



Rating Action: **Moody's upgrades Uruguay's ratings to Baa1; changes outlook to stable**

15 Mar 2024

New York, March 15, 2024 -- Moody's Ratings ("Moody's") has today upgraded the Government of Uruguay's ("Uruguay") long-term issuer and senior unsecured bond ratings to Baa1 from Baa2. Moody's has also upgraded the senior unsecured shelf rating to (P)Baa1 from (P)Baa2 and changed the outlook to stable from positive.

The key drivers of the upgrade include strong institutions that support the implementation of structural reforms and continued compliance with fiscal and monetary policy frameworks, which in turn point to higher sustained growth rates than in the past, supported by strong investment. In particular, Moody's assesses that a set of reforms implemented in recent years strengthen the fiscal and monetary policy frameworks. A stronger investment trend will support growth performance, facilitating fiscal consolidation and stabilizing Uruguay's debt metrics over the coming years.

The Baa1 rating is also supported by strong institutions that reinforce political and social stability, attracting foreign direct investment (FDI). Comparatively large fiscal reserves and external buffers, and very strong asset-liability management practices, also support creditworthiness. These credit strengths are balanced against moderate level of public debt, structural rigidities in the government's expenditure and a relatively high, although declining, share of foreign-currency government debt.

The stable outlook balances prospects of sustained higher growth performance and improvement in fiscal policy implementation against Uruguay's exposure to weather-related shocks that weigh on growth and fiscal outcomes. Downside risks also relate to the possibility of growth returning to previous very low rates on a sustained basis, in particular if, despite the above-mentioned reforms, investment remains muted.

Uruguay's local and foreign-currency country ceilings were raised to Aa2 and Aa3 from A1 and A2, respectively. The five-notch gap between the local currency ceiling and the sovereign rating reflects low government intervention in the economy, strong institutions and predictable policies, low political risk balanced against moderate external vulnerability risk. The one-notch gap between the foreign-currency ceiling and the local currency ceiling incorporates Uruguay's open capital account and moderate policy effectiveness, which limits potential risks stemming from relatively high financial dollarization in the economy.

RATINGS RATIONALE

STRONG INSTITUTIONS SUPPORT IMPLEMENTATION OF STRUCTURAL REFORMS AND CONTINUED COMPLIANCE WITH FISCAL AND MONETARY POLICY FRAMEWORKS

Reform of Uruguay's policy-making frameworks makes its institutional setting more robust and resilient to shocks, strengthening the sovereign's credit profile. The authorities have demonstrated an ability to enact credit positive reforms and to deliver effective policy responses to shocks in challenging economic circumstances, including through a severe drought last year and a sharp devaluation of the Argentinean peso which negatively impacted domestic consumption and tax collection in Uruguay. Approval of the fiscal framework and ratification through a referendum process supports the durability of this reform. Similarly, approval of the social security reform indicates the ability of Uruguay's institutions to reach consensus around politically difficult reforms that have long-term economic and social impact.

Uruguay's government has implemented reforms to the fiscal framework starting in 2020, introducing a structural deficit target, a limit on real spending growth, and a net debt ceiling. Since then, the government has broadly adhered to the targets and ended 2023 in compliance with its structural deficit target of 2.7% and an overall public sector fiscal deficit of 3.3%. Adhering to the parameters of the fiscal rule built a track-record and increased the credibility of fiscal policy. Over the past four years, Uruguay's debt burden declined from 61% of GDP in 2021 to around 57% in 2023, supported by compliance with spending limits as well as relatively robust growth. Moody's expects the debt-to-GDP ratio to remain around current levels, and in line with peers over the near to medium term. Effective liability management has improved the sovereign's debt profile reducing interest and refinancing risks through long average maturity of public debt and increasing the share of local currency fixed-rate debt.

The central bank has revamped the monetary policy framework, improved the effectiveness of monetary policy instruments and enhanced communication with the market. Inflation has been on a downward trajectory, falling into the central bank target range of 3-6%. Moody's expects inflation to remain within the central bank target range for the rest of the year, in part thanks to better anchored inflation expectations. The convergence of inflation rates with policy targets, reduced intervention in the foreign exchange market, as well as efforts to anchor inflation expectations all improve the credibility and effectiveness of monetary policy.

The rating upgrade incorporates Moody's view that these structural reforms will prove durable and that the government will continue to build a longer track-record of sound macroeconomic policies.

