

# Fitch Upgrades Uruguay Sovereign Ratings to 'B+'

7 de marzo de 2005

Fitch Ratings-New York-March 7, 2005: Fitch Ratings today upgraded Uruguay's long-term foreign currency ratings to 'B+' from 'B'. The long-term local currency ratings are also raised to 'BB-' from 'B+'. In addition, the short-term foreign currency rating is affirmed at 'B'. The country ceiling is affirmed at 'BB-'. These rating changes affect US\$6.9 billion in bond debt. The Outlook is Stable. According to Fitch analyst Morgan Harting, 'Uruguay's recovery is expected to continue this year. Economic growth should reach 6% and the fiscal deficit should fall to about 2% of GDP.' The new government that took office March 1 has committed to maintaining broad fiscal and monetary policy settings. 'With debt maturities equal to about 13% of GDP, and most owed to multilateral creditors that are likely to extend new credit, fiscal financing needs appear manageable,' said Harting. Bond amortizations equal 4% of GDP this year, about two-thirds of which are for foreign-issued bonds. Scheduled public debt amortizations decline in 2006 and again in 2007. Assuming capital market sentiment remains favorable and the government adheres to policy commitments with multilaterals, prospects for refinancing should be sound. Overall indebtedness remains high at about 81% of GDP, significantly above the peer median, but its interest and maturity profile is in line with peers, despite most (91%) of it being in foreign currency. Fitch expects the new government to enter into a new agreement with the IMF soon. Such an agreement would likely include commitments to fiscal targets consistent with reductions in government debt and an accumulation of international reserves. Assuming a small increase in the government's primary balance, some continued real exchange-rate appreciation near term and ongoing economic growth, government debt could decline to 74% of GDP by end-2006. This trend could continue through the end of the decade if settings are maintained. The financial sector in Uruguay remains fragile, as evidenced by the closure of a cooperative last week due to inadequate capitalization. Deposits have risen in nominal terms, but growth has not kept pace with nominal GDP, and there has been a preference for sight deposits in dollars over term deposits in pesos. Since the crisis of 2002-2003, authorities have made progress on improving supervision and regulation, liquidating assets of banks undergoing restructuring, and unfreezing deposits. System liquidity appears to be sound, but credit growth has not resumed, despite the acceleration in economic activity. The government may still have to assume some contingent liabilities associated with past support to the system, but this would not imply an immediate cash financing need and such support is not expected to exceed 5.5% of GDP. The high degree of dollarization in bank deposits and transactions is a constraint on creditworthiness. It limits the government's ability to finance itself in local currency, exposing it to substantial exchange rate risk. The high degree of dollarization in bank deposits (about 90%) amounts to a contingent claim on international reserves - despite the adoption of a flexible exchange rate - pressuring the country's already low international liquidity. International reserves and banks' liquid foreign assets cover an estimated 64% of short-term debt and debt service. Authorities have sought to reduce dollarization through market-friendly policy changes, but progress has been slow. Contacts: Morgan C. Harting, CFA, +1-212-908-0820 or Roger M. Scher, +1-212-908-0240, New York. Media Relations: Kenneth Reed +1-212-908-0540, New York