# Uruguay

## Full Rating Report

### Ratings

**Foreign Currency**

| | |
|---|---|
| Long-Term IDR | BBB- |
| Short-Term IDR | F3 |

**Local Currency**

| | |
|---|---|
| Long-Term IDR | BBB |
| Country Ceiling | BBB+ |

### Outlooks

| | |
|---|---|
| Long-Term Foreign-Currency IDR | Stable |
| Long-Term Local-Currency IDR | Stable |

### Financial Data

**Uruguay**

| (USDbn) | 2012 |
|---|---|
| GDP | 50.1 |
| GDP per head (USD 000) | 15.4 |
| Population (m) | 3.3 |
| International reserves | 13.6 |
| Net external debt (% GDP) | -22.5 |
| Central government total debt (% GDP) | 47.9 |
| CG foreign-currency debt | 11.3 |
| CG domestically issued debt (UYUbn) | 146.2 |

### Related Research

Global Economic Outlook (December 2012)

2013 Outlook: Latin America Sovereign Review (December 2012)

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## Key Rating Drivers

**Ratings Upgraded:** Fitch Ratings upgraded Uruguay’s Foreign- and Local-Currency IDRs to ‘BBB−’ and ‘BBB’, respectively, in March 2013. Economic resilience in difficult external conditions, together with a stronger external balance sheet and improved debt profile support the upgrade. Sustained growth and economic diversification buttressed by robust foreign direct investment (FDI) flows are also factors. Social and political stability, strong institutions and relatively high per capita income are fully in line with investment-grade sovereigns.

**Improved Economic Resilience:** Uruguay has shown economic resilience, which was recently reflected in the country’s growth rate of 3.6% in 2012 despite the economic difficulties confronting its main trading partners. Uruguay's five-year average GDP growth at 5.6% is well above the ‘BBB’ median and its medium-term prospects are favourable. Fitch forecasts 4% average GDP growth for Uruguay in 2013 and 2014.

**Strong Balance Sheet:** Uruguay’s external balance sheet has strengthened, increasing the ability of the country to absorb shocks. International reserves have more than doubled since 2008. Fitch estimates that Uruguay could become a net sovereign external creditor in 2013, which will be positive given its high commodity dependence and financial dollarisation. Uruguay’s market-friendly policies have facilitated a strong flow of foreign direct investment, allowing for better financing of current account deficits and steady economic diversification.

**Prudent Fiscal Management:** Prudent fiscal management has led to a decline in government indebtedness and a significant improvement in debt composition in recent years. Financing flexibility has been enhanced with Uruguay having good access to international markets and multilaterals. Uruguay’s fiscal deficits widened last year mainly due to one-off factors. Fitch believes that Uruguay will proceed gradually with fiscal consolidation, relying mainly on expenditure restraint in the coming two years

**Improved Debt Profile:** Uruguay’s public debt profile has improved thanks to well-timed liability management operations that have extended maturities, reduced dollarisation, and deepened markets for Uruguayan debt. Central government debt in foreign-currency fell to 45% of the total in 2012 from 74% in 2007. Fiscal consolidation and favourable economic growth should allow for a steady decline in government debt burden over the coming years, although it is unlikely to converge with the ‘BBB’ median.

**Weak Monetary Policy Effectiveness:** Inflationary pressures are high with inflation hovering close to 10%. Robust domestic demand, an expansionary monetary stance, and limited effectiveness of monetary policy due to high financial dollarisation and low financial intermediation mean that inflation will recede only gradually over the next two years. Avoiding a wage-price spiral is important to keep inflation declining and to maintain monetary policy credibility.

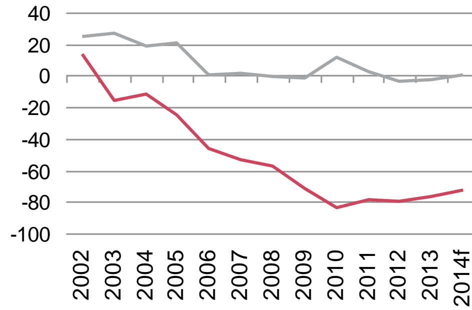
## Rating Sensitivities

**Improving Debt Ratios:** Progress on reducing government indebtedness, improvement in the macroeconomic policy framework with lower inflation and further strengthening of external credit metrics would improve Uruguay’s creditworthiness.

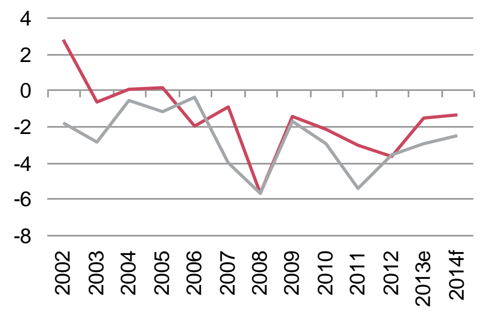
**Increased Instability:** A material deterioration in the government debt burden and composition or increased macroeconomic instability could weigh on Uruguay's credit profile.

## Peer Comparison

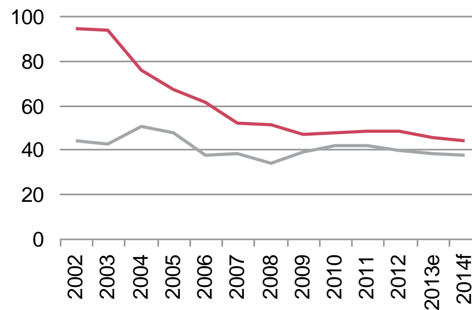
**Net External Debt**
% of CXR



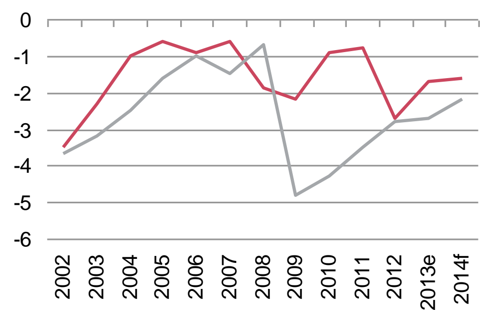

**Current Account Balance**
% of GDP



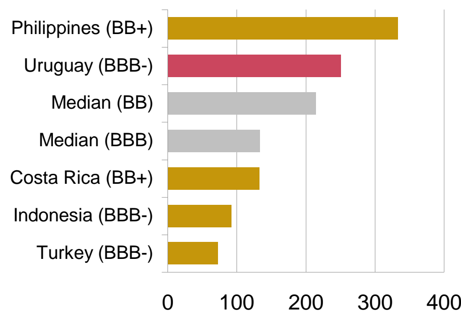

**General Government Debt**
% of GDP



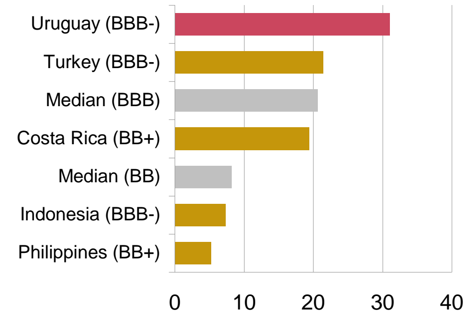

**General Government Balance**
% of GDP




**International Liquidity Ratio, 2012**
**%**




**GDP per capita Income, 2012e**
At market exchange rates, USA=100




Uruguay Medians

### Related Criteria

Sovereign Rating Criteria (August 2012)

## Peer Group

| Rating | Country |
|---|---|
| BBB | Aruba |
| | Bahrain |
| | Brazil |
| | Iceland |
| | Latvia |
| | Lithuania |
| | Mexico |
| | Panama |
| | Peru |
| | Russia |
| | South Africa |
| | Spain |
| | |
| BBB- | **Uruguay** |
| | Azerbaijan |
| | Bulgaria |
| | Colombia |
| | Croatia |
| | India |
| | Indonesia |
| | Morocco |
| | Namibia |
| | Romania |
| | Turkey |
| | |
| BB+ | Costa Rica |
| | Guatemala |
| | Hungary |
| | Macedonia |
| | Philippines |
| | Portugal |
| | Tunisia |

