Moody's Investors Service

Global Credit Research
Rating Action
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Rating Action: Uruguay

Moody's places Uruguay's ratings on review for possible upgrade

New York, August 14, 2008 -- Moody's Investors Service has placed the B1 foreign- and local-currency bond ratings of the government of Uruguay on review for possible upgrade. During the review process, Moody's will explore the extent to which improvements in the government's credit profile offset credit vulnerabilities derived from the foreign currency exposure of the government's balance sheet and relatively high debt ratios.

Moody's has also placed on review for possible upgrade Uruguay's Ba2 foreign-currency country ceiling for bonds and notes, as well as the B2 country ceiling for foreign-currency bank deposits.

"Uruguay's economic performance has been characterized by strong growth, with convergence towards lower, more sustainable, rates anticipated following an extended period of above-trend expansion in recent years," said Moody's Vice President-Senior Credit Officer Mauro Leos.

He added that Moody's review will evaluate the consequence of such a scenario on Uruguay's medium-term credit prospects, with special emphasis placed on the implications for the fiscal outlook.

The analyst pointed out that government debt ratios have reported significant reductions in previous years, and also that the strengthening of Uruguay's fiscal indicators reflects strong government commitment to fiscal restraint. "Still," Mr. Leos noted, "the government's debt burden remains high in absolute and relative terms -- a factor that has been identified in the past as constraining Uruguay's sovereign rating."

Moody's review will evaluate the government's ability to preserve primary surpluses that are large enough to maintain a declining trend in government debt ratios under conditions that, overall, are likely to be less favorable than those observed in previous years.

"In this respect," Mr. Leos explained, " we will analyze the degree of fiscal flexibility present in Uruguay, since its spending structure, which is dominated by pension and wage payments, could limit the government's ability to adjust the fiscal accounts, if and when required."

Liability management operations involving debt buybacks and debt swaps have improved the currency composition of government debt while simultaneously extending the maturity profile. "Still," said the analyst, "the foreign currency exposure of the government's balance sheet remains significant, introducing potential risk factors."

Mr. Leos stated that with a large share of the government debt denominated in foreign currency, rating prospects remain sensitive to exchange- rate shocks-- "a condition that we will explore in detail during the review process to determine its potential impact on Uruguay's medium- term credit prospects."

"Overall, the review will assess if the government's policy stance can continue to improve Uruguay's credit indicators sufficiently to compensate for existing credit vulnerabilities and to materially reduce sovereign credit risks," Mr. Leos concluded.

Press releases on other issuers affected by these actions will follow.

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