MOODY'S INVESTORS SERVICE

CREDIT ANALYSIS

Uruguay

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This Analysis provides an in-depth discussion of credit rating(s) for Deutsche Post AG and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Summary Rating Rationale

Uruguay's sovereign ratings were upgraded to Ba1 last December to reflect steady improvement in debt and fiscal indicators, clear signs of policy continuity, and prospects for sustained economic growth in a context of macroeconomic stability.

The strengthening of Uruguay's sovereign credit profile has been associated to lower rollover risks that reflect the presence of a favorable debt maturity profile. Despite a relatively high – albeit declining - share of foreign currency debt, modest government financing needs and ample precautionary government cash reserves mitigate the potential impact of exchange rate shocks.

Average government debt maturity exceeds 12 years, less than 5% is expected to mature annually during 2011-2015, and cash reserves cover more than 18 months of principal payments. With 90% of the government's financial obligations carrying fixed interest rates the exposure of the government's balance sheet to interest rate shocks is minimal.

Government debt ratios are at par with or below group Ba medians. Uruguay's ratings incorporate Moody's favorable assessment about the government's willingness and ability to comply with a multi-year fiscal framework that contemplates moderate deficits and declining government debt ratios.

Favorable medium-term growth prospects are supported by an upward trend in the investment-to-GDP ratio and the anticipated contribution of new economic activities. Policy continuity and predictability are related to strong social and political consensus on the need to preserve conservative economic policies.

Lower susceptibility to event risk reflects a reduction in the country's economic and financial exposure to regional shocks. The financial fundamentals of the banking system have improved on the back of strong capital ratios, high liquidity and conservative provisioning.

Economic Strength

Factor 1 – Economic Strength: Low

		Very High	High	Moderate	Low	Very Low	
Uruguay	+						-

Uruguay is a small, relatively open economy. With a GDP of $40 billion, Uruguay's economy is smaller than the average Ba country ($72bd median). In terms of size, Uruguay is comparable to Azerbaijan (Ba1: $52bd), Guatemala (Ba1: $52bd), Lithuania (Baa1: $42) and Tunisia (: $47bd). While smaller than the typical Ba-rated country, Uruguay is the second richest within the Ba peer group – $13,200 GDP per capita (PPP basis) vs. a Ba median of $5,500. Uruguay's GDP per capita is comparable to Turkey's (Ba2: $13,900), Bulgaria (Baa3: $12,800) and Kazakhstan's (Baa2: $11,500).

As it is the case with most small economies, a reduced size tends to be associated with limited diversification of the economic base. In Uruguay, this condition is reflected in an economic profile that incorporates relative dependence on traditional agricultural commodities, notwithstanding the presence of a service sector centered on tourism.

Despite facing size-related limitations, the degree of economic diversification has increased in recent years as investments have gone into new activities that, gradually but steadily, will add a new dimension to Uruguay's economy. Regarding commodities, the shift has been from a traditional profile involving meat and agro-based manufacturing[1], towards one in which cereals and dairy products are playing a more significant role. This shift has also involved a technological revolution in agriculture – a sector in which Uruguay has a comparative advantage – driven by Argentine investors who have come across the Rio de la Plata to escape pervasive government interference at home. The salient feature of this "revolution" involves a soybean-planted area of almost 1 million hectares with annual production of 1.5 million tons.

Prospects Of Higher Potential Growth After An Extended Period of Above-Trend Growth

During 2004-2008, the economy registered a remarkable performance. GDP increased at a 6.6% annual rate over the five-year period driven by (i) an initial bounce-back effect after the 2002-2003 financial crisis, (ii) the presence of favorable external conditions, and (iii) the one-off impact of large investment projects.[2]

In 2009, the impact of the global crisis on economic activity was relatively mild and short-lived as Uruguay avoided a recession. The economy only contracted during the first quarter (-2.3% qoq-sa) reporting annual growth of 2.6% during the year. More recently, GDP growth came to a record 8.5% last year, a rate virtually similar to the one observed in 2008.

While these numbers are impressive, it must be noted that – as it is the case for several emerging economies – growth rates in recent years reflect above-trend growth. This is evident if we take into consideration that average annual GDP growth has been on the order of 3% during the last 20 years.

[1] Agro-based manufacturing involving processed meats, leather and wool products.
[2] In 2008 the start of operations in BOTNIA's pulp mill catapulted GDP growth to nearly 9 percent.

The conclusion to be drawn is obvious. Recent (record) growth rates are unlikely be sustained over the medium term; instead, economic growth should moderate, declining toward levels more in line with Uruguay's fundamentals.

In terms of the outlook, even though growth rates are bound to be – on average – lower in coming years, various elements support the contention of an upward shift in trend growth.

