time. From 2024 to 2027 (which are the outer years of the projections), the IMF projects average GDP growth of 2.4%.

Volatility in the external environment poses risks to the outlook. The small and open nature of the Uruguayan economy leaves it exposed to shifts in global commodity prices and the economic cycles of its large neighbors. Macroeconomic volatility in Argentina or Brazil could negatively affect Uruguay through the trade channel, specifically weaker demand for goods exports and tourism services. Outside of the region, a sharper-than-expected deceleration in China could affect Uruguay's outlook directly through the terms of trade channel, as well as indirectly through weaker demand from Uruguay's commodity-exporting neighbors. Although Uruguay is vulnerable to regional and global shocks, the economy's shock absorption capacity is supported by its sound macroeconomic policies, large liquidity buffers, well-regulated financial system, and increasingly diversified economic structure. Uruguay has recently demonstrated its resilience to shocks, including the impacts of the COVID-19 pandemic, the Russian invasion of Ukraine, and rapid increase in global interest rates. This resilience accounts for the uplift in the Economic Structure and Performance building block assessment.

Prudent Debt Management And Large Liquidity Buffers Safeguard Against External Shocks

The government debt-to-GDP ratio is expected to stabilize in the medium term as fiscal consolidation efforts advance and the economy grows at a moderate pace. According to the IMF, non-financial public sector debt increased from 61% of GDP in 2019 to 68% in 2020, due to the large pandemic-related fiscal deficit and economic recession. Since then, however, the ratio has declined sharply, reaching an estimated 61% in 2022. The debt trajectory is projected to increase slightly over the next few years but peak at 65% in 2026. Although the projected debt ratio in 2026 is higher than prior to the pandemic, it is nearly 6 percentage points lower than expected one year ago. The currency composition presents some risk, as close to half of central government debt is denominated in foreign currency, thereby leaving public finances vulnerable to exchange rate shocks. To incorporate this risk, a negative adjustment is applied to the Debt and Liquidity building block assessment.

Conservative public debt management supports Uruguay's credit profile. Rollover and liquidity risks are minimal. Liquid assets held by the central government combined with contingent credit lines from multilateral organizations largely cover all debt servicing needs for 2023. Exposure to interest rate risk is also limited due to the long average maturity of government debt (13 years) and the high share of debt that carry fixed rates (95%).

Sound external accounts and sizable reserves also bolster the economy's defenses. The current account shifted from a surplus of 1.6% of GDP in December 2019 (rolling 4 quarters) to a deficit of 2.4% in June 2021. The shift was due to the sharp decline in tourism service exports, the increase in imports related to construction of the new pulp mill, and an increase in primary income outflows. However, the current account deficit narrowed to 1.5% of GDP in June 2022 on the back of sharply higher goods exports and a partial recovery in tourism receipts. The deficit is fully funded by net inflows of foreign direct investment, and exchange rate flexibility should help the economy adjust to evolving global conditions. In addition, reserves are high at USD 16.5 billion (26% of GDP) and provide the central bank with substantial foreign exchange liquidity in the event of turbulence in global financial markets.

The Central Bank Is Steadily Tightening Monetary Policy In Response To Rising Inflation

Inflation in Uruguay increased on the back of higher global food and energy prices but remains in the high single digits on a year-over-year basis. Headline CPI was 9.1% in October 2022, down from the peak of 9.9% in September. Although inflation is elevated, the increase relative to one year ago (inflation was 7.9% in October 2021) is modest compared to other economies in the region. The relatively tempered increase is largely due to the high share of renewably-sourced electricity production in Uruguay and the appreciation of the Uruguayan peso relative to the country's main trading partners, thereby reducing imported inflation.

To address high inflation and better anchor expectations, the central bank has increased the policy rate cumulatively by 675 bps since starting the tightening cycle in August 2021. This took the policy rate to 11.25% in November 2022. In our view, this places monetary policy in a moderately contractionary stance. The challenge of anchoring expectations for the central bank is complicated by the weak transmission of monetary policy amid high financial dollarization and low financial intermediation. Although twelve-month inflation expectations have declined modestly over the last six months, they remain above the 6% upper limit of the central bank's target range.

The banking system has weathered the COVID-19 shock and the global interest rate shock relatively well. The banking system is profitable, highly liquid, and well-capitalized. Risks to the banking system stemming from events in Argentina are also contained, with non-resident deposits accounting for less than 10% of total bank deposits and only 3% of loans directed to non-residents. A positive adjustment was made to the Monetary Policy and Financial Stability building block assessment to reflect our view that financial stability risks are limited.

