Fitch Upgrades Uruguay's LTFC IDR to 'BB+'; Outlook Revised to Stable Ratings

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14 Jul 2011 2:41 PM (EDT) Fitch Ratings-New York-14 July 2011: Fitch Ratings has taken the following rating actions on the Issuer Default Ratings (IDRs) and Country Ceiling for Uruguay: --Foreign currency IDR upgraded to 'BB+' from 'BB'; --Local currency IDR upgraded to 'BBB-' from 'BB+'; --Foreign currency short-term IDR affirmed at 'B'; --Country ceiling upgraded to 'BBB' from 'BBB-'. The Rating Outlook is revised to Stable from Positive. The upgrade reflects Fitch's opinion that Uruguay's external and fiscal vulnerabilities have reduced owing to improvements in its external and fiscal solvency ratios, strengthened external liquidity as well as better currency composition and maturity structure of government debt. High GDP per capita income, strong social indicators, and a solid institutional framework underpin Uruguay's creditworthiness. Fitch believes policy continuity and political stability are solidly anchored by a strong institutional framework Uruguay's growth performance and outlook remain quite favorable. Its five-year average growth increased to 6.2% in 2010, considerably higher than the 'BB' median over the same period. Reduced trade and financial links with Argentina make Uruguay less vulnerable to economic developments in its neighbor. While Uruguay is likely to continue outperforming peers in terms of growth over the forecast period, inflationary pressures have increased as a result of external price shocks, weather conditions and the rapid pace of domestic demand. Inflation could average 7.5% in 2011, almost two full percentage points above the forecast for the 'BB' median (5.6%). 'While the macroeconomic policy framework has strengthened, further improvement in monetary policy credibility, greater coordination between monetary and fiscal policies, as well as moderate wage increases, would be essential to bringing inflation down closer to levels comparable to peers,' said Erich Arispe, Director in Fitch's Sovereign Group. While financial dollarization has receded, it still remains relatively high exposing the economy to FX shocks. The favorable growth momentum, exchange rate appreciation and relatively moderate fiscal deficits have supported debt reduction in recent years, a trend that is likely to continue. According to Fitch estimates, central government debt could fall to 44.1% of GDP in 2011 from 50.2% in 2008, slightly above the 'BB' median. Uruguayan authorities continue to implement a proactive debt management, reducing both foreign currency and roll-over risks. Local currency denominated debt has improved in recent years and could equal approximately 43% of total debt in 2011. 'Comparatively moderate government financing requirements and low government revenue volatility mitigate the impact of economic shocks on public finances,' added Arispe. On the positive side, Uruguay's current account deficits are likely to remain moderate and over-financed by FDI inflows over the forecast period. Moreover, the increase in international reserves in 2011 could boost the external liquidity ratio to 168% in 2012, slightly below the 'BB' median of 176%. Nevertheless, given the still high levels of financial dollarization and commodity dependence, higher external liquidity levels would further improve the economy's resilience to external shocks. In addition, higher international reserves would be positive for the sovereign's net external debt position as Uruguay continues to be among the largest net external debtors, at 46% of CXR, in the 'BB' category. A sustained improvement in external and fiscal balance sheets as well as further consolidation of macroeconomic stability will be positive for creditworthiness. On the other hand, while not Fitch's base, a material deterioration in government debt burden and composition or increased macroeconomic in stability could also weigh on Uruguay's credit profile. Contact: Primary Analyst Santiago Mosquera Director +1-212-908-0271 Fitch, Inc. One State Street Plaza New York, NY 10004 Secondary Analyst Erich Arispe Director +1-212-908-9165 Committee Chairperson Shelly Shetty Senior Director +1-212-908-0324 Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com. Additional information is available at

'www.fitchratings.com'. Applicable Criteria and Related Research: --'Sovereign Rating Methodology' (Aug. 13, 2010). Applicable Criteria and Related Research: Sovereign Rating Methodology ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.