## Rating History

| Date | Long-Term Foreign Currency | Long-Term Local Currency |
|---|---|---|
| 7 Mar 2013 | BBB− | BBB |
| 14 Jul 2011 | BB+ | BBB− |
| 27 Jul 2010 | BB | BB+ |
| 27 Jul 2007 | BB− | BB |
| 07 Mar 2005 | B+ | BB− |
| 29 Mar 2004 | B | B+ |
| 17 Jun 2003 | B− | B |
| 19 May 2003 | D | B |
| 10 Apr 2003 | C | CCC− |
| 12 Mar 2003 | CCC− | CCC− |
| 07 Jan 2003 | B− | B |
| 30 Jul 2002 | B | B |
| 28 May 2002 | B+ | BB− |
| 13 Mar 2002 | BB+ | BBB− |
| 19 May 2000 | BBB− | BBB+ |
| 23 Jan 1997 | BBB− | NR |
| 26 Oct 1995 | BB+ | NR |

## Rating Factors

### Summary: Strengths and Weaknesses

| Rating factor | Macroeconomic | Public finances | External finances | Structural issues |
|---|---|---|---|---|
| Status | Weakness | Weakness | Neutral | Neutral |
| Trend | Stable | Stable | Stable | Stable |

Note: Relative to ‘BBB’ category/sovereigns rated ‘BBB+’, ‘BBB’, and ‘BBB−’.
Source: Fitch

### Strengths

- While the sovereign remains a net external debtor, international liquidity has improved compared with peers and higher-rated sovereigns. The sovereign maintains liquid assets to cover at least 12 months of debt amortisation and has secured precautionary credit lines with multilaterals, reducing the country’s vulnerability to external shocks.
- External financing needs are lower than for peers. More robust FDI inflows provide financing for the country’s current account deficit without increasing external indebtedness.
- Uruguay’s economy is growing close to its potential rate supported by large productivity gains, maintaining the unemployment rate at record lows.
- Uruguay’s creditworthiness is supported by comparatively high GDP per capita, strong social indicators and a strong institutional framework, fostering policy continuity.
- Debt management initiatives have improved debt composition, extending maturities, reducing exchange rate and refinancing risks. Favourable debt dynamics supported by continued growth and low fiscal deficits are likely to bring general debt down to levels comparable with peers and higher-rated sovereigns in the medium term.

### Weaknesses

- Uruguay’s general government (GG) debt burden remains above the median for the ‘BBB’ rating category.
- Spending rigidities and moderate fiscal savings could limit the central government’s capacity to compensate for weaker public companies’ results and to stimulate the economy if needed, without affecting fiscal consolidation.
- Financial dollarisation remains above that of peers, although exchange rate risks are contained thanks to effective prudential regulation and improving external liquidity.
- Monetary authorities’ track record in maintaining inflation within the target rate is relatively poor; the five-year average inflation remains above the median for its peers. Bringing inflation down is particularly challenging due to weak monetary transmission channels.

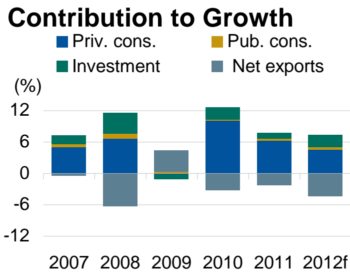
### Local-Currency Rating

Uruguay’s Long-Term Local-Currency IDR is one notch above the Long-Term Foreign-Currency IDR due to: the comparatively low level of debt denominated in local currency; increased macroeconomic stability, allowing the government to extend maturities in local-currency-denominated debt; and the ability of the government to raise tax revenue in local currency.

### Country Ceiling

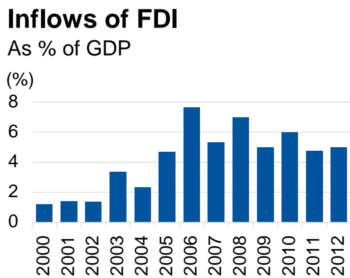
Uruguay’s Country Ceiling of ‘BBB+’ reflects the absence of capital controls or current account restrictions that could lead to transfer and convertibility risks. The country’s vulnerability to significant balance-of-payment pressures is reduced by the presence of an offshore banking system, exchange rate flexibility, strong supervision and high levels of international reserves.

Figure 1



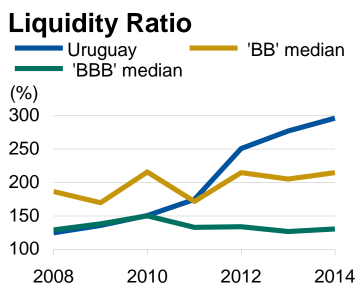

Source: Banco Central and Fitch

Figure 2



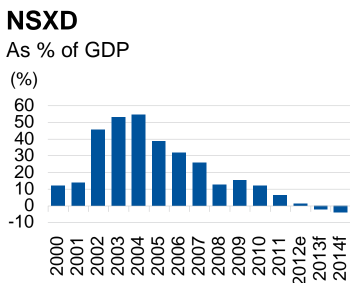

Source: IFS and Fitch

Figure 3




Source: Fitch

Figure 4




Source: IFS and Fitch

## Outlook and Key Issues

### Domestic Demand Outperforms in 2012

Despite deteriorating external conditions among its main trade partners, Uruguay's economy was resilient in 2012 thanks to a dynamic domestic sector, with GDP growth decelerating to 3.6%, slightly below potential (4%). Household consumption was particularly robust supported by historically low unemployment rates and large gains in real wages. Investment growth almost doubled to 10.5% as large export-oriented projects approached completion, while companies targeting the domestic market bet private consumption would remain strong in the near future. A larger deficit in net exports dragged down GDP growth, which was fuelled by weaker demand and moderate import expansion. Five-year average GDP growth at 5.6% is well above the median in the 'BBB' category.

Foreign direct investment (FDI) is flowing into Uruguay attracted by its strong structural features, large natural endowments, and its free-trade access to the growing Mercosur market. FDI inflows averaged 5.6% of GDP between 2005 and 2012, the third-highest rate in Latin America (after Chile and Panama), and above the median in the 'BBB' category. While the FDI share going to construction and agribusiness represents half of total inflows, the rest supports manufacture, retail, hospitality and communications, with important spill-overs and productivity gains for the overall economy. Productivity growth has driven economic expansion since 2004, and its trajectory will determine future growth prospects given negligible demographic growth and near full employment.

Fitch expects Uruguay's economy to expand by 4.2% in 2013 as conditions improve in its main trade partners, particularly Brazil, boosting the demand for Uruguayan exports. The economy is also expected to receive a boost from the H213 opening of Montes del Plata, a cellulose pulp mill and the largest private investment in Uruguayan history. The project is currently under construction and its exports alone could contribute almost 1.1% to GDP in the first year of operation (pro-rated between 2013 and 2014). There are large mining and oil investment projects in the pipeline although they are unlikely to materialise in the next two years. They could, however, improve Uruguay's potential growth and foreign-exchange earning capacity in the medium term. Advances in public infrastructure are slow despite the existing framework for public-private partnerships (PPP) and a pipeline of potential projects.

### Stronger External Balance Sheet

Moderate current account deficits, favourable export dynamics and improvements in external liquidity have increased Uruguay's resilience to external shocks. Proactive and prudent external financing initiatives reduced external financing risks.

Uruguay's external liquidity recently surpassed those of its peers in the 'BBB' rating category, and could improve further during the next two years thanks to steady flows of FDI. The government has negotiated contingent credit lines with multilaterals of over USD2.0bn in case conditions in global markets deteriorate. The accumulation of foreign assets reduces the exposure of GG debt to a sudden depreciation of the currency.

To shield the economy from an unexpected loss of access to financial markets, the authorities in Uruguay set up in 2009 a policy to maintain liquid assets at a minimum of 12 months of debt amortisation. By the end of 2012, the central government had over USD2.4bn in liquid assets, while sovereign FC debt amortisation between 2013 and 2014, including multilaterals, is less than USD1bn. While the sovereign remains a net external debtor, its position has improved in recent years, and Fitch estimates it could become a NSX creditor in 2013.