Uruguay's Strong Institutional Quality And Stable Politics Facilitate The Government's Policy Agenda

Uruguay's political environment is a key credit strength. Uruguay is a stable liberal democracy with an effective government and low levels of corruption. The country scores highly across a range of international governance measures. A centrist electorate facilitates political moderation and pragmatic policymaking. The basic pillars of macroeconomic policy are broadly supported across the political spectrum. The predictability of the policy framework through the electoral cycle fosters a favorable environment for economic growth.

The current government is well-placed to carry out their policy agenda given that the National Party and its coalition partners hold a majority in both houses of Congress. The next general election is scheduled for late October 2024. The government has had success in advancing its agenda. A referendum held in March 2022 fell short of the votes needed to repeal 135 articles of the government's Urgent Consideration Law, indicating a majority of the public supported for the government's agenda. The administration is turning to pension reform and education reform in the latter half of their term. A draft pension reform was presented to Congress in October 2022. In DBRS Morningstar's view, the reform is likely to pass, although the final version of the law may differ from the one proposed as negotiations proceed.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS
Environmental (E) Factors
The Climate and Weather Risks environmental factor is relevant the ratings assigned to Uruguay. Uruguay faces occasional droughts which impact agriculture output and electricity generation. This factor has been taken into account in the Economic Structure and Performance building block.

Social (S) Factors
The Human Rights and Human Capital social factor affects the rating assigned to Uruguay. Uruguay's per capita GDP is relatively low at USD 20,017 in 2022, reflecting a low level of labor productivity. This factor has been taken into account in the Economic Structure and Performance building block.

There were no Governance factors that had a significant or relevant effect on the credit analysis.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings. (May 17, 2022)

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

Notes:
All figures are in USD unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments, https://www.dbrsmorningstar.com/research/401817/global-methodology-for-rating-sovereign-governments (August 29, 2022). In addition, DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings, https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (May 17, 2022) in its consideration of ESG factors.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are monitored.

The primary sources of information used for this rating include Ministerio de Economía y Finanzas, Banco Central del Uruguay, Instituto Nacional de Estadística, Superintendencia de Servicios Financieros, the IMF, the World Bank, Bank for International Settlements, and Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating was of satisfactory quality.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar did not have access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

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| Issuer | Debt Rated | Rating Action | Rating | Trend |
|---|---|---|---|---|
| Uruguay, Oriental Republic of | Long-Term Foreign Currency - Issuer Rating | Trend Change | BBB (low) | Stable |
| Uruguay, Oriental Republic of | Long-Term Foreign Currency - Issuer Rating | Upgrade | BBB | Stable |
| Uruguay, Oriental Republic of | Long-Term Local Currency - Issuer Rating | Trend Change | BBB (low) | Stable |
| Uruguay, Oriental Republic of | Long-Term Local Currency - Issuer Rating | Upgrade | BBB | Stable |
| Uruguay, Oriental Republic of | Short-Term Foreign Currency - Issuer Rating | Trend Change | R-2 (middle) | Stable |
| Uruguay, Oriental Republic of | Short-Term Foreign Currency - Issuer Rating | Upgrade | R-2 (high) | Stable |
| Uruguay, Oriental Republic of | Short-Term Local Currency - Issuer Rating | Trend Change | R-2 (middle) | Stable |
| Uruguay, Oriental Republic of | Short-Term Local Currency - Issuer Rating | Upgrade | R-2 (high) | Stable |