Uruguay's historical record of low GDP growth reflected the presence of structural factors that constrained the economy's potential. Particularly significant in this respect were low investment-to-GDP ratios that standing at 14% - 15% at the beginning of the last decade, compared poorly with those observed in most countries rated by Moody's.[3] Uruguay has come a long way in this respect. Increased private investment – domestic and foreign – has led to an upward trend in investment ratio which, at present, continue to move consistently toward the 20% mark.[4] The role played by foreign direct investment in this respect has been particularly crucial with annual FDI inflows in excess of 5% of GDP reflecting investor's confidence in the country's medium-term prospects.

In our opinion, Uruguay appears well positioned to achieve sustained growth at rates that, while lower than those observed in recent years, should be (i) higher than the historical reference of 3%, and (ii) strong enough to support improving credit prospects over the medium term barring unexpected shocks.

Near-term prospects point toward robust still-above-trend growth on the order of 6% for this year. Looking beyond 2011, Uruguay's ratings incorporate economic growth in the 4.5% - 5.5% range over the medium term, revealing our expectation of an upward shift in potential GDP growth.

Developments in two sectors should make an important contribution to Uruguay's economic strength in coming years. The first one involves the emergence of a global-class pulp and paper sector that is set to the country's ample (unexploited) forestry resources. As the pulp and paper sector matures and investments made in previous years bear fruit, the impact on the country's export profile is likely to be significant in terms of both its quantum effect and increased diversification of Uruguay's export structure. The second one involves the potential implications of Uruguay's strategic push to become a regional transportation hub in the Southern Cone. With indications that significant investments in port facilities may be forthcoming, an increased role for transportation and logistics services could underpin a more diversified growth pattern, thus reinforcing Uruguay's overall economic profile.

The Argentina Factor

Historically, regional shocks originating in Argentina have impacted Uruguay's economic and financial performance. More often than not, events from across Rio de la Plata have led to problems, as it was the case during the 2002 crisis.

How vulnerable is Uruguay today? Not nearly as vulnerable as it used to be. Even though the Argentina factor is still present, Uruguay's susceptibility to Argentina-based event risk is much lower as links between the two countries have declined substantially throughout the decade.

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3 Median investment-to-GDP ratios for (i) Ba-rated countries: 20.4%; (ii) Baa-rated countries: 23.8%.

4 Increased total factor productivity has also been associated to the higher investment ratios

As Uruguay has diversified its export base, the share of total exports going to Argentina has declined to 13.1% from 26.8% in 1996-2001.The reduction applied to both goods and services with the share of merchandise exports going to 8.1% from 15.2%, while for tourism – Uruguay's most important export service activity – the share declined to 45.2% from 64.8%. As regards to Argentina-related financial event risk, Uruguay's exposure comes mostly through the banking system via (non-resident) deposits of Argentines in Uruguayan banks. , on consideration that the volatility of those deposits - particularly during periods of turmoil - posed potential risks. A marked reduction has been observed, with the share of non-resident deposits declining to 21% from a peak of 46% in 2001

The bottom line is that Uruguay has, at present, lower vulnerability to regional shocks originating in Argentina than in the past. Accordingly, while a negative turn of events in its neighbor would still have a negative effect on Uruguay, the anticipated impact will not be nearly as severe as it used to be. Given this, current higher ratings reflect conditions that are consistent with this new reality.

Institutional Strength

Factor 2 – Institutional Strength: High

		Very High	High	Moderate	Low	Very Low	
Uruguay	+						-

Policy Continuity And Predictability: Pillars Of Institutional Strength

Uruguay's ratings incorporate Moody's favorable assessment about institutional strength, an important support factor of the country's sovereign ratings. From a sovereign credit perspective, the significance of the institutional framework is related to the strength of legal and political arrangements that support continuity in policies that enhance a government's ability to service its debt obligations.

Our analytical approach is based on the premise that institutional rules enhance creditworthiness, as their presence reduces the likelihood of arbitrary (capricious) decisions on the part of the authorities, thereby enhancing policy predictability.

The degree of social and political support for "good policies" is also considered to be an important institutional factor as attitudes can influence the authorities' resolve, enhancing – or deterring –their commitment to policy continuity .

Measuring institutional strength is not an easy task. We rely on World Bank (WB) governance indicators as proxies from which a country's global ranking can be derived, with special attention given to government effectiveness and rule of law indicators

Based on WB indicators, Uruguay appears well positioned relative to others. The picture that emerges is somewhat favorable as both government effectiveness and rule of law indicators are placed in the second quintile from the top reporting a 71% percentile rank.[5] Going by this measure, Uruguay's

[5] The percentile rank indicates the number (percentage) of countries that are placed below Uruguay in terms of government effectiveness and rule of law indicators.

institutional strength is comparable to that of other higher-rated Latin American countries, e.g., Mexico.

Findings derived from WB indicators are supplemented by an assessment of the country's track record which is used to gauge willingness – and ability – to stay the course or, alternatively, to take corrective measures when required. On both accounts, Uruguay's historical record is considered to be credit positive as tangible evidence reinforces our favorable assessment about the country's institutional strength and its impact on the sovereign rating.

