

# Fitch Asigna 'B-' a Bonos en Unidades Indexadas de Uruguay

22 de octubre de 2003

Fitch Ratings-New York-October 22, 2003: Fitch Ratings assigned a 'B-' rating to Uruguay's UI Bonds payable in U.S. dollars issued Oct. 16. The rating is equal to the long-term foreign currency rating of Uruguay's senior unsecured debt. The Rating Outlook is Stable. The bond issue marks Uruguay's first foray into international debt markets since the reprofiling of its foreign currency debt in June which Fitch marked as a default under its distressed debt exchange criteria. Though payable in U.S. dollars, principal and interest payments will be adjusted for Uruguayan inflation and a reference USD/UYU exchange rate. The government is expected to use the proceeds primarily to repurchase USD-denominated Treasury bills issued in the local market. Uruguay's credit profile was improved by the debt exchange earlier this year, in large part because it alleviated near-term refinancing requirements. Looking forward, however, considerable credit risk remains, as public sector debt is over 90% of GDP and payable largely in foreign currency. Macroeconomic indicators have shown signs of stabilization in recent months, but the environment remains fragile. Gross international reserves increased to US\$1.7 billion (with net reserves at US\$240 million) at mid-October on disbursements from multilaterals and from a small current account surplus (\$18 million January-June). The banking sector accumulated a net increase of \$281 million in deposits in the year through June, a particularly important improvement because \$530 million in deposits were unfrozen during that period and could have fled the system but did not, for the most part. Authorities have also made progress toward their ambitious fiscal adjustment targets which seek to raise the primary surplus to 3.2% of GDP in 2003 from 0.5% of GDP in 2002. Most of the adjustment is expected to come from expenditures, particularly wages, which are budgeted to be squeezed by 1.3% of GDP, though favorable tax collection has eased pressures on spending somewhat. In spite of recent stabilization, political risks are likely to increase over the next year and could prevent the country from consolidating a path toward dynamic economic growth and debt sustainability. On Dec. 7, voters will consider a referendum to repeal a 2002 law authorizing the state-owned oil company to enter into a joint venture and to relinquish its existing monopoly in 2006. The state still plays a large role in Uruguay's productive sector, a factor which has limited its investment and growth potential. Next year, parliamentary and presidential elections will be held in which the traditional ruling Nacional and Colorado parties could be challenged by the leftist Frente Amplio, which received 40% of the votes in the first round of the 1999 presidential elections. It holds a similar proportion of seats in each of the houses Congress. Recently, the Frente Amplio has criticized certain austerity measures and has opposed increased private sector participation in sectors reserved for state-owned companies including petroleum and telecommunications. Absent a firm commitment to maintain medium-term fiscal prudence and to increase the role of the private sector, the sustainability of Uruguay's debt burden beyond the 2004 elections would be more difficult. Given that more than 90% of public sector market debt now contains collective action clauses, future adjustments to maturities and coupons may be perceived as less politically costly in the event of refinancing difficulties. Contact: Morgan C. Harting +1-212-908-0820 or Roger M. Scher +1-212-908-0240, New York. Media Relations: Matt Burkhard +1-212-908-0540, New York. Media Relations: Matt Burkhard +1-212-908-0540, New York.