Rating Action: **Moody's places Uruguay on review for possible upgrade as credit profile improves**

Global Credit Research - 15 Jul 2010

New York, July 15, 2010 -- Moody's Investors Service has placed the government of Uruguay Ba3 local- and foreign-currency bond ratings on review for possible upgrade.

Moody's decision to initiate this review was prompted by (1) evidence that the global crisis has had a limited impact on the country's economic and financial outlooks; (2) a track record of declining government debt ratios which have become aligned with peer group medians; (3) signs that economic policy continuity will be preserved by the incoming Mujica administration; and (4) Uruguay's reduced exposure to regional shocks.

The review will also consider upgrades to Uruguay's country ceiling for foreign currency bonds (Ba1) and the foreign currency bank deposits ceiling (B1).

RATIONALE FOR THE REVIEW

"The impact of the global crisis on Uruguay was relatively mild and short-lived," said Mauro Leos, vice president and senior credit officer in Moody's Sovereign Risk Group. "The country avoided a recession last year as GDP increased 2.9% during 2009, and revised growth projections anticipate a better-than-expected economic performance in the near term."

He said Uruguay's fiscal performance has been defined by a process of debt reversibility associated with declining government debt ratios. After a brief interruption last year, the trend is expected to resume during 2010 given indications that the Mujica administration will seek to preserve moderate fiscal deficits, a decision that denotes an intent to maintain policy continuity.

"To date, the fiscal accounts continue to benefit from higher-than-expected revenues as the ongoing recovery has exceeded initial estimates," said Leos. "Looking ahead, conditions are likely to be less favorable and the authorities may face additional pressures to maintain the fiscal stance."

Efforts directed to assure increased diversification of the economic base have proven effective in reducing external vulnerabilities related to the country's exposure to regional trade and financial shocks, particularly those coming from Argentina

FACTORS TO BE CONSIDERED IN THE REVIEW

The review will appraise the government's medium-term fiscal framework to determine if it will conducive to conditions consistent with declining government debt ratios over time.

During the review process Moody's will also evaluate the potential implications of economic scenarios that incorporate lower GDP growth in the coming years relative to that observed in previous years, when the country experienced an extended period of above-trend growth.

Finally, the review will assess the country's ability to manage still-present vulnerabilities associated to both relatively high levels of financial dollarization and its exposure to fluctuations in commodity markets.

PREVIOUS RATING ACTIONS AND METHODOLOGY

The last rating action on the government of Uruguay was implemented on January 12, 2009, when Moody's upgraded the sovereign ratings to Ba3 from B1 with a stable outlook.

The principal methodology used in rating the government of Uruguay is Moody's Sovereign Bond Methodology, published in 2008, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's webs.

New York
Bart Oosterveld
MD - CCO Pub, Proj & Infra Fin
Sovereign Risk Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Mauro Leos
VP - Senior Credit Officer
Sovereign Risk Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653