Last year was particularly challenging for exports. Affected by weaker export demand from key partners, Uruguayan exporters were forced to deepen access to new and traditional markets, resulting in export revenue advancing 10.5%. Exports to Brazil, Uruguay's main trade partner, advanced only 3.4%, down from 14.5% in 2011, while sales to European countries and

Argentina felt 14.2% and 14.4%, respectively. Imports advanced 8.1% in 2012 mainly fuelled by intermediate goods, particularly oil derivatives for power generation after a drought affected hydropower generation. Despite adverse external conditions, the trade deficit decreased to 2.8% of GDP in 2012 from 4.8% of GDP in 2011.

The balance of services is estimated to have shown a deficit in 2012 (data available to Q312) due to weaker activity in logistics and tourist arrivals, particularly in Q412. Visitors from Argentina, which represent 63% of total arrivals, were resilient in the first three quarters of 2012 and advanced 6.3% yoy, despite the difficulties faced by visitors in obtaining FX. Incoming tourists from other countries, however, decreased 20% during the same period, for a 3.3% overall reduction.

Fitch estimates that the current account deficit for 2012 reached 3.7% of GDP, and was entirely financed by FDI and capital inflows, leaving room for a rise in foreign reserves to USD3.2bn (6.4% of GDP). A smaller current account deficit could be expected in 2013 thanks to better results in the trade balance. In particular, Montes del Plata should start operations in the second half of the year, and its negative impact on the trade balance (imports of capital goods) should turn positive thanks to its pulp exports. At the same time, imports of oil derivatives could decrease as weather conditions normalise.

Figure 5

**Average Maturity of CG Debt (Latest Available)**

| Rating | BBB | | BB |
|---|---|---|---|
| Aruba | 10.5 | Costa Rica | 6.6 |
| Brazil | 5.7 | El Salvador | 12.3 |
| Bulgaria | 8.2 | Gabon | 5.6 |
| Colombia | 6.6 | Georgia | 11.3 |
| Iceland | 5.4 | Guatemala | 19.5 |
| India | 9.7 | Hungary | 4.8 |
| Indonesia | 10.2 | Macedonia | 4.2 |
| Ireland | 4.2 | Philippines | 10.6 |
| Kazakhstan | 7.0 | Portugal | 7.0 |
| Latvia | 4.5 | Serbia | 6.2 |
| Lithuania | 5.2 | Sri Lanka | 8.2 |
| Mexico | 8.2 | Tunisia | 7.1 |
| Morocco | 5.5 | Uruguay | 11.7 |
| Namibia | 6.2 | | |
| Panama | 12.5 | | |
| Peru | 13.1 | | |
| Romania | 3.4 | | |
| Russia | 8.1 | | |
| San Marino | 4.0 | | |
| South Africa | 10.6 | | |
| Spain | 6.3 | | |
| Thailand | 7.9 | | |
| Turkey | 4.6 | | |

Source: Fitch

## Further Improvements in Public Debt Profile

Uruguay's public debt profile is improving thanks to well-timed liability management operations that have extended maturities, reduced dollarisation, and deepened markets for Uruguayan debt. The government has created benchmarks at different maturities and increased transparency and predictability on bond placements in the local market.

Authorities in Uruguay have prepaid debt with multilateral organizations as the sovereign's debt-financing costs have fallen, in some cases, below multilateral lending rates. As part of the same strategy, Uruguay has secured contingent credit lines with multilateral organizations instead of accumulating more costly financial assets for precautionary reasons. By the end of 2012, the government had USD1.5bn in such lines.

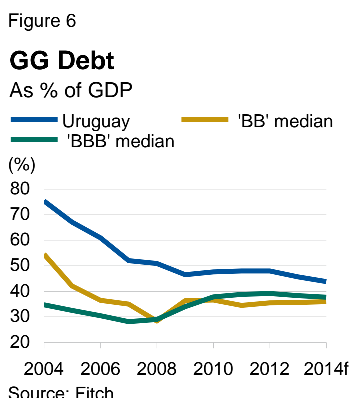
Fitch estimates GG debt at 47.9% of GDP at the end of 2012. This is above the medians in both 'BB' and 'BBB' categories. GG debt in Uruguay in 2012 would decrease to 43.3% of GDP if debt issued to capitalise Uruguay's central bank was excluded.[1] To counterbalance high debt ratios, Uruguay's amortisation schedule is among the lightest in the category at only 1.1% of GDP per year in 2013 and 2014, which is fully covered by government's liquid assets. After the last liability management operation (November 2012), the average maturity of the debt increased from 11.2 to 11.7 years, one of the longest among sovereigns rated by Fitch.

Efforts to develop the local bond market continued in 2012. Auctions of local debt now follow a schedule for the upcoming six months, with the government alternating three benchmark bonds to provide depth and liquidity to investors. Interest from foreign investors increased in 2012, thus diversifying the traditional investor base of local pension funds, insurance companies, and banks.

Figure 6

**GG Debt**

As % of GDP




Source: Fitch

## Strong Link Between Wages and Inflation

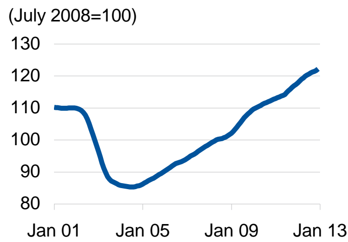
Workers in Uruguay have benefited from fast growth in real wages. Strong economic growth and productivity gains allowed real wages to grow so that by 2009 they surpassed levels seen before the 2002-2003 economic crisis. Increases since 2010, however, are not entirely aligned with fundamentals, affecting inflation as labour cost increases are transferred to consumers.

[1] In 2010 Uruguay issued an equivalent to USD1.9bn in perpetual bonds (denominated in UI) and USD486m in 30-year bonds to capitalise the BCU corresponding to 2009 results. There were additional issuances for USD85m and USD42m for 2010 and 2011, respectively. These bonds are not negotiable.

Figure 7

**Real Wage Index**

(July 2008=100)




Source: INE and Fitch

Figure 8

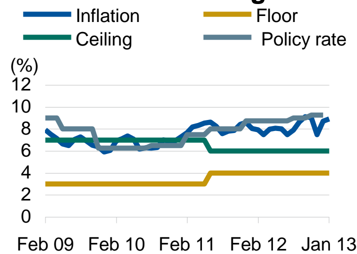
**Wage Negotiations Timeline**

| Year | Agreements (no.) | Total (%) |
|---|---|---|
| 2012 | 70 | 30.7 |
| 2013 | 139 | 61.0 |
| 2014 | 10 | 4.4 |
| 2015 | 9 | 3.9 |
| **Total** | **228** | **100.0** |

Source: Ministry of Labour and Fitch

Figure 9

**Inflation Above Targets**




Source: Central Bank and Fitch

There are secondary effects as workers' high marginal propensity to consume fuels domestic demand, imposing further pressures on inflation.

Wage negotiations in Uruguay are handled by a Wage Council composed of three members representing workers, companies and the government, the latter with veto power. Economic guidelines by the Ministry of Finance provide the basis for the negotiations, to which productivity gains, sector's performance, and adjustment for unexpected past inflation are added. Over 61% of existing wage agreements will be negotiated in 2013, setting up wage trajectories for the next three years. Concerned about inflation, the government used its veto power and capped wage increases in negotiations held late in 2012, signalling that more moderation could be expected in the upcoming deals.

Inflation has consistently exceeded the central bank's targets since 2010, and by late 2012 was approaching 10%[2]. In December 2012, however, the state-owned public utility UTE cut tariffs for almost 20% of households in good standing, and thus reduced inflation in the CPI housing category. In addition, three-month price agreements to limit price increases on certain food products were already operating. End-of-the-year inflation decelerated to 7.5% from 9% in November, setting a lower inflation level for the wage negotiations to the unions' discontent. Annual inflation rebounded in 2013, and by February reached 8.9% as price agreements expired and tariff cuts were reversed.

