

Fitch Assigns Expected 'B' to Uruguay's UI and DPN Bonds

22 de julio de 2004

Fitch Ratings-New York-July 22, 2004: Fitch Ratings has today assigned Uruguay's forthcoming UI Bond payable in 2007 and its DPNs due in 2006 expected long-term foreign currency ratings of 'B' with Stable Rating Outlooks. Principal and interest payments on both bonds are payable in US dollars. For UI Bonds, payments will be adjusted for Uruguayan inflation. Payments on the DPN bonds may be adjusted for movements in the USD/UYU exchange rate. The ratings are equal to the long-term foreign currency ratings of Uruguay's senior unsecured debt. The Rating Outlook is Stable. The Uruguayan economy has rebounded smartly since its deep recession in 2002 that precipitated a sovereign debt restructuring in June, 2003. Against a low base, first quarter GDP expanded by 14% on a sharp increase in beef production and a pickup in tourism-related services. Whether recent growth can be sustained will hinge critically on expectations about the continuity of policy related to the October presidential and parliamentary elections. The Frente Amplio, which leads in recent polls, has indicated that it will reverse certain market-oriented reforms and has questioned recent policies of fiscal austerity. On the other hand, certain of its representatives have also recently indicated that it would honor the terms of last year's debt restructuring, a commitment that had not been clear at the time of the transaction. As the balance of payments and local confidence have continued to improve, resident bank deposits have likewise risen, reaching US\$7 billion at May 31 from US\$6.5 billion at year-end. These continue to be held largely (89%) in foreign currency, however, leaving the system more vulnerable to shocks than would be the case if the central bank were not limited in its ability to provide emergency liquidity. International reserves reached US\$2.36 billion at May 31, versus US\$2.1 billion at year-end, including US\$646 million in disbursements from the IMF during the last year's banking crisis and US\$1.2 billion in voluntary deposits from the banking system. The increase in international reserves this year has boosted its coverage of the monetary base to 5.3 in May from 4.3 at year-end and 1.8 and end-2002. The public sector generated an overall deficit of 3.2% of GDP last year and a primary surplus of 2.9%, significant improvements on performance the prior year. This year, the government has targeted a slightly lower overall deficit of 3.0% of GDP and a somewhat higher primary surplus equal to 3.2%, goals that appear achievable in light of strong economic growth. Meeting these targets will help to stabilize public debt, which reached about 110% of GDP at end-2003, one of the highest in the 'B' category. Low average coupon rates on bond debt help to contain debt service costs, but bringing debt levels into line with peers will take many years of fiscal prudence and consistent economic growth. The amortization schedule on bond debt is quite light through 2010 as a result of last year's rescheduling, implying that it could be sustainable assuming multilateral lenders maintain level of positive net positions and that modest market issuance continues both locally and abroad. Contact: Morgan C. Harting +1-212-908-0820 or Roger M. Scher +1-212-908-0240, New York. Media Relations: James Jockle +1-212-908-0547, New York.