Throughout the last decade, and under three different administrations, government behavior has denoted, initially, will to adjust, and, subsequently, ability to preserve conservative economic policies which reflect the presence of political consensus on the need to maintain policy moderation.

Two episodes are particularly relevant in this respect.

The initial one dates back to 2004. At that time, the Frente Amplio (FA), a left-of-center coalition, came to power for the first time in Uruguay's political history, after defeating two conservative parties that had held undisputed control of the country's politics until then. While dramatic in some respect, the event proved to be less so in terms of economic policy, as the government of President Tabaré Vázquez adopted as its own the economic stabilization program that had been agreed to with the IMF by the previous (right-of-center) administration. Furthermore, economic policies under the Vázquez administration remained unaltered even after the agreement with the IMF was terminated in 2007, evidence that politics had virtually no effect on policy continuity.

The second episode, which involved the coming to office of a second FA administration, reconfirmed once and for all that policy continuity is a quasi-structural feature of Uruguay's economic and credit profile. Before the 2009 presidential election, concerns emerged as then-leading FA candidate - José Mujica - was considered to have a too-far-left profile by some, given his background as a former guerrilla leader during Uruguay's dirty war against the military government and his affinity with the radical views within the FA.

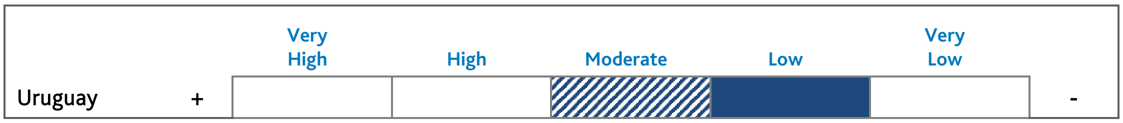
Those concerns proved to be unfounded. Once elected, President Mujica made clear that he intended to preserve existing policies, repeatedly providing proof of his commitment to policy continuity – e.g., several cabinet members were the main architects of the economic program of the previous administration

To date, the policies of the Mujica administration have been – and are expected to remain – an extension of those observed in previous years. With virtually no deviations from conservative policy stance observed over a decade have contributed to reinforced macroeconomic stability and fiscal responsibility.

Lastly, our assessment of institutional strength also incorporates a favorable view about Uruguay's "willingness to pay," which is reflected by the attitude displayed toward sovereign creditors during 2003 debt restructuring process. At the time, even though the country experienced an economic and financial crisis that was the equivalent of a severe stress test, the government put together a market-friendly proposal after extensive consultations with investors that involved only moderate severity -- no haircut, no change in coupons, only an extension of maturities. The way in which Uruguay handled its debt restructuring ultimately enhanced its credit reputation, as evidenced by its prompt return to the markets.[6]

Government Financial Strength

Factor 3 – Government Financial Strength: Low



The distinct feature of Uruguay's sovereign credit profile has been a fiscal performance associated with a process of "debt reversibility" with government debt ratios reporting a steady –virtually uninterrupted – reduction since 2003.

A strong commitment to fiscal discipline – evidenced by government deficits on the order of some 1.5% of GDP since 2005 – represents the most important supporting factor behind declining government debt ratios. In terms of the outlook, a conservative fiscal stance is likely to be preserved as the five-year fiscal framework presented by the Mujica administration incorporates a medium-term fiscal deficit target of 1% of GDP.

In previous years the fiscal accounts benefited from higher-than-expected revenues as the strength of the economic recovery exceeded initial official estimates. In terms of the outlook, the most-likely scenario is one in which conditions - while positive - will be less favorable. Still, despite lower economic growth and, consequently, a reduced dynamism in government revenues, spending guidelines appear consistent with the deficit targets incorporated in the multi-year framework. Overall, we contemplate that the thrust of fiscal policy continues to be geared toward assuring additional reductions in government debt indicators.

Uruguay's Fiscal And Debt Indicators: Well Positioned Within the Ba Range And Set to Continue to Improve

A ranking based on Uruguay's government debt indicators reveals that the country's relative standing within the Ba universe is strong. Uruguay's debt-to-GDP of 40% is below the Ba median (45%) and lower than the ratio observed in Ba2-rated countries. In terms of debt-to-revenues, Uruguay is in line with the Ba median (≈ 180%) and comparable to other Ba2-rated countries. Debt affordability (i.e., interest-to-revenues) is Uruguay's less favorable feature relative to other Ba2-rated countries. Still, coming to 11%-12%, it is similar to the Ba median.

Uruguay's debt ratios have shown steady improvement as the authorities have maintained a fiscal stance that has been conservative enough to support a declining trend in government debt indicators. While this condition was briefly interrupted in 2009, the tendency resumed in 2010 leading to: a 13-point reduction in debt-to-GDP; a 23-point reduction in debt-to-revenues; (iii) and a 1.5-point interest-to-revenues reduction.