The central bank increased the monetary policy rate and reserve requirements during 2012 to contain inflation. The monetary policy rate reached 9.25% in January 2013 from 8% a year earlier, but given past and future inflation, Fitch considers the current monetary stance to be still expansionary. Low financial intermediation and high dollarisation creates difficulties for monetary policy, affecting the central bank's ability to guide inflation expectations towards the announced target. Additional increases in the monetary policy rate could accelerate the inflow of portfolio investments, adding to appreciation pressures on the local peso and undermining Uruguay's competitiveness.

An improvement in the policy mix, whereby a conservative fiscal policy supports the monetary authorities' objectives, and a more prudent wage policy in line with productivity gains, could result in lower inflationary pressures.

## Extraordinary Events Affected Fiscal Results in 2012

Central government revenues retreated 0.4% of GDP in 2012, with 0.3% of GDP explained by lower profit transfers from public companies. A severe drought increased UTE's power generation costs by 1% of GDP, which were not transferred to users as a measure to contain inflation. UTE's weaker financial position was partially compensated for by better results across other public companies, and by the use of the outstanding balance in the Energy Stabilization Fund (FEE), equivalent to 0.3% of GDP[3].

Primary current expenditure increased 1.8% of GDP in 2012 through a combination of direct and indirect effects from higher wages, transfers, and social security costs. There was also a moderate increase in public investment of 0.2% of GDP. Extraordinary expenditure for 0.4% of GDP includes a settlement between the government and the owners of a bank liquidated in the 2002 crisis, and costs related with the shutdown of Pluna airline that is partially state-owned. Fitch calculates that the general government (GG) deficit in 2012 was 2.7% of GDP. After correcting for extraordinary items, both on revenue and expenditure, the GG deficit in 2012 reached 1.7% of GDP, almost double the figure observed in 2011.

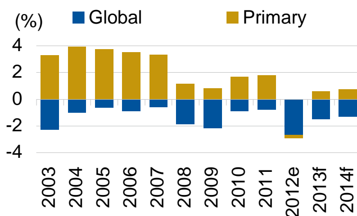
[2] Wage negotiations are automatically ignited in some industries when annual consumer inflation exceeds 10%.

[3] Following a similar drought in 2010 the government set up the FEE with an initial contribution of USD150m. Funds are automatically transferred to generators when certain hydraulic conditions materialized. The government and SOEs are currently analyzing the use of insurance against adverse weather conditions affecting energy generation.

Figure 10

**GG Balances**

As % of GDP




Source: Ministry

Figure 11

## Public Finances: Sources and Uses (% GDP)

| | 2011 | 2012 | 2013e | 2014f |
|---|---|---|---|---|
| **Uses** | **6.6** | **5.0** | **3.0** | **1.9** |
| Budget balance | 0.6 | 2.0 | 1.0 | 0.7 |
| Amortisation | 5.8 | 2.4 | 1.1 | 1.2 |
| Other | 0.2 | 0.6 | 0.9 | 0.0 |
| **Sources** | **6.6** | **5.0** | **3.0** | **1.9** |
| Gross borrowing | 10.3 | 5.2 | 2.6 | 1.9 |
| Other | 0.3 | 0.2 | 0.4 | 0.0 |
| Uses of assets (+ indicates reduction) | -3.9 | -0.4 | 0.0 | 0.0 |

Source: Fitch

The fiscal consolidation strategy relies on containing public expenditure in the absence of revenue enhancing reforms. Fitch estimates that GG deficits could decrease to 1.5% and 1.3% of GDP in 2013 and 2014, respectively. Adverse weather conditions affecting power generation, in the absence of tariffs hikes and funds available at the FEE, and large increases in wages could undermine Uruguay's fiscal consolidation. However, the conservatism of Uruguay's policy makers means that high fiscal deficits are unlikely unless there is a large economic shock.

## Political Conflict

Differences within the administration of President Jose Mujica have widened and are becoming more evident by the fractious relations between parties under the Frente Amplio (FA) ruling coalition. The Astorismo, a faction headed by Vice President Danilo Astori, controls the Ministry of Economy and Finance since the administration of President Tabare Vázquez in 2005, and has mostly implemented orthodox economic policies. More left-leaning FA factions, including Mr Mujica's Movement of Popular Participation (MPP), would prefer left-wing economic policies, including higher taxes on companies and setting up taxes on large-scale land ownership.

Tensions ignited in 2012 when Uruguay's Budget and Planning Office (OPP), President Mujica's arm for economic planning, submitted a bill to impose taxes on large-scale land ownership without co-ordinating with the Ministry of Finance. The bill was expected to generate tax revenues of USD60m, with the proceeds to be allocated to rural roads maintenance. In February 2013, the Supreme Court ruled out the bill on constitutional grounds, reviving discontent between the factions to a point that threatened the permanence of the Astorismo in the Ministry of Economy.

Presidential elections are scheduled for October 2014, preceded by primaries in June. Recent polls suggest that FA leads on voting intentions without a genuine contender from the opposition parties. Former president Tabaré Vázquez (FA) has not yet announced his decision to run for re-election in 2014 and is most likely waiting to see how Uruguayan economy progresses and the outcome of FA internal disputes. Vázquez remains the key figure in the FA and the only person capable of conciliating all factions in the coalition. His re-election could guarantee continuity for policy making implemented by FA since his first mandate in 2005.

## Forecast Summary

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013e | 2014f |
|---|---|---|---|---|---|---|---|
| **Macroeconomic indicators and policy** | | | | | | | |
| Real GDP growth (%) | 7.2 | 2.4 | 8.9 | 5.7 | 3.6 | 4.2 | 3.9 |
| Unemployment (%) | 7.6 | 7.3 | 6.7 | 6.0 | 6.1 | 6.6 | 6.4 |
| Consumer prices (annual average % change) | 7.9 | 7.1 | 6.7 | 8.1 | 8.1 | 7.8 | 6.8 |
| Short-term interest rate (%)[a] | 6.1 | 5.8 | 4.6 | 5.8 | 6.8 | 7.6 | 7.6 |
| General government balance (% of GDP) | -1.9 | -2.2 | -0.9 | -0.8 | -2.7 | -1.5 | -1.3 |
| General government debt (% of GDP) | 50.8 | 46.5 | 47.5 | 47.9 | 47.9 | 45.4 | 43.3 |
| UYU per USD (annual average) | 20.9 | 22.6 | 20.1 | 19.3 | 20.3 | 19.3 | 19.4 |
| Real effective exchange rate (2000 = 100) | 89.5 | 93.5 | 106.0 | 110.4 | 117.8 | 111.6 | 112.6 |
| **External finance** | | | | | | | |
| Current account balance (USDbn) | -1.7 | -0.4 | -0.9 | -1.4 | -1.8 | -0.9 | -0.8 |
| Current account balance (% of GDP) | -5.7 | -1.5 | -2.2 | -3.1 | -3.7 | -1.5 | -1.2 |
| Current account balance plus net FDI (% of GDP) | 1.3 | 3.5 | 3.8 | 1.6 | 1.3 | 2.8 | 1.7 |
| Net external debt (USDbn) | -6.0 | -6.7 | -9.4 | -10.5 | -11.3 | -12.8 | -13.7 |
| Net external debt (% of GDP) | -19.6 | -21.9 | -23.8 | -22.4 | -22.5 | -21.7 | -21.0 |
| Net external debt (% of CXR) | -57.7 | -71.5 | -83.3 | -78.2 | -79.7 | -77.3 | -73.9 |
| Official international reserves including gold (USDbn) | 6.4 | 8.0 | 7.7 | 10.3 | 13.6 | 15.9 | 17.3 |
| Official international reserves (months of CXP cover) | 6.3 | 9.8 | 7.6 | 8.3 | 10.2 | 10.9 | 10.7 |
| External interest service (% of CXR) | 6.6 | 8.8 | 7.5 | 4.5 | 4.6 | 4.3 | 3.7 |
| Gross external financing requirement (% int. reserves) | 62.0 | 19.7 | 23.7 | 39.1 | 27.3 | 13.8 | 12.0 |
| **Memo: Global forecast summary** | | | | | | | |
| **Real GDP growth (%)** | | | | | | | |
| US | -0.3 | -3.5 | 3.0 | 1.7 | 2.2 | 2.3 | 2.8 |
| Japan | -1.0 | -5.5 | 4.5 | -0.7 | 1.6 | 1.5 | 1.3 |
| Euro area | 0.3 | -4.2 | 1.8 | 1.5 | -0.4 | 0.9 | 1.5 |
| World | 1.5 | -2.3 | 4.0 | 2.7 | 2.1 | 2.6 | 3.0 |
| **Commodities** | | | | | | | |
| Oil (USD/barrel) | 97.7 | 61.9 | 79.6 | 111.0 | 110.0 | 100.0 | 100.0 |

