R&I
NEWS RELEASE

Dec 27, 2023

Rating and Investment Information, Inc. (R&I) has announced the following:

Oriental Republic of Uruguay (Sec. Code: -)

[Affirmed]

Foreign Currency Issuer Rating: BBB+, Stable

Bond Rating: BBB+

RATIONALE:

Uruguay is a high-income country which stands out among South American countries in terms of institutional and political stability. Although the country's economy is slowing down, the impact of temporary factors is large. The economy will likely recover with firm growth from 2024. With the government's strong commitment to maintaining fiscal discipline, such as the continuous fiscal management policy in compliance with fiscal rules, the government debt ratio has been controlled. The external stability has been maintained, as the current account deficit is backed by capital inflows centered on foreign direct investments. Based on the said recognition, R&I has affirmed the Foreign Currency Issuer Rating of BBB+.

Following the contraction under the COVID-19 pandemic, the country's economy has been steadily growing since 2021 and recorded a growth rate of around 5%. However, the crop harvest such as soybeans decreased in 2023 due to the drought, resulting in a decline in export. Although the private consumption remains firm, the full-year real gross domestic product (GDP) growth rate will likely slow down to 0.5 to 1.0%. It is expected that the economy will expand from 2024 onwards, thanks to the recovery in agricultural output and the export from the second pulp mill of UPM-Kymmene Corp., a major Finnish paper manufacturer. The International Monetary Fund (IMF) projects the growth rate at 3.3%. With the reputation as the most stable country in South America both politically and socially, the expansion of private investment will support medium-term economic growth.

Large-scale investments and soaring fuel prices have increased imports, shrinking the trade surplus and expanding the current account deficit to the 3% range of GDP. In contrast, inflows of foreign direct investments are strong, exceeding the size of the current account deficit. The foreign exchange reserve stands at a sufficient level to cover short-term external debt and import payment and the concern on the external front is limited.

The current administration has placed fiscal consolidation as one of its key policy challenges and put efforts to strengthen the fiscal institution by introducing fiscal rules among other measures. In May 2022, a pension reform bill was passed, making a milestone on the road towards ensuring fiscal sustainability in the long term. There is a possibility that the central government's fiscal deficit in 2023 may exceed the initial plan of 3.2% of GDP. However, R&I sees no concern in fiscal stability, considering that the extent of the fiscal worsening seems to be limited and there are extraordinary factors such as responses to drought and consumption outflows to neighboring Argentina. The government set to seek a policy of deficit reduction at a moderate pace under the budget plan from 2023 to 2027.

The central government debt fell to 55.7% of GDP as of end-September 2023, marking a slight drop from a year earlier. However, the net debt outstanding exclusive of the accumulated borrowings to cover the debt repayments for the next 12-month period stands at 52.9% of GDP. The government debt ratio is expected to remain in the 50% range in all likelihood. The government also has credit lines from international development financial institutions, which helps to mitigate fiscal risks. In October 2022, sustainability-linked bonds were issued, demonstrating a government commitment to reducing greenhouse gas emissions and an intention to diversify funding sources.

The Central Bank of Uruguay (CBU) has been striving to control inflation expectations and the headline inflation rate remains within the target range set by CBU. That said, there is a possibility that the inflation rate will go up to a higher territory than the target range, given the potential fluctuations in foreign exchange rate and real wages backed by the wage setting system. It is also pointed out that the dollarization of the economy has been hampering the effectiveness of monetary policy transmission.

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Eyes are on the policy management of CBU, as well as the progress in the initiatives to tackle the economic structure that causes stubbornly strong inflationary pressures.

R&I RATINGS:
ISSUER: Oriental Republic of Uruguay

[Affirmed]

	Rating	Rating Outlook
Foreign Currency Issuer Rating	BBB+	Stable

	Issue Amount	Issue Date	Maturity Date	Rating
Japanese Yen Bonds No.4	JPY 37,200 mn	Dec 9, 2021	Dec 9, 2024	BBB+
Japanese Yen Bonds No.5	JPY 400 mn	Dec 9, 2021	Dec 9, 2026	BBB+
Japanese Yen Bonds No.6	JPY 600 mn	Dec 9, 2021	Dec 8, 2028	BBB+
Japanese Yen Bonds No.7	JPY 400 mn	Dec 9, 2021	Dec 9, 2031	BBB+
Japanese Yen Bonds No.8	JPY 11,400 mn	Dec 9, 2021	Dec 9, 2036	BBB+

Primary rating methodologies applied:
R&I's Analytical Approach to Sovereigns [May 21, 2021]

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