[6] Uruguay made a debt placement in international markets in 2003 only 5 months after completing its debt restructuring.

The outlook for Uruguay's government debt ratios is favorable. We expect that a declining trend will remain in place, further reducing government debt ratios, albeit at a moderate pace. Prospects for continued fiscal consolidation incorporate a favorable assessment about the government's commitment to targets contained in the multi-year (2010-2014) fiscal framework. Our views about the authorities' willingness – and ability – to comply with those targets is based on a track record showing that previous multi-year frameworks have effectively anchored fiscal policies.

The reprofiling of government debt has had a major (positive) impact on the government's credit profile. The salient feature of the government's debt management strategy has been the reduction of refinancing (roll-over) risks through liability management operations that have significantly improved the maturity profile.

Record Average Debt Maturity Translates Into Modest Rollover Risks

One of the strongest features of Uruguay's sovereign credit profile is a debt structure that incorporates an extremely favorable time profile. Standing at more than 12 years, the average maturity of government debt is one of the longest in the sovereign rating universe. As a direct consequence of the latter, Uruguay faces low refinancing risks over an extended period of time. On average, annual principal payments are projected at some 1.3% of GDP during the next five years with less than 5 percent of the government debt maturing every year during 2011-2015.

Another important feature of the government's debt structure is the high share of fixed-interest rate debt. With 90% of the government's financial obligations carrying fixed rates Uruguay's sovereign credit exposure to interest rate shocks is moderate as only 12% of the debt stock refixes within a year.

Given these conditions, Uruguay's debt profile is extremely resilient to financial shocks involving sudden stops and/or higher interest rates.

In terms of the elements that typify Uruguay's debt profile, average debt maturity in particular, Uruguay stands out when compared with most regional peers.[7] Average debt maturity in Chile, Peru and Costa Rica – all investment-grade countries – is lower than Uruguay's standing at 12.1 years, 11.4 years and 10.1 years, respectively. For the remaining investment-grade countries in the region, debt maturity is below the 10-year mark ranging between 5 and 7 years – Mexico (Baa1): 7.2 years; Brazil (Baa3): 5.6 years.

Outside Latin America, Uruguay's government debt structure is somewhat comparable to India's - whose local currency rating was upgraded to Ba1 – which has average debt maturity of 9.8 years and a 97% share of fixed interest rate.[8]

Moderate Credit Risks Given Low Gross Financing Needs And High Cash Reserves

Two additional features complete the picture in terms of Uruguay's sovereign credit profile: modest government gross financing needs, and a substantial precautionary cash reserves.

Government gross financing needs (principal payments + deficit) have been declining steadily going from 10% of GDP at the beginning of the decade to some 3% of GDP at present. In terms of the

[7] Non-investment grade El Salvador and Guatemala report average debt maturities of 12.7 years reflecting the preponderance of MDB loans as both governments have limited market access.

[8] India has significantly higher government debt ratios. Debt-to-GDP:75%; debt-to-revenues:330%; interest-to-revenues:24%.

outlook, financing needs should remain low as fiscal deficits are projected at 1.5% of GDP while annual principal payments will amount to 1.3% of GDP – five-year period estimates in both cases.[9]

Government deficits of 1.5% of GDP are consistent with Uruguay's recent fiscal performance given average fiscal deficits of 1.3% of GDP during 2005-2009. Furthermore, deficits of such an order of magnitude appear viable since they are based on conservative macroeconomic assumptions (i.e., GDP growth projections of 4% compared with average annual growth of 6.5% during 2004-2008).

As if modest gross financing needs were not enough, Uruguay's sovereign credit profile is further reinforced by the Treasury' precautionary cash reserve created to assure that sufficient resources are available to cover government debt payments for at least one year.

Since its inception – three years ago – government cash reserves have been large enough to comply with the "12-month rule" standing at 3.5% to 4.5% of GDP. Precautionary cash reserves are sufficient to cover total principal payments coming due in 2011 and 2012. If they remain at the current level, by year-end 2011 cash reserves will be sufficient to cover total principal payments coming due during 2012-2014.

Reduced Government Exposure to Foreign Currency Debt; Modest Impact of Exchange Rate Shocks

A high share of foreign currency -denominated government debt introduces an element of vulnerability to Uruguay's sovereign credit profile given the potentially adverse impact of exchange rate shocks. While foreign currency (FC) debt still accounts for a significant portion of the government's financial obligations, the share has declined significantly moving below 60 percent from more than 90 percent in 2002-2003. Such progress has been the result of both liability management operations and a financing strategy largely centered on issuing LC-denominated bonds to private pension funds in the domestic market.[10]

Even though this gradualist approach towards debt de-dollarization will continue to make its mark, government debt ratios will remain sensitive to exchange rate shocks as the share of FC-denominated debt is likely to stay above the 50% mark.[11]

Still, potential credit risks derived from this condition may be overstated if attention is only paid to debt-to-GDP or debt-to-revenues ratios.As previously noted, Uruguay's debt payments are modest and spread over an extended period of time. More importantly, precautionary cash reserves are held in US dollars, covering up to two years of principal payments on an ongoing basis. As a result, the actual impact of an exchange rate depreciation on the government's underlying credit position is modest – at best – and better captured by the debt affordability indicator, i.e., the ratio of interest payments to government revenues.