Source: Fitch

## Comparative Analysis: Macroeconomic Performance and Policies

### Uruguay

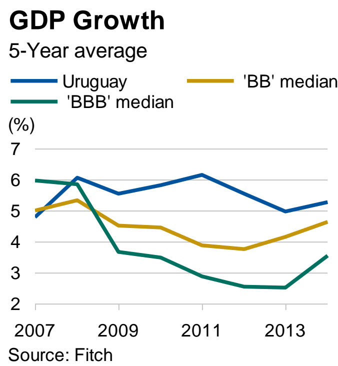
| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Indonesia BBB− | Turkey BBB− | Colombia BBB− | Philippines BB+ | Uruguay BBB− | BB median | BBB median |
| Real GDP (5yr average % change) | 5.9 | 3.3 | 3.7 | 4.7 | 5.6 | 3.8 | 2.5 |
| Volatility of GDP (10yr rolling SD) | 0.7 | 4.5 | 1.6 | 1.9 | 2.5 | 2.3 | 3.4 |
| Consumer prices (5yr average) | 5.9 | 8.2 | 4.0 | 4.9 | 7.6 | 6.0 | 4.7 |
| Volatility of CPI (10yr rolling SD) | 2.9 | 5.5 | 1.6 | 1.8 | 4.0 | 2.9 | 2.5 |
| Years since double-digit inflation | 6.0 | 4.0 | 13.0 | 18.0 | 8.0 | n.a. | n.a. |
| Unemployment rate | 6.3 | 9.0 | 10.2 | 6.5 | 6.1 | 10.8 | 7.5 |
| Type of exchange rate regime | Managed float | Free float | Managed float | Free float | Managed float | n.a. | n.a. |
| Dollarisation ratio | 14.7 | 29.0 | 0.0 | 20.0 | 72.1 | 57.5 | 20.6 |
| REER volatility (10yr rolling SD) | 8.4 | 8.1 | 7.7 | 5.8 | 10.2 | 5.9 | 5.8 |

Source: Fitch

Figure 12

**GDP Growth**

5-Year average




Source: Fitch

### Strengths

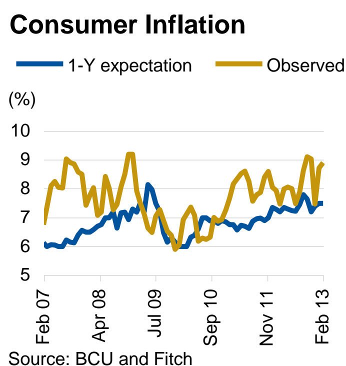
- Uruguay's five-year growth has outperformed peers in the 'BBB' rating category. The country has shown improved resilience against external shocks.
- Unemployment in Uruguay has reached a historical low thanks to economic dynamism across most industries, including labour-intensive sectors such as tourism, construction and IT development. Unemployment is below other countries in Uruguay's rating category.
- Official intervention in the FX market is limited, mainly to smooth transaction volumes through time. The 2002-2003 overshoot has been followed by a consistent appreciation of the local peso. Exports competitiveness has been moderately offset by favourable commodity prices and large productivity gains.

### Weaknesses

- Inflation, GDP growth and exchange rate volatility remain above the 'BBB' range median, dragged up by the impact of the 2002-2003 crisis.
- Price inflation is above the median in the 'BBB' range in response to strong consumer demand, and higher labour costs. Inflation has remained above the central bank's targets since early 2011.
- Dollarisation remains high compared with peers despite substantial progress in lowering credit dollarisation for sectors with income earned in local currency (mainly families).

Figure 13

**Consumer Inflation**




Source: BCU and Fitch

### Commentary

Monetary policy faces the challenges of high dollarisation (72.1% of deposits were in FC at the end of 2012), a small domestic capital market and limited financial intermediation. These factors partially constrain policy effectiveness to bring inflation down to the target set by the authorities due to a weak interest rate transmission channel. BCU has increased interest rates and reserve requirements several times since July 2010 to contain inflation and guide expectations down, although with limited success. Additional interest-rate hikes could accelerate portfolio inflows imposing further pressure on the exchange rate (it appreciated 11.5% in H212).

## Comparative Analysis: Structural Features

### Uruguay

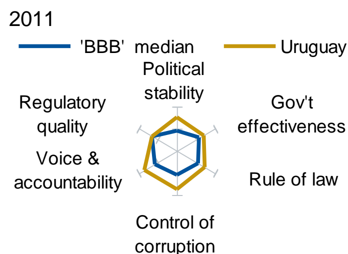
| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Indonesia BBB− | Turkey BBB− | Colombia BBB− | Philippines BB+ | Uruguay BBB− | BB median | BBB median |
| GNI per capita PPP (USD, latest) | 4,530 | 16,730 | 9,640 | 4,160 | 14,740 | 6,415 | 14,360 |
| GDP per capita (USD, mkt exchange rates) | 3,653 | 10,675 | 7,790 | 2,621 | 15,419 | 4,080 | 10,288 |
| Human Development Index (percentile, latest) | 33.3 | 50.5 | 53.7 | 39.7 | 74.7 | 46.5 | 64.5 |
| Ease of Doing Business (percentile, latest) | 31.0 | 62.0 | 76.1 | 25.6 | 52.2 | 47.3 | 70.7 |
| Trade openness (CXR and CXP % GDP) | 26.8 | 29.5 | 21.4 | 34.0 | 30.1 | 52.0 | 48.6 |
| Gross domestic savings (% GDP) | 37.1 | 16.3 | 22.2 | 16.9 | 18.2 | 15.6 | 23.1 |
| Gross national savings (% GNP) | 32.9 | 14.0 | 21.3 | 23.2 | 16.9 | 16.7 | 24.6 |
| Gross domestic investment (% GDP) | 33.8 | 21.2 | 23.5 | 20.3 | 20.1 | 21.4 | 23.2 |
| Private credit (% GDP) | 33.1 | 50.7 | 47.0 | 31.8 | 23.5 | 36.0 | 62.7 |
| BSR indicators | bb3 | bbb3 | bbb2 | bb1 | bb1 | n.a. | n.a. |
| Bank system CAR | 16.1 | 16.5 | 15.3 | 17.6 | 16.0 | 16.4 | 15.9 |
| Foreign bank ownership (% assets) | 30 | 16.3 | 20.1 | 11.9 | 53.7 | 53.7 | 37.2 |
| Public bank ownership (% assets) | 44 | 29.7 | 14.4 | 12.6 | 46.3 | 30.0 | 18.0 |
| Default record (year cured)[a] | 2002 | 1982 | | 1992 | 2003 | n.a. | n.a. |

[a] Uruguay concluded an exchange offer for all foreign-currency bond debt on 22 May 2003
Source: Fitch and World Bank

Figure 14

**Governance Indicators**

2011




Source: World Bank

## Strengths

- Uruguay's institutional strength stands out among rating and regional peers, reducing the risk of social and political instability. Institutions are regarded as transparent and relatively free of corruption.
- Social risks are reduced thanks to the country's high GDP per capita; superior social indicators, as measured by the United Nations' Human Development Index; declining poverty and unemployment; and relatively low income inequality. Further improvements are materialising as the current government prioritises housing, education, security, infrastructure and safety net enhancements.