PROSPECTS OF HIGHER SUSTAINED GROWTH RATES SUPPORTED BY STRONG INVESTMENT FLOWS

In turn, a track record of sound macroeconomic policies fosters more robust, sustained, GDP growth. Moody's expects a strong economic recovery with GDP increasing around 3.5% this year, after a severe drought and the negative impact of the Argentinian peso devaluation resulted in GDP growth at only 0.5% in 2023, and 2.6% in 2025. Over the medium-term, Moody's expects GDP growth around 2.2-2.5%, supported by sustained investment and steady foreign direct investment. This is a marked shift in growth performance compared to pre-pandemic average growth rate of just below 1%.

Investment made a strong contribution to growth in 2021-22 with the ratio of investment to GDP over 18% in 2022-23 from a low point of 14.6% in 2019. Higher investment, supported by Uruguay's stable policy environment and strong FDI inflows, will address a key weakness in Uruguay's growth dynamics that persisted for several years. Economic growth will be supported by some large projects, including the operation of a new pulp mill and a pipeline of

investments in infrastructure projects. Uruguay is attracting significant new investment in green hydrogen and a number of businesses are exploring opportunities in this area, which would represent an additional growth opportunity.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook incorporates Moody's expectations that recent reforms to fiscal and monetary policy frameworks will be preserved, supporting a longer track record of compliance with fiscal targets and stable debt burden. Sustained higher growth rates and sound fiscal policy implementation balance the risks related to Uruguay's exposure to weather-related shocks that weigh on growth and fiscal outcomes. Downside risks also relate to the possibility of growth returning to previous very low rates on a sustained basis, in particular if, despite the above-mentioned reforms, investment remains muted.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Uruguay's ESG Credit Impact Score (CIS-2) reflects its exposure to social risks related to aging population and to physical climate risks, mitigated by strong governance, supported by strong rule of law and broad societal consensus around economic policies.

Uruguay's exposure to environmental risks (E-3 issuer profile score) reflects exposure to physical climate risk, specifically excessive rains or droughts, which affects the agricultural sector and water supply.

Exposure to social risks (S-3 issuer profile score) is related to the country's aging population and its potential impact on the country's welfare system and public finances, and potential growth, although the recent pension reforms mitigates these risks. A deterioration in the labor market, for the younger population in particular, also poses social risks. However, adequate provision of social services and a mature political system that develops policies based on consensus help mitigate social risks.

The influence of governance on Uruguay's credit profile is positive (G-1 issuer profile score). The country has a long history of strong institutions and consensus-based policy-making tradition that leads to durable policy decisions and supports social cohesion.

GDP per capita (PPP basis, US\$): 27,770 (2022) (also known as Per Capita Income)

Real GDP growth (% change): 4.9% (2022) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 8.3% (2022)

Gen. Gov. Financial Balance/GDP: -3.2% (2022) (also known as Fiscal Balance)

Current Account Balance/GDP: -3.9% (2022) (also known as External Balance)

External debt/GDP: 74.9% (2022)

Economic resiliency: baa1

Default history: At least one default event (on bonds and/or loans) has been recorded since 1983.

On 12 March 2024, a rating committee was called to discuss the rating of the Uruguay, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have materially increased. The issuer's institutions and governance strength, has not materially changed. The issuer's governance and/or management, has not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Uruguay's sovereign credit rating could be upgraded if additional structural and fiscal reforms lead to a material drop in debt burden and lower interest burden. A significantly more pronounced improvement in growth performance than currently expected, supported by stronger private investment over an extended period of time, which lead to further economic diversification and economic resilience to shocks would also support an upgrade.

The sovereign credit rating could be downgraded if reforms to fiscal and monetary policy frameworks eroded, leading to the emergence of fiscal pressures and a rise in the debt burden. Prospects of a return of persistent low growth rates would also put downward pressure on Uruguay's rating.

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at <https://ratings.moodys.com/rmc-documents/395819>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on <https://ratings.moodys.com>.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody' affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moodys.com> for additional regulatory disclosures for each credit rating.

Samar Maziad
Vice President - Senior Analyst
Sovereign Risk Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.

JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

Mauro Leos
Associate Managing Director
Sovereign Risk Group

JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

Releasing Office:

Moody's Investors Service, Inc.

250 Greenwich Street

New York, NY 10007

U.S.A.

JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.