To illustrate the potential impact of an exchange rate depreciation on debt affordability, consider that annual interest payments are estimated at 2.5% of GDP. Back-of-the-envelope calculations indicate that a sudden – and permanent – 30% depreciation of the Uruguayan peso would increase interest payments by some 0.5% of GDP, taking the interest-to-revenues ratio to 13%-14%. The higher ratio

9 Since 2009, Uruguay's total gross financing needs have been lower than the mean fiscal deficit for the Ba peer group.

10 The government has also issued LC-denominated global bonds. FC-denominated global bonds were last issued in 2003. No FC-denominated government bonds have been issued in the domestic market since 2005.

11 Finance Minister Fernando Lorenzo recently indicated that Uruguay will reduce the amount of FC-denominated debt to 55% by year-end 2011. The original objective was to reach this ratio by 2014.

denotes the extent to which the government's debt affordability would be reduced as a result of an exchange rate shock. Since the order of magnitude is not significant, it is difficult to argue that such an event could significantly undermine Uruguay's sovereign credit standing.

Susceptibility to Event Risk

Factor 4 – Susceptibility to Event Risk: Moderate

		Very Low	Low	Moderate	High	Very High	
Uruguay	+						-

Steady Across-The-Board Reduction In Event Risk Vulnerabilities

Susceptibility to event risk (SER) captures the impact of political, economic and financial events on sovereign rating prospects by assessing the likelihood of sudden - abrupt - rating migration when adverse shocks materialize.

In our view, elements that have a bearing on Uruguay's SER have reported steady reductions in recent years. Consequently, while still present -- and relevant - the significance of SER for Uruguay's sovereign ratings is much lower than in the past, strongly contributing to our decision last year to upgrade Uruguay's ratings to Ba1 – one notch below investment grade.

Political event risk is of limited relevance for Uruguay. As described in the institutional strength section, policy continuity and predictability have been preserved despite changes in the political arena. After the left-of-center Frente Amplio (FA) political coalition broke the hold on power that the two traditional political parties held for nearly a century, economic policies were unaffected.

Moreover, events since the November 2009 presidential election have reconfirmed the limited role played by political event risk. At the time, the selection of Jose Mujica as the FA's presidential candidate raised initial concerns due to perceived threats to continuity from a more-far-left- that-usual candidate. Those worries proved to be baseless as the new Mujica administration upheld the principles that have guided economic policy during the last decade, thereby confirming our view that credit risks posed by political events in Uruguay are very low.

Given this, the analysis of Uruguay's SER is centered on both economic and financial event risk.

For Uruguay, economic event risk is related to (i) the size of the economy, (ii) the country's relative commodity dependence, and (iii) its exposure to regional shocks. As a small open economy, Uruguay is exposed to external shocks that can have a significant impact on its economic performance. Since size is a structural feature that the country can do little about, economic SER reflects mostly Uruguay's ability to manage this condition through increased diversification of its commodity base and a reduced exposure to regional shocks.

Increased diversification of Uruguay's commodity basket has been evident given a higher share of agricultural commodities (soybeans in particular) which has had as a counterpart a reduction in the relative contribution of beef and beef-related products, among others. Additionally, the emergence of a globally competitive forestry sector with favorable medium-term prospects represents a development that is expected to have a positive impact in terms of diversification in coming years.

Lastly , Moody's anticipates that – over time – non-financial services will increase in importance expanding beyond the tourism sector as transportation and logistics activities (ports, shipping, etc.) report strong growth supported by Uruguay 's strategy to position itself as the "gateway to Mercosur."

Uruguay faces a lower economic SER from its exposure to regional shocks. Even though proximity to Argentina is a fact of economic life in Uruguay, the country's economic ties to its next-door neighbor are not as significant as they used to be given the notable reduction reported in the share of exports going across the Rio de la Plata. This development, which we do not expect to be reversed, reduces the country's exposure to economic shocks coming from the region, a condition that extends to MERCOSUR as well.

On account of both increased commodity diversification and a reduced regional exposure, Uruguay's economic SER is significantly lower at present than in the past. Furthermore, prospects appear favorable as additional reductions are anticipated in the future, albeit at a moderate pace, as current (favorable) trends are likely to be preserved.

Moving to financial SER, we have repeatedly noted that it is related to the currency composition of government debt, and the degree of financial dollarization in the banking system.