## Weaknesses

- Uruguay ranks 89th (out of 183 economies) in the 2013 World Bank's Ease of Doing Business. Despite some recent improvements, further reforms are needed for the economy to use its highly educated population and take advantage of low corruption and political stability.
- High birth rates in low-income segments of the population could create social problems in the medium term if income distribution and education fail to improve. There is evidence that violence and delinquency is already rising despite strong economic performance.
- Domestic savings increased in recent years thanks to improved economic conditions, but remain lower than the median in the 'BBB' rating category. Investment has also recovered, but lags its peers.

## Commentary

The banking sector is classified 'bb' according to Fitch's Banking System Indicator (BSI). The system's Macro Prudential Indicator (MPI), however, is '1', which indicates that it has "low" potential vulnerability to systemic stress. The Uruguayan financial system is highly liquid and well capitalised. Asset quality is strong, with non-performing loans representing less than 2.0% of credit portfolios, which are highly provisioned for losses. The dynamic provisioning system was slightly relaxed in 2012 as reserves were considered excessive, and one of the elements affecting banks' profits.

The financial system is not dependent on foreign capital, and loan exposure to non-residents is low. Public banks dominate, with two institutions accounting for 46% of total assets. Non-resident deposits, particularly from Argentina, have decreased from peak levels in 2001 (43%), and by 2012 were only 15.8%.

## Comparative Analysis: External Finances

### Uruguay

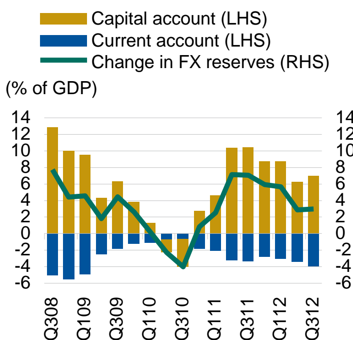
| | 2012 | | | | | Last 10 years | |
|---|---|---|---|---|---|---|---|
| | Indonesia BBB− | Turkey BBB− | Colombia BBB− | Philippines BB+ | Uruguay BBB− | BB median | BBB median |
| GXD (% CXR) | 105.9 | 180.4 | 105.9 | 89.9 | 146.4 | 102.3 | 103.0 |
| GXD (% GDP) | 27.4 | 46.6 | 21.1 | 31.9 | 41.3 | 41.0 | 48.1 |
| NXD (% CXR) | 34.3 | 93.4 | 8.7 | -46.7 | -79.7 | 5.5 | 12.2 |
| NXD (% GDP) | 8.9 | 24.1 | 1.7 | -16.5 | -22.5 | 2.3 | 4.6 |
| GSXD (% GXD) | 50.1 | 37.3 | 55.0 | 58.4 | 70.3 | 49.6 | 30.8 |
| NSXD (% CXR) | 3.8 | 13.0 | 2.0 | -41.4 | 4.2 | 2.8 | -10.3 |
| NSXD (% GDP) | 1.0 | 3.3 | 0.4 | -14.7 | 1.2 | 1.5 | -5.4 |
| SNFA (USDbn) | -6.7 | -26.6 | -1.5 | 37.2 | -0.6 | -0.1 | 4.8 |
| SNFA (% GDP) | -0.7 | -3.3 | -0.4 | 14.7 | -1.2 | -1.2 | 6.4 |
| Ext. debt service ratio (% CXR) | 30.7 | 30.7 | 14.0 | 8.5 | 11.4 | 13.1 | 15.0 |
| Ext. interest service ratio (% CXR) | 5.4 | 3.9 | 5.3 | 2.9 | 4.6 | 3.6 | 4.2 |
| Liquidity ratio (latest) | 92.1 | 72.9 | 166.6 | 332.9 | 250.7 | 172.2 | 138.5 |
| Current account balance (% GDP) | -1.9 | -7.3 | -3.0 | 3.0 | -3.7 | -2.4 | -1.9 |
| CAB plus net FDI (% GDP) | -0.4 | -5.5 | 0.6 | 3.3 | 1.3 | 1.3 | 0.5 |
| Commodity dependence (% CXR, latest) | 56.6 | 16.5 | 67.7 | 19.8 | 51.8 | 24.2 | 23.4 |
| Sovereign net FX debt (% GDP) | -2.0 | -0.8 | 0.5 | -14.0 | -4.5 | -0.2 | -6.0 |

Source: Fitch

Figure 15

**Balance of Payments**

Moving year

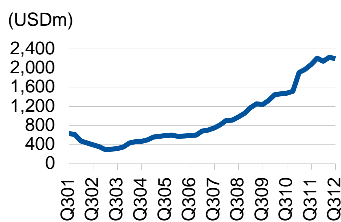



Source: Central Bank and Fitch

Figure 16

**Tourism Revenues**

(Rolling year)




Source: BCU and Fitch

### Strengths

- Current account deficits are adequately financed by surpluses in the financial account, mainly FDI. Imports' composition is good evidence of capital accumulation.
- The liquidity ratio is strengthening thanks to an important build-up in foreign assets by the central bank and local banking institutions in recent years.
- Uruguay's overall net external creditor position is robust relative to the median in the 'BBB' rating category, driven by the net external creditor position of banks.
- The sovereign maintains FC liquid assets to cover at least 12 months of debt service, and has secured precautionary credit lines to shield the economy against financial volatility.

### Weaknesses

- Uruguay's gross external debt is considerably higher than that of peers in current external receipts (CXR) terms. However, 21% of gross external debt consists of foreign-currency deposits from non-residents in the local financial system.
- Net sovereign external debt was 4.1% of CXR, higher than the 'BBB' median. Nevertheless, the sovereign shows an extremely light repayment schedule relative to its peers, with the third-highest debt duration among sovereigns rated by Fitch.

### Commentary

High dependence on the cattle and agriculture industries (21% and 25% of the country's total goods exports in 2012, respectively) exposes Uruguay to price fluctuations in the commodity markets. Soybeans, once barely produced in Uruguay in 2001, became in 2012 the third-largest contributor to FX generation after tourism and beef exports thanks to large inflows of FDI into the sector, with further investment expected in the coming years. However, a correction in commodity prices could be compensated for by a similar move for oil and energy imports, which in 2012 represented 24% of total goods imports, mitigating any negative impact.

Tourism contributed over 15% of total FX generation in Uruguay, with Argentina as the main origination country. Despite increasing difficulties for Argentine tourists in obtaining foreign currency, arrivals have remained resilient, in part thanks to proactive measures by the Uruguayan government at low fiscal cost. Further FX restrictions or economic turmoil in Argentina could affect the tourism sector in Uruguay.

## Comparative Analysis: Public Finances

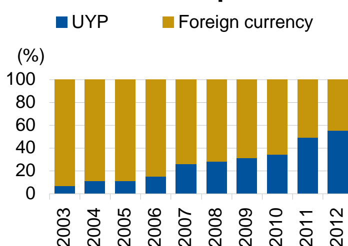
### Uruguay

| | 2012 | | | | | Last 10 years | |
|---|---|---|---|---|---|---|---|
| | Indonesia BBB− | Turkey BBB− | Colombia BBB− | Philippines BB+ | Uruguay BBB− | BB median | BBB median |
| Budget balance (% GDP) | -2.2 | -1.9 | -0.7 | -0.4 | -2.7 | -2.2 | -2.6 |
| Primary balance (% GDP) | -1.1 | 1.0 | 2.0 | 2.4 | -0.2 | 0.2 | -0.2 |
| Revenues and grants (% GDP) | 16.4 | 36.7 | 26.1 | 18.4 | 28.3 | 27.4 | 32.3 |
| Volatility of revenues/GDP ratio | 9.4 | 5.9 | 6.1 | 4.0 | 0.8 | 6.2 | 6.1 |
| Interest payments (% revenue) | 6.8 | 9.6 | 10.5 | 14.7 | 8.6 | 9.1 | 6.7 |
| Debt (% revenue) | 147.3 | 101.3 | 139.1 | 219.6 | 169.0 | 161.7 | 122.4 |
| Debt (% GDP) | 24.1 | 37.2 | 36.3 | 40.3 | 47.9 | 39.9 | 35.7 |
| Net debt (% GDP) | 22.4 | 33.8 | 31.9 | 34.6 | 43.0 | 33.4 | 30.4 |
| FC debt (% total debt) | 44.8 | 35.6 | 28.9 | 47.9 | 47.1 | 64.7 | 36.3 |
| CG debt maturities (% GDP) | 2.0 | 7.3 | 3.0 | 6.6 | 1.3 | 4.9 | 5.5 |
| Average duration of CG debt (years) | n.a. | 2.6 | 4.6 | n.a. | 12 | 3.7 | 5.4 |

[a] GG if not otherwise specified
Source: Fitch

Figure 17

**Public Debt Composition**




Source: Fitch

### Strengths

- Government revenue has shown greater resilience than that of peers, as reflected by low revenue volatility.
- Proactive and adept liability management has led to a rapid improvement in debt composition in terms of currency, reducing exchange rate risk. Central government debt maturities remain below those of category peers and higher-rated sovereigns, while the average duration of central government debt stood at 12 years in 2012, substantially above the ‘BBB’ median.

