Press Release

Insight beyond the rating.

Date of Release: April 8, 2010

# DBRS Upgrades Uruguay on Sound Management and Growth Prospects

**Bloomberg: DBRS Upgrades Uruguay on Sound Management and Growth Prospects**
**Industry Group: Public Finance / Sub-Industry: Sovereigns & Related Entities**

DBRS has today upgraded the long-term foreign and local currency ratings of the Oriental Republic of Uruguay to BB from BB (low). DBRS assigned a Positive trend on September 21, 2009; the trend on both ratings is now Stable.

"We believe that Uruguay merits this upgrade given its strong economic performance during the international financial crisis. Furthermore, the political commitment to sound macroeconomic management and a high level of foreign direct investment is transforming the country's export sector and raising its medium-term growth prospects," says Michael Heydt, DBRS Senior Financial Analyst. "Uruguay's resilience is clear in the strength of the economy, which grew by 8.5% in 2008 and 2.9% in 2009 – indeed, it is one of the region's top performers." Amid improving regional growth prospects and robust domestic demand, real GDP growth is expected at 4.2% in 2010.

Greater exchange rate flexibility, high international reserves and a well-regulated banking system have helped Uruguay weather the international financial crisis. The exchange rate facilitated adjustments in the external accounts, cushioned the impact of the crisis on the real economy and preserved competitiveness. Unlike the crisis in 2002, this downturn saw the banking system remain well-capitalized, with a stable deposit base and low levels of non-performing loans. The labor market also demonstrated resilience. By the end of 2009, the unemployment rate in Montevideo was at its lowest level in nearly three decades while the labor force participation rate reached a record high, all in the context of strong real wage growth.

Fiscal discipline and adept liability management have steadily improved the country's debt profile and reduced external vulnerabilities. The Mujica administration, which took office in March 2010, has expressed its commitment to continue the policies of the previous administration. Net public debt declined from 68.3% of GDP in 2003 to 35.2% in 2009. Liability management operations have reduced refinancing risk by smoothing the amortization schedule, and 2010 financing needs are covered, thanks to pre-financing operations conducted last year.

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Foreign direct investment (FDI) and an improving regional outlook have strengthened medium-term growth prospects. Predictable macroeconomic policy, political stability and access to large neighboring markets have all attracted high levels of FDI. In recent years, the largest share of FDI has been directed to the pulp and paper industry, in addition to manufacturing, agriculture and tourism. This has provided a stable source of external financing, diversified the export base and increased productivity through spillover and industry innovation effects.

Regional developments are also likely to improve growth prospects. The growing economic strength of Brazil, Uruguay's largest trading partner, is fueling investment and increasing demand for Uruguayan goods and services. A restructuring of Argentina's debt in arrears, if successful, could also help stabilize the regional economy.

In DBRS's view, further improvement in Uruguay's credit profile will depend on sustained investment-led growth, continued commitment to fiscal discipline and debt reduction, and measurable progress in the following areas: 1) further development of the local sovereign debt market; 2) an energy strategy that increases domestic production, diversifies supplies and mitigates fiscal exposure; and 3) salary policies that align real wage growth with productivity gains. DBRS believes that meaningful progress in these areas is achievable, but it will require strong policy action and a favorable external environment.

We expect to publish a full report on the Oriental Republic of Uruguay as part of our formal annual review later in the year.

Notes:
The applicable methodology is Sovereign Ratings, which can be found on our website under Methodologies.

This is a Corporate (Public Finance) rating.

| Issuer | Debt Rated | Rating Action | Rating | Trend |
|---|---|---|---|---|
| Oriental Republic of Uruguay | Long-Term Foreign Currency | Upgraded | BB | Stable |
| Oriental Republic of Uruguay | Long-Term Local Currency | Upgraded | BB | Stable |

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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