Regarding the first point, our opinion is that the government's credit resilience has increased as proficient debt management has led to a significant reduction in the share of FC debt.[12] Additionally – as described In the government financial strength section – a very favorable maturity profile combined with large precautionary cash reserves have significantly reduced credit vulnerabilities to both exchange rate shocks and market closure events. Given this, the government balance sheet is significantly less exposed to financial event risk.

Lastly, financial SER is also related to the degree of dollarization prevailing in the banking system. [13] When financial dollarization is prevalent, credit risks arise as exchange rate shocks can have a significant (adverse) impact on the banks' balance sheet through a deterioration in the asset quality of loan portfolios, a condition that can create contingent liabilities for the government. Also, financial dollarization has additional implications given the central bank's reduced ability to operate as a lender of last resort in foreign currency.

We think high capitalization and liquidity ratios mitigate risks derived from financial dollarization as the capital and liquidity buffers of Uruguayan banks are strong enough to allow them to withstand financial shocks without seriously compromising their financial strength. [14] Furthermore, the 2002 financial crisis set an important precedent in term of the government's willingness and ability to ring-fence its balance sheet, allowing for a better assessment of the sovereign's potential (effective) exposure to financial event risk originating in the banking system.

During the financial/banking crisis, the authorities decided to support only government-owned banks[15] while all other banks – mostly subsidiaries from foreign banks – were effectively forced to seek

12 From 2005 to 2010 the share of foreign currency-denominated government debt declined from 87.3%% 56.4%.

13 At year-end 2010, the share of dollar-denominated loans stood at 50.1% - the corresponding share for deposits was 74.3%.

14 The average capital ratio for the banking system was 19.6% at year-end 2010 (without BHU). The system-wide liquidity ratio was 61.9%.

15 Two government-owned banks, Banco Republica and Banco Hipotecario, account for 48% in terms of loans and 42$ in terms of deposits.

support from their home offices. As a result, the government was able to limit its exposure to adverse financial events.

Since we anticipate a similar policy response whenever another financial stress episode materializes, we maintain that the impact of bank-related financial event risk on Uruguay's sovereign ratings is moderate.[16]

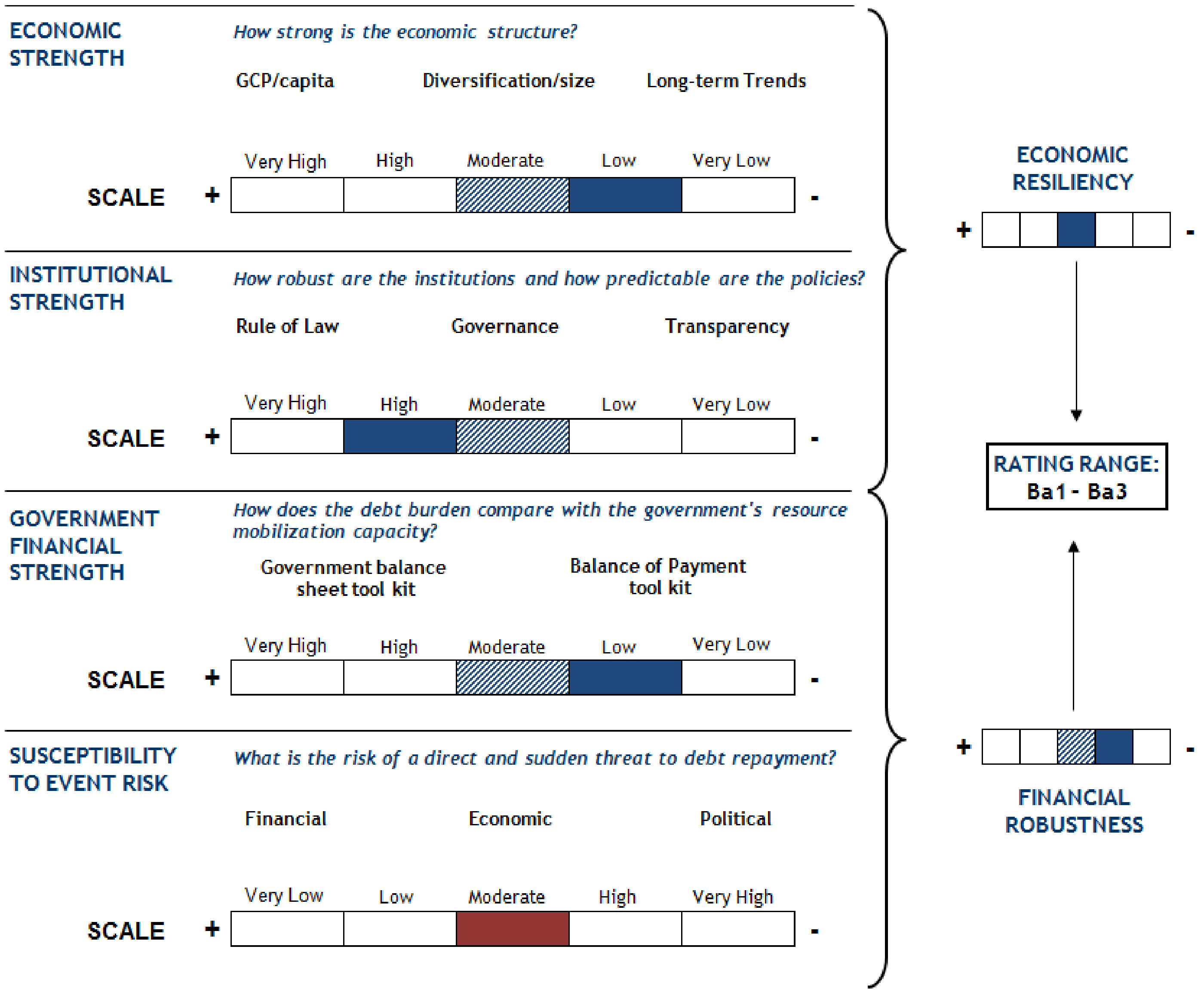
[16] Moderate bank-related financial SER is also consistent with a credit-to-GDP ratio of only 29.5% which denotes the relatively small size of the banking system.