### Weaknesses

- Uruguay’s debt burden remains above the 10-year ‘BBB’ median. General government debt excluding the BCU capitalisation (USD2.4bn) was equivalent to 43.4% of GDP at end-2012 (38.2% of GDP in net terms), still above the ‘BBB’ median.
- Despite the room for faster fiscal consolidation provided by strong economic growth, advances have been slow due to increases in social investment. Additional expenditure in health, education and pensions would reinforce Uruguay’s already strong structural features, but would also increase spending rigidities.
- The government does not transfer higher energy-generation costs entirely to consumers, with weaker results of public utilities affecting fiscal accounts.

### Commentary

In the absence of a fiscal rule, Uruguay’s fiscal anchor comes from the multi-annual budget framework, which, after congressional approval, defines at the beginning of a new presidential period the trajectory of fiscal balances. Progress towards these goals is revised every year, with authorities explaining any deviation and announcing measures to pursue convergence. In addition, since 2006 the Indebtedness Limit Law has set a cap on net public debt increases for any given year, further strengthening the fiscal framework.

The favourable economic cycle during the next two years could support the strengthening of public finances and the reduction in central government deficits. This would lead not only to a faster reduction in the government’s debt burden, but also to an increase in the flexibility of fiscal policy to deal with external shocks.

Figure 18

## Fiscal Accounts Summary

| (% of GDP) | 2009 | 2010 | 2011 | 2012 | 2013e | 2014f |
|---|---|---|---|---|---|---|
| **General government** | | | | | | |
| **Revenue** | **28.8** | **29.8** | **28.8** | **28.3** | **28.9** | **29.1** |
| **Expenditure** | **30.9** | **30.7** | **29.6** | **31.0** | **30.4** | **30.4** |
| O/w interest payments | 3.0 | 2.6 | 2.6 | 2.4 | 2.1 | 2.0 |
| | | | | | | |
| Primary balance | 0.8 | 1.7 | 1.8 | -0.2 | 0.6 | 0.7 |
| **Overall balance** | **-2.2** | **-0.9** | **-0.8** | **-2.7** | **-1.5** | **-1.3** |
| | | | | | | |
| **General government debt** | **46.5** | **47.5** | **47.9** | **47.9** | **45.4** | **43.3** |
| % of general government revenue | 161.8 | 159.3 | 166.0 | 169.0 | 157.0 | 148.8 |
| | | | | | | |
| General government deposits | 9.4 | 4.9 | 7.2 | 7.2 | 5.9 | 5.2 |
| Net general government debt | 44.1 | 42.5 | 39.3 | 43.0 | 39.7 | 37.8 |
| | | | | | | |
| **Central government** | | | | | | |
| **Revenue** | **21.0** | **21.2** | **21.1** | **20.4** | **20.8** | **20.8** |
| O/w grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Expenditure and net lending** | **22.6** | **22.4** | **21.7** | **22.4** | **21.8** | **21.5** |
| O/w current expenditure and transfers | 18.1 | 18.2 | 17.7 | 18.5 | 18.4 | 18.1 |
| - Interest | 2.8 | 2.4 | 2.5 | 2.4 | 2.1 | 2.1 |
| O/w capital expenditure | 1.6 | 1.7 | 1.5 | 1.5 | 1.3 | 1.3 |
| | | | | | | |
| Current balance | 2.9 | 3.0 | 3.4 | 1.9 | 2.4 | 2.7 |
| Primary balance | 5.8 | 5.4 | 5.9 | 4.2 | 4.5 | 4.8 |
| **Overall balance** | **-1.5** | **-1.2** | **-0.6** | **-2.0** | **-1.0** | **-0.7** |
| | | | | | | |
| Central government debt | 46.5 | 47.5 | 47.9 | 47.9 | 45.4 | 43.3 |
| % of central government revenues | 221.0 | 223.9 | 226.7 | 234.9 | 218.1 | 208.1 |
| | | | | | | |
| **Central government debt (UYUbn)** | **320.1** | **375.2** | **431.8** | **487.5** | **517.2** | **548.7** |
| By residency of holder | | | | | | |
| Domestic | - | - | - | - | - | - |
| Foreign | - | - | - | - | - | - |
| By place of issue | | | | | | |
| Domestic | 104.5 | 153.4 | 205.0 | 146.2 | 155.2 | 164.6 |
| Foreign | 215.6 | 221.8 | 226.8 | 341.2 | 362.0 | 384.1 |
| By currency denomination | | | | | | |
| Local currency | 99.2 | 127.6 | 211.6 | 268.1 | 284.4 | 301.8 |
| Foreign currency | 220.9 | 247.6 | 220.2 | 219.4 | 232.7 | 246.9 |
| In USD equivalent (eop exchange rate) | 11.3 | 12.3 | 11.1 | 11.3 | 12.1 | 12.7 |
| By maturity | | | | | | |
| Less than 12 months (residual maturity) | 8.2 | 22.3 | 19.2 | 12.9 | 12.7 | 15.0 |
| Average maturity (years) | 12.7 | 12.3 | 12.3 | 11.7 | - | - |
| Average duration (years) | 10.3 | 10.4 | 10.2 | 9.7 | - | - |
| **Memo** | | | | | | |
| Non-financial public-sector balance (% GDP) | - | - | - | - | - | - |
| Net non-financial public-sector debt (% GDP) | - | - | - | - | - | - |
| Nominal GDP (UYUbn) | 688.3 | 790.6 | 902.2 | 1,017.8 | 1,140.2 | 1,267.7 |

