Fitch Upgrades Uruguay's Foreign Currency IDR to 'BB-'; Outlook Stable

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Fitch Ratings-New York-27 July 2007: Fitch Ratings has upgraded Uruguay's foreign currency sovereign Issuer Default Rating (IDR) to 'BB-' from 'B+', the local currency IDR to 'BB' from 'BB-', and its country ceiling to 'BB+' from 'BB'. The Rating Outlook is Stable. The short-term IDR was affirmed at 'B'. The rating upgrade reflects Uruguay's lower financing needs and its improving public debt dynamics as a result of higher economic growth, conservative fiscal policies, and deft liability management. 'The reduced financing needs of the Uruguayan government due to the full repayment of its IMF obligations and stretching of external bond maturities through liability management transactions make the country more resilient to external shocks,' said Shelly Shetty, Senior Director in Fitch's Sovereign Group. Fitch estimates that the general government's financing needs for 2007 have declined to 5.4% of GDP, compared to last year's estimate of 10.6%. The improved maturity profile as well as Uruguay's comparatively stronger institutions and continued political stability somewhat mitigate concerns posed by Uruguay's heavy public debt burden. 'Fiscal policy has remained consistent with generating primary surpluses large enough to place public debt on a declining trend,' said Shetty. Fitch's public debt dynamics reveal that if Uruguay is able to sustain the general government primary surplus above 2.6% of GDP, and in the absence of external shocks, public debt could reach below 60% of GDP by 2010. In addition, Uruguay consistently met the macroeconomic and fiscal benchmarks under its IMF program, and, in spite of its 'graduation' due to its full debt repayment to the fund in 2006, Fitch expects the government to keep in place the program's main tenets related to fiscal sustainability. Uruguay's GDP growth remains strong, and rising investment directed towards productive projects bodes well for economic growth to remain above the country's historic trend. The increasing diversification of the country's exports in terms of product lines and markets also supports Fitch's positive assessment of growth prospects. Furthermore, robust FDI flows, which are expected to reach 5.1% of GDP in 2007, continue to provide healthy financing for the country's current account deficit. Although there has been a marked improvement, Fitch notes that creditworthiness remains constrained by weaknesses in external solvency and liquidity indicators, as well as by the level and composition of public debt. In 2006, public sector debt equaled 72% of GDP and net external debt reached 112% of broad external receipts, both of which are above the 'BB' median. Moreover, public debt dynamics are highly exposed to fluctuations in the exchange rate, as over 80% of public debt is denominated in foreign currencies. Despite the accumulation of international reserves in recent years, Uruguay's external liquidity remains weaker than rating peers, especially in the context of widespread dollarization of the financial system. Finally, while the authorities have taken steps to improve the strength of the financial system through implementation of stricter prudential regulations and restructuring of some of the state banks, the financial system continues to represent an important risk to the sovereign due to the dominance of state banks and a high degree of financial dollarization. Improvements in currency composition of public debt as well as faster reduction in public and external indebtedness would be positive for Uruguay's credit profile. On the other hand, creditworthiness would be hurt if there are signs of weakening policy framework, especially if the authorities are unable to adjust their fiscal and monetary policies appropriately to an external shock. Contact: Shelly Shetty +1-212-908-0324 or Theresa Paiz-Fredel +1-212-908-0534, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, '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.