Rating History

Uruguay

	Foreign Currency Ceilings				Government Bonds		Outlook	Date
	Bonds & Notes		Bank Deposit		Foreign Currency	Local Currency		
	Long-term	Short-term	Long-term	Short-term				
Rating Raised	Baa1	--	Ba2	--	Ba1	Ba1	Stable	December-10
Review for Upgrade	Ba1	--	B1	--	Ba3	Ba3	--	July-10
Rating Raised	Ba1	--	B1	--	Ba3	Ba3	Stable	January-09
Review for Upgrade	Ba2	--	B2	--	B1	B1	--	August-08
Rating Raised	Ba2	--	B2	--	B1	B1	Stable	December-06
Review for Upgrade	B1	--	Caa1	--	B3	B3	--	September-06
Rating Raised	B1	--	--	--	--	--	--	May-06
Outlook Changed	--	--	--	--	--	--	Stable	November-04
Rating Lowered	B3	--	Caa1	--	B3	B3	Negative	July-02
Rating Lowered	B1	--	B3	--	B1	B1	Negative	July-02
Review for Downgrade	Ba2	--	Ba3	--	Ba2	Ba2	--	May-02
Rating Lowered	Ba2	NP	Ba3	NP	Ba2	Ba2	Negative	May-02
Review for Downgrade	Baa3	P-3	Baa3	P-3	Baa3	Baa3	--	April-02
Outlook Changed	--	--	--	--	--	--	Negative	February-02
Rating Assigned	--	--	--	--	--	Baa3	--	October-98
Rating Raised	Baa3	P-3	Baa3	P-3	Baa3	--	--	June-97
Outlook Assigned	--	--	--	--	--	--	Stable	March-97
Rating Assigned	--	NP	Ba2	NP	--	--	--	October-95
Rating Assigned	Ba1	--	--	--	Ba1	--	--	October-93

Sovereign Rating Mechanics – Uruguay



Annual Statistics

Uruguay	2005	2006	2007	2008	2009	2010	2011F	2012F
Economic Structure and Performance								
Nominal GDP (US$, Bil.)	17.4	19.8	23.9	31.2	31.3	40.3	45.8	52.6
Population (Mil.)	3.3	3.3	3.3	3.3	3.3	3.4	3.4	3.4
GDP per capita (US$)	5,252	5,974	7,183	9,351	9,364	12,010	13,635	15,600
GDP per capita (PPP basis, US$)	9,683	10,403	11,466	12,668	13,208	--	--	--
Nominal GDP (% change, local currency)	8.2	12.2	17.6	16.5	8.2	14.3	11.8	10.7
Real GDP (% change)	7.5	4.3	7.3	8.6	2.6	8.5	5.8	5.5
Inflation (CPI, % change Dec/Dec)	4.9	6.4	8.5	9.2	5.9	6.9	6.0	5.2
Gross Investment/GDP	17.7	19.4	19.6	22.3	17.2	17.9	19.5	20.5
Gross Domestic Saving/GDP	19.6	17.5	18.6	17.7	18.1	18.7	20.4	21.0
Nominal Exports of G & S (% change, US$ basis)	20.1	11.0	16.2	33.4	-7.9	24.5	13.5	12.0
Nominal Imports of G & S (% change, US$ basis)	23.0	26.0	13.1	49.0	-23.0	24.8	13.1	13.7
Openness of the Economy [1]	58.9	61.0	58.0	62.8	52.5	50.9	50.7	49.9
Government Effectiveness [2]	0.54	0.45	0.54	0.58	0.7	--	--	--
Government Finance								
Gen. Gov. Revenue/GDP [3]	20.9	21.4	20.6	20.0	20.5	20.7	21.4	22.3
Gen. Gov. Expenditure/GDP [3]	22.4	22.4	22.2	21.1	22.0	21.9	22.1	23.0
Gen. Gov. Financial Balance/GDP [3]	-1.6	-1.0	-1.6	-1.1	-1.5	-1.1	-0.7	-0.7
Gen. Gov. Primary Balance/GDP [3]	2.7	3.2	2.1	1.7	1.3	1.2	1.7	1.7
Gen. Gov. Debt (US$ Bil.) [3]	11.3	11.3	12.8	12.8	15.7	15.6	16.9	18.9
Gen. Gov. Debt/GDP [3]	65.2	57.1	53.5	41.0	50.1	38.7	36.9	36.0
Gen. Gov. Debt/Gen. Gov. Revenue [3]	307.4	270.3	238.2	238.2	212.6	186.7	169.0	158.9
Gen. Gov. Int. Pymt/Gen. Gov. Revenue [3]	20.2	19.5	18.0	14.0	13.4	11.4	11.3	10.8
Gen. Gov. FC & FC-indexed Debt/GG Debt [3]	87.3	81.6	69.4	69.8	65.3	56.4	55.0	53.0