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# Uruguay

Scorecard Indicators

| Scorecard Indicators | | | | | | | | | | Source | Current Scorecard Input | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fiscal Management and Policy** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | | | |
| Overall Fiscal Balance (% of GDP)* | -2.7% | -2.5% | -1.9% | -2.8% | -4.7% | -2.7% | -2.9% | -2.0% | -2.3% | IMF WEO | 13 year average | -2.5% |
| Government Effectiveness (Percentile Rank) | 71.2 | 67.8 | 69.7 | 74.0 | 76.0 | 76.0 | - | - | - | World Bank | 5 year average | 72.7 |
| **Debt and Liquidity** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | | | |
| General Government Gross Debt (% of GDP) | 55.8% | 56.7% | 58.3% | 61.0% | 68.3% | 65.1% | 61.2% | 62.6% | 63.9% | IMF WEO | 5 year projection | 64.9% |
| Interest Costs (% of GDP) | 2.4% | 2.4% | 2.4% | 2.3% | 2.6% | 2.0% | 2.2% | 2.1% | 2.1% | IMF WEO | 5 year average | 2.2% |
| **Economic Structure and Performance** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | | | |
| GDP per Capita (USD thousands) | 16.5 | 18.4 | 18.3 | 17.3 | 15.2 | 16.7 | 20.0 | 20.5 | 20.9 | IMF WEO | 10 year average | 17.1 |
| Output Volatility (%) | 3.9% | 4.2% | 4.2% | 4.2% | 4.1% | 3.8% | 3.0% | 3.0% | 3.0% | IMF WEO | Latest | 3.8% |
| Economic Size (USD billions) | 57 | 64 | 64 | 61 | 54 | 59 | 71 | 73 | 75 | IMF WEO | 5 year average | 61 |
| **Monetary Policy and Financial Stability** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | | | |
| Rate of Inflation (%, EOP) | 8.1% | 6.6% | 8.0% | 8.8% | 9.4% | 8.0% | 8.9% | 7.2% | 5.8% | IMF WEO | 13 year average | 8.0% |
| Main topics discussed in the Rating Committee include: | 11% | 12% | 12% | 12% | 14% | 14% | - | - | - | BCU/IMF | Latest[1] | 14% |
| Change in Domestic Credit (% of GDP) | -1.1% | -0.6% | 1.2% | 1.7% | 0.7% | -0.3% | - | - | - | BIS/IMF | 7 year average[1] | 0.4% |
| Net Non-Performing Loans (% of Capital) | 6.5% | 5.4% | 5.6% | -2.3% | -1.8% | 3.0% | - | - | - | IMF IFS | Latest[1] | 3.0% |
| Change in Property Price/GDP Index (%) | - | - | 10.6% | 5.0% | -4.5% | 16.5% | - | - | - | INE/IMF | 7 year average[1] | 6.9% |
| **Balance of Payments** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | | | |
| Current Account Balance (% of GDP) | 0.8% | 0.0% | -0.4% | 1.6% | -0.8% | -1.8% | -1.2% | -1.9% | -2.0% | IMF WEO | 8 year average | -0.8% |
| International Investment Position (% of GDP) | -27.3% | -26.1% | -24.1% | -25.6% | -29.9% | -25.4% | - | - | - | IMF | 5 year average[1] | -26.2% |
| Share of Global Foreign Exchange Turnover (Ratio) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | - | - | - | BIS/IMF | Latest | 0.0% |
| Exchange Rate Classification (see footnote) | 3 | 3 | 3 | 3 | 3 | 3 | - | - | - | IMF | Latest | 3 |
| **Political Environment** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | | | |
| Voice and Accountability (Percentile Rank) | 86.7 | 86.7 | 88.4 | 88.9 | 93.7 | 92.3 | - | - | - | World Bank | 5 year average | 90.0 |
| Rule of Law (Percentile Rank) | 73.6 | 71.2 | 72.6 | 74.5 | 73.6 | 76.0 | - | - | - | World Bank | 5 year average | 73.6 |

*See DBRS Morningstar's Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.*

*[1] Scores for 2021 have been computed using the most recent data when year-end data is not available. *Refers to non-financial public sector.*

Rating Committee Date: 18-Nov-2022

# Uruguay

Building Block Assessments and Rating Committee Summary

MORNINGSTAR | DBRS

18-Nov-2022

| Building Blocks | Scorecard Result | Quantitative Assessment | Net Impact of Qualitative Factors | Building Block Assessment |
|---|---|---|---|---|
| Fiscal Management and Policy | 14.81 | Good | - 1 Category | Good/Moderate |
| Debt and Liquidity | 12.05 | Good/Moderate | - 1 Category | Moderate |
| Economic Structure and Performance | 4.98 | Weak/Poor | + 1 Category | Poor |
| Monetary Policy and Financial Stability | 9.54 | Moderate | + 1 Category | Good/Moderate |
| Balance of Payments | 12.38 | Good/Moderate | N/A | Good/Moderate |
| Political Environment | 18.09 | Strong | N/A | Strong |

| Overall Assessment | Composite Scorecard Result | Scorecard Rating Range | Composite Building Block Assessment | Indicative Rating Range |
|---|---|---|---|---|
| | 59.9 | A (low) - BBB | 59.9 | A (low) - BBB |

**Uruguay's Long-Term Foreign Currency - Issuer Rating** BBB

Main topics discussed in the Rating Committee include: the durability of fiscal consolidation and the outlook for pension reform, growth prospects, and external risks. For additional details on DBRS Morningstar analysis and opinions, please see the accompanying rating report.