Source: Ministry of Finance and Fitch estimates and forecasts

Figure 19

## External Debt and Assets

| (USDbn) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Gross external debt** | **13.7** | **14.8** | **15.7** | **13.9** | **16.1** | **16.6** | **20.2** | **19.4** | **18.7** | **20.7** |
| % of GDP | 113.6 | 108.1 | 90.2 | 71.0 | 68.7 | 54.8 | 66.3 | 49.1 | 40.1 | 41.3 |
| % of CXR | 403.6 | 311.2 | 270.5 | 208.1 | 201.4 | 161.4 | 216.4 | 172.2 | 140.1 | 146.4 |
| | | | | | | | | | | |
| **By maturity** | | | | | | | | | | |
| Medium- and long-term | 8.4 | 9.8 | 9.9 | 9.0 | 10.6 | 10.1 | 12.7 | 12.3 | 12.9 | 14.6 |
| Short -term | 5.3 | 5.0 | 5.7 | 4.9 | 5.5 | 6.5 | 7.5 | 7.1 | 5.8 | 6.1 |
| % of total debt | 38.7 | 33.9 | 36.7 | 35.3 | 34.1 | 39.1 | 37.3 | 36.6 | 31.0 | 29.7 |
| | | | | | | | | | | |
| **By debtor** | | | | | | | | | | |
| **Monetary authorities** | **3.0** | **3.2** | **2.6** | **0.1** | **0.3** | **0.3** | **0.5** | **0.4** | **0.2** | **0.4** |
| **General government** | **5.8** | **7** | **7.7** | **9.4** | **11** | **10.7** | **12.8** | **12.7** | **13.5** | **14.2** |
| O/w central government | - | - | - | - | - | - | - | - | - | - |
| **Banks** | **4.6** | **4.5** | **4.9** | **3.7** | **3.9** | **4.7** | **5.2** | **5.3** | **4.0** | **4.3** |
| **Other sectors** | **0.3** | **0.1** | **0.4** | **0.7** | **0.9** | **1.0** | **1.6** | **1.0** | **1.1** | **1.9** |
| | | | | | | | | | | |
| **Gross external assets (non-equity)** | **14.2** | **15.4** | **17.1** | **17.0** | **20.3** | **22.6** | **26.9** | **28.7** | **29.2** | **32.0** |
| International reserves, incl. gold | 2.1 | 2.5 | 3.1 | 3.1 | 4.1 | 6.4 | 8.0 | 7.7 | 10.3 | 13.6 |
| Other sovereign assets nes | 0.4 | 0.2 | 0.5 | 0.2 | 1.2 | 0.8 | 0.7 | 0.7 | 0.5 | 2.2 |
| Deposit money banks' foreign assets | 5.9 | 6.6 | 7.2 | 6.1 | 6.4 | 6.6 | 8.1 | 10.4 | 8.9 | 8.2 |
| Other sector foreign assets | 5.9 | 6.1 | 6.4 | 7.6 | 8.6 | 8.9 | 10.1 | 10.0 | 9.5 | 9.8 |
| | | | | | | | | | | |
| **Net external debt** | **-0.5** | **-0.6** | **-1.5** | **-3.1** | **-4.2** | **-6.0** | **-6.7** | **-9.4** | **-10.5** | **-11.3** |
| % of GDP | -4.5 | -4.3 | -8.5 | -15.9 | -18.1 | -19.6 | -21.9 | -23.8 | -22.4 | -22.5 |
| % of CXR | -16.0 | -12.2 | -25.4 | -46.6 | -53.2 | -57.7 | -71.5 | -83.3 | -78.2 | -79.7 |
| Net sovereign external debt | 6.4 | 7.5 | 6.7 | 6.2 | 6.0 | 3.8 | 4.7 | 4.8 | 2.9 | 0.6 |
| % of GDP | 53.1 | 54.8 | 38.8 | 31.8 | 25.8 | 12.6 | 15.4 | 12.1 | 6.3 | 1.2 |
| Net bank external debt | -1.4 | -2.0 | -2.2 | -2.4 | -2.5 | -1.9 | -2.9 | -5.1 | -4.9 | -3.9 |
| Net other external debt | -5.6 | -6 | -6 | -6.9 | -7.7 | -7.9 | -8.5 | -9 | -8.4 | -7.9 |
| | | | | | | | | | | |
| **Net international investment position** | **0.5** | **0.6** | **1.5** | **3.1** | **4.2** | **6.0** | **6.7** | **9.4** | **10.5** | **11.3** |
| % of GDP | 4.5 | 4.3 | 8.5 | 15.9 | 18.1 | 19.6 | 21.9 | 23.8 | 22.4 | 22.5 |
| | | | | | | | | | | |
| **Sovereign net foreign assets** | **-6.4** | **-7.5** | **-6.7** | **-6.2** | **-6.0** | **-3.8** | **-4.7** | **-4.8** | **-2.9** | **-0.6** |
| % of GDP | -53.1 | -54.8 | -38.8 | -31.8 | -25.8 | -12.6 | -15.4 | -12.1 | -6.3 | -1.2 |
| | | | | | | | | | | |
| **Debt service (principal & interest)** | **2.6** | **1.9** | **2.4** | **3.2** | **1.5** | **1.5** | **1.6** | **1.9** | **2.2** | **1.6** |
| Debt service (% of CXR) | 76.0 | 40.7 | 41.9 | 47.3 | 18.9 | 14.6 | 17.4 | 16.7 | 16.1 | 11.4 |
| Interest (% of CXR) | 18.3 | 15.6 | 14.5 | 13.8 | 11.0 | 6.6 | 8.8 | 7.5 | 4.5 | 4.6 |
| | | | | | | | | | | |
| Liquidity ratio (%) | 71.4 | 80.6 | 84.8 | 79.5 | 115.7 | 124.5 | 135.6 | 150.3 | 174.3 | 250.7 |
| Net sovereign FX debt (% of GDP) | 66.7 | 54.7 | 42.8 | 35.3 | 24.4 | 10.5 | 10.5 | 11.8 | 1.6 | -4.5 |
| **Memo** | | | | | | | | | | |
| Nominal GDP | 12.0 | 13.7 | 17.4 | 19.6 | 23.4 | 30.4 | 30.5 | 39.4 | 46.7 | 50.1 |
| Gross sovereign external debt | | | | | | | | | | |
| Inter-company loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - |

Source: NBP, IMF, World Bank and Fitch estimates and forecasts

Figure 20

## Debt Service Schedule on Medium - and Long-Term Debt at Date

| (USDbn) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017+ |
|---|---|---|---|---|---|---|---|
| **Sovereign** | | | | | | | |
| Multilateral | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 2.0 |
| O/w IMF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.4 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| External bond debt | 1.2 | 0.9 | 0.0 | 0.0 | 0.2 | 0.1 | 11.7 |
| Domestic bond debt | 2.4 | 1.6 | 0.4 | 0.6 | 0.8 | 0.6 | 3.9 |
| **Total sovereign debt service** | 4.0 | 2.9 | 0.6 | 0.8 | 1.2 | 0.9 | 17.7 |
| **Memo** | | | | | | | |
| Non-sovereign public sector | | | | | | | |

Source: Ministry of Finance, Central Bank and Fitch

Figure 21
## Balance of Payments

| (USDbn) | 2009 | 2010 | 2011 | 2012 | 2013e | 2014f |
|---|---|---|---|---|---|---|
| **Current account balance** | **-0.4** | **-0.9** | **-1.4** | **-1.8** | **-0.9** | **-0.8** |
| % of GDP | -1.5 | -2.2 | -3.1 | -3.7 | -1.5 | -1.2 |
| % of CXR | -4.8 | -7.7 | -10.8 | -13.1 | -5.3 | -4.3 |
| | | | | | | |
| **Trade balance** | **-0.5** | **-0.5** | **-1.4** | **-1.3** | **-0.4** | **0.0** |
| Exports, fob | 6.4 | 8.0 | 9.3 | 10.3 | 12.3 | 14.2 |
| Imports, fob | 6.9 | 8.6 | 10.7 | 11.6 | 12.7 | 14.2 |
| | | | | | | |
| **Services, net** | **0.9** | **1.0** | **1.4** | **0.7** | **0.7** | **0.6** |
| Services, credit | 2.2 | 2.6 | 3.4 | 3.3 | 3.5 | 3.7 |
| Services, debit | 1.3 | 1.6 | 2.0 | 2.5 | 2.8 | 3.1 |
| | | | | | | |
| **Income, net** | **-1.0** | **-1.5** | **-1.6** | **-1.4** | **-1.3** | **-1.5** |
| Income, credit | 0.5 | 0.5 | 0.5 | 0.4 | 0.6 | 0.5 |
| Income, debit | 1.5 | 1.9 | 2.1 | 1.9 | 1.9 | 2.0 |
| O/w: Interest payments | 0.8 | 0.8 | 0.6 | 0.6 | 0.7 | 0.7 |
| | | | | | | |
| **Current transfers, net** | **0.1** | **0.1** | **0.1** | **0.1** | **0.1** | **0.1** |
| | | | | | | |
| **Memo** | | | | | | |
| Non-debt-creating inflows (net) | 1.4 | 2.3 | 2.2 | 2.5 | 2.5 | 1.9 |
| O/w equity FDI | 1.4 | 2.3 | 2.2 | 2.5 | 2.5 | 1.9 |
| O/w portfolio equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| O/w other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in reserves (- = increase) | -1.6 | 0.4 | -2.6 | -3.2 | -2.3 | -1.4 |
| Gross external financing requirement | 1.3 | 1.9 | 3.0 | 2.8 | 1.9 | 1.9 |
| Stock of international reserves, incl. gold | 8.0 | 7.7 | 10.3 | 13.6 | 15.9 | 17.3 |

Source: IMF and Fitch estimates and forecasts

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