

FITCH REVISES URUGUAY'S RATING OUTLOOK TO POSITIVE; AFFIRMS 'BB+' FC IDR

Fitch Ratings-New York-24 April 2012: Fitch Ratings has revised the Rating Outlook on Uruguay's Foreign and Local Currency Issuer Default Ratings (IDRs) to Positive from Stable. In addition, Fitch affirms the following ratings:

- Foreign Currency IDR at 'BB+';
- Local Currency IDR at 'BBB-';
- Short-term IDR at 'B';
- Country Ceiling at 'BBB'.

The Rating Outlook is Positive.

The Outlook revision reflects Uruguay's continued reduction in external and fiscal vulnerabilities underpinned by its strengthening international liquidity position and improved currency composition of government debt. Uruguay's sustained growth momentum and on-going diversification of the economy buttressed by robust foreign direct investment flows also support this rating action. Growth continues to outperform peers and higher rated sovereigns, reaching a five-year average of 6.1% in 2011.

High GDP per capita, strong social indicators, and a sound institutional framework are additional anchors of Uruguay's creditworthiness.

Further progress in reducing government indebtedness, as well as strengthening of external credit metrics, given commodity dependence and relatively high financial dollarization, will be supportive of an upgrade to investment grade.

International reserves increased by over 30% in 2011 alone, reaching an historical high of USD10.3 billion. 'Large inflows of foreign direct investment (FDI) and the government's pre-financing strategy in 2011 have resulted in strong foreign reserve accumulation, increasing the resilience of the country to external shocks,' said Santiago Mosquera, Director in Fitch's Sovereign Group.

The sovereign, though, remains a net external debtor at 22% of CXR. Partly balancing this credit weakness, the government has continued to accumulate FX liquid assets to cover future debt amortization, thus mitigating government debt's FX exposure and rollover risks. Moreover, the sovereign has secured contingency credit lines with multilaterals for an estimated 3% of GDP in case conditions in global markets deteriorate.

Uruguay's fiscal position has improved in recent years, with relatively low government deficits in comparison to the 'BB' median. Nevertheless, central government debt levels, both in gross and net terms, still remain higher than peers. Favorable debt dynamics supported by continued growth and modest fiscal deficits could bring government debt down to levels comparable with low investment grade rated sovereigns over the forecast period.

Proactive and adept liability management has led to a noticeable improvement in government debt composition. At the same time, the share of public debt denominated in foreign currency has fallen from 66% in 2010 to 51% in 2011, thus reducing currency risk.

'Government debt has a manageable repayment schedule, with the third-longest debt duration among sovereigns rated by Fitch,' added Mosquera.

The weak fundamentals of the Argentine economy as well as increased risk aversion resulting from its government policy actions could weigh on Uruguay's growth performance, but these factors are

unlikely to result in significant balance of payments or financial pressures.

Inflation, averaging 8.1% in 2011, remains higher than peers, reflecting both vigorous domestic demand momentum and limited monetary policy tools given the high levels of financial dollarization, early development of local markets and relatively low levels of financial intermediation.

Although not in Fitch's base case scenario, a material deterioration in government debt burden and composition, or increased macroeconomic instability could weigh on Uruguay's credit profile.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
'Sovereign Rating Methodology', Aug. 15, 2011.

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Sovereign Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648978

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