**DBRS Morningstar Scorecard: Scoring Ranges and Associated Assessment Categories**

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Lower Bound | 0.00 | 1.00 | 3.00 | 5.00 | 7.00 | 9.00 | 11.00 | 13.00 | 15.00 | 17.00 | 19.00 |
| Upper Bound | 0.99 | 2.99 | 4.99 | 6.99 | 8.99 | 10.99 | 12.99 | 14.99 | 16.99 | 18.99 | 20.00 |
| Assessment Category | Very Weak | Weak | Weak/ Poor | Poor | Poor/ Moderate | Moderate | Good/ Moderate | Good | Strong/ Good | Strong | Very Strong |

## Oriental Republic of Uruguay

### ESG Checklist

| ESG Factor | ESG Credit Consideration Applicable to the Credit Analysis: | Y/N | Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)* |
|---|---|---|---|
| **Environmental** | **Overall:** | **Y** | **R** |
| **Emissions, Effluents, and Waste** | Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk? | N | N |
| **Carbon and GHG Costs** | Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk? | N | N |
| | Will recent regulatory changes have an impact on economic resilience or public finances? | N | N |
| | **Carbon and GHG Costs:** | **N** | **N** |
| **Resource and Energy Management** | Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive? | N | N |
| | Is the economy reliant on industries that are vulnerable to import or export price shocks? | N | N |
| | **Resource and Energy Management:** | **N** | **N** |
| **Land Impact and Biodiversity** | Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities? | N | N |
| **Climate and Weather Risks** | Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy? | Y | R |
| **Passed-through Environmental credit considerations** | Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)? | N | N |
| **Social** | **Overall:** | **Y** | **S** |
| **Human Capital and Human Rights** | Compared with regional or global peers, is the domestic labour force more or less competitive, flexible, and productive? | Y | S |
| | Are labour or social conflicts a key source of economic volatility? | N | N |
| | Are individual and human rights insufficiently respected or failing to meet the population's expectations? | N | N |
| | Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights? | N | N |
| | **Human Capital and Human Rights:** | **Y** | **S** |
| **Access to Basic Services** | Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy? | N | N |
| **Passed-through Social credit considerations** | Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)? | N | N |
| **Governance** | **Overall:** | **N** | **N** |
| **Bribery, Corruption, and Political Risks** | Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges? | N | N |
| **Institutional Strength, Governance, and Transparency** | Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness? | N | N |
| | Are regulatory and oversight bodies insufficiently protected from inappropriate political influence? | N | N |
| | Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct? | N | N |
| | **Institutional Strength, Governance, and Transparency:** | **N** | **N** |
| **Peace and Security** | Is the government likely to initiate or respond to hostilities with neighboring governments? | N | N |
| | Is the government's authority over certain regions contested by domestic or foreign militias? | N | N |
| | Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government? | N | N |
| | **Peace and Security:** | **N** | **N** |
| **Passed-through Governance credit considerations** | Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)? | N | N |
| | **Consolidated ESG Criteria Output:** | **Y** | **S** |

* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

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## Oriental Republic of Uruguay: ESG Considerations

November 22, 2022

**Environmental**

The Climate and Weather Risks environmental factor is relevant the ratings assigned. This primarily relates to weather-related risks that Uruguay faces in the form of occasional droughts which can impact agriculture output and electricity generation. With regards to climate policy, Uruguay expects to be a net carbon sink by 2030 through the expansion of tree plantations. Uruguay has also set targets to reduce the emissions intensity of the cattle industry. More than 90% of the electricity generated within the country comes from renewable sources such as wind, solar, hydropower, and biomass. Additionally, efforts are underway to transition to electric vehicles and to become a green hydrogen producer. In DBRS Morningstar's view, the fiscal, regulatory, and enforcement measures required to achieve the country's climate goals are unlikely to impact sovereign credit quality. In October 2022, the government issued a new sovereign sustainability-linked bond issuance, which includes coupon step-downs(step-ups) for meeting(missing) certain environmental sustainability metrics.

**Social**

The Human Rights and Human Capital social factor affects the rating assigned to Uruguay. Uruguay's per capita GDP is relatively low at USD 20,017 in 2022, reflecting a low level of labor productivity. The Access to Basic Services factor does not affect the ratings. Uruguay has a robust social welfare system and the government provides for relatively high-quality healthcare, education, and social assistance.

**Governance**

No governance factors affect the ratings assigned to Uruguay. Uruguay has independent and transparent governing institutions, which provide a stable environment for investment relative to regional peers. Uruguay scores above the 70$^{th}$ percentile rank in all of the Worldwide Governance Indicators, and is a particularly strong performer in the Control of Corruption indicator (ranking in the 89$^{th}$ percentile) and in the Voice and Accountability indicator (ranking in the 93$^{rd}$ percentile).