Uruguay

	2005	2006	2007	2008	2009	2010	2011F	2012F
External Payments and Debt								
Nominal Exchange Rate (local currency per US$, Dec)	24.1	24.4	21.5	24.4	19.6	20.1	19.3	18.7
Real Eff. Exchange Rate (% change)	12.3	2.3	1.7	11.4	4.4	13.4	--	--
Current Account Balance (US$ Bil.)	0.0	-0.4	-0.2	-1.5	0.2	-0.2	-0.2	-0.1
Current Account Balance/GDP	0.2	-2.0	-0.9	-4.7	0.7	-0.4	-0.3	-0.3
External Debt (US$ Bil.)	11.4	10.6	12.2	12.0	14.1	14.6	15.0	16.5
Public Sector External Debt/Total External Debt	89.3	88.4	90.7	89.4	90.7	88.8	90.0	91.0
Short-term External Debt/Total External Debt	6.4	7.0	7.4	6.8	8.0	8.3	8.0	6.1
External Debt/GDP	64.7	54.0	46.9	44.8	39.1	36.4	32.1	30.9
External Debt/CA Receipts [4]	196.5	158.1	153.1	116.5	152.4	130.6	120.1	118.3
Interest Paid on External Debt (US$ Bil.)	0.8	0.9	0.9	0.8	0.8	0.6	0.6	0.6
Amortization Paid on External Debt (US$ Bil.)	2.2	0.6	0.9	0.8	1.0	1.0	1.6	0.5
Net Foreign Direct Investment/GDP	4.7	7.5	5.2	5.8	4.0	4.1	4.0	4.1
Official Foreign Exchange Reserves (US$ Bil.)	3.1	3.1	4.1	6.3	7.6	7.2	7.6	7.8
Net Foreign Assets of Domestic Banks (US$ Bil.)	2.0	2.2	2.3	1.7	2.8	5.4	--	--
Monetary, Vulnerability and Liquidity Indicators								
M2 (% change Dec/Dec)	0.0	11.6	3.8	28.6	-2.6	16.5	--	--
Monetary Policy Rate (% per annum, Dec 31)	4.6	3.5	7.3	7.8	6.3	6.5	--	--
Domestic Credit (% change Dec/Dec)	-18.2	-8.4	-8.0	61.1	-9.4	18.7	--	--
Domestic Credit/GDP	38.4	31.4	24.5	33.9	28.4	29.5	--	--
M2/Official Forex Reserves (X)	2.6	2.9	2.5	1.9	1.9	2.3	--	--
Total External Debt/Official Forex Reserves	372.2	342.4	297.0	189.3	184.3	204.0	197.4	211.5
Debt Service Ratio [5]	52.9	23.1	22.0	15.9	20.0	14.7	17.3	7.6
External Vulnerability Indicator [6]	119.4	130.7	105.7	82.9	79.4	93.8	77.2	76.9
Liquidity Ratio [7]	17.6	20.5	19.2	25.0	26.5	20.8	--	--
Total Liab. due BIS Banks/Total Assets Held in BIS Banks	24.7	20.2	24.1	26.9	27.9	21.0	--	--
"Dollarization" Ratio [8]	86.6	84.8	79.8	81.9	78.1	75.3	--	--
"Dollarization" Vulnerability Indicator [9]	118.4	120.1	110.3	105.3	94.6	89.9	--	--

Notes:

[1] Sum of Exports and Imports of Goods and Services/GDP

[2] Composite index with values from -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions

[3] Central government

[4] Current Account Receipts

[5] (Interest + Current-Year Repayment of Principal)/Current Account Receipts

[6] (Short-Term External Debt + Currently Maturing Long-Term External Debt)/Official Foreign Exchange Reserves

[7] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks.

[8] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System

[9] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

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