Date of Release: November 24, 2021

# DBRS Morningstar Changes Trend on Uruguay to Positive, Confirms at BBB (low)

**Industry Group:** Public Finance – Sovereigns
**Region:** Americas

DBRS Inc. (DBRS Morningstar) confirmed the Oriental Republic of Uruguay's Long-Term Foreign and Local Currency – Issuer Ratings at BBB (low). At the same time, DBRS Morningstar confirmed the Short-Term Foreign and Local Currency – Issuer Ratings at R-2 (middle). The trend on all ratings has been changed to Positive from Stable.

## KEY RATING CONSIDERATIONS

The Positive trend reflects DBRS Morningstar's view that Uruguay's fiscal outlook has improved due to fiscal consolidation efforts and institutional improvements to the budgetary framework. While spending rigidities remain a medium-term credit challenge, tight expenditure control by the Lacalle Pou administration and the phasing out of pandemic-related programs next year should help put public finances in a more sustainable position. Some of the upward pressure on the ratings also stems from the cumulative effects of gradually diversifying Uruguay's economy and reducing the country's exposure to external shocks.

The Uruguayan economy bounced back from the pandemic in the first half of 2021 but the recovery was uneven. While a large wave of COVID-19 cases from March to June delayed the revival of private consumption, investment and exports expanded quickly. Fixed capital formation increased 21% in real terms in the first six months of the year relative to the prior year. The boom in investment was driven by the construction of a large new pulp mill in central Uruguay and an associated railroad project. Goods exports also increased markedly, due to a pick-up in global demand and higher prices for agricultural commodities. While consumption underperformed, the outlook is better for the second half of 2021 and for 2022. New COVID-19 cases are now at low levels and 75% of the population is fully vaccinated. Uruguay reopened its borders in November to vaccinated non-residents, which should support the tourism sector. In addition, high frequency unemployment insurance data points to a recent strengthening in the labor market. Overall, growth prospects look better than in the pre-pandemic period. The IMF projects GDP growth of 3.2% in 2022 and 2.7% in 2023.

The confirmation of Uruguay's BBB (low) ratings balances its strong political and macroeconomic fundamentals with its medium-term fiscal pressures, modest productivity growth, a partially dollarized financial system, and limited financial depth. The political environment is characterized by high-quality public institutions, low levels of corruption, and predictable macroeconomic policymaking, all of which constitute an important source of credit strength. Risks stemming from volatility in the region are elevated. However, ample foreign exchange reserves, conservative public debt management, diversified export markets, and sound regulation of the banking system bolster the economy's defenses to potential shocks.

## RATING DRIVERS

The ratings could be upgraded if the government continues to implement a durable consolidation in the fiscal accounts. Increased investment that boosts potential growth and deepens domestic financial markets could also be credit positive.

The ratings could be downgraded if (1) there is a sustained reversal in the fiscal trajectory, or if (2) external buffers erode over time, thereby weakening Uruguay's resilience to adverse shocks. The trend could return to Stable if the fiscal consolidation plan materially underperforms or external shocks significantly weaken Uruguay's recovery prospects.

## RATING RATIONALE

### Fiscal Accounts Are Consolidating On The Back Of Tight Expenditure Control

The government has made progress in its multi-year fiscal consolidation plan. The headline central government deficit (excluding the "cincuentones" pension transfers) is expected to narrow from 5.8% of GDP in 2020 to 4.9% this year, even as the government has continued to provide emergency support to households and firms affected by the pandemic. As emergency expenditures expire and the cyclical recovery advances, the deficit is projected to decline further to 3.1% in 2022, nearly 1 percentage point better than before the pandemic in 2019.

In DBRS Morningstar's view, several features of the plan are helping to advance the fiscal adjustment. First, the response to the pandemic has been targeted and temporary. The government created a COVID-19 Solidarity Fund to ensure that pandemic-related spending does not become permanent. Fiscal support via the Solidarity Fund was 1.1% of GDP in 2020 and is estimated to be 1.7% in 2021. The Fund is expected to be wound down in early 2022. Second, the government is tightly controlling costs. Non-emergency expenditure has declined in real terms over the last two years and the government is committed to modest overall spending increases during the remainder of its term. This expenditure-based consolidation should narrow the deficit to 2.3% by 2025. Third, reforms to the fiscal framework enhance the credibility of the plan. In particular, the establishment of a structural fiscal rule should foster counter-cyclicality and sustainability over the medium term. The government adhered to the fiscal rules in 2020 and looks set to do the same in 2021.

Notwithstanding the improving fiscal outlook, keeping public finances on a sustainable trajectory remains a key challenge for the credit. Prior to the COVID-19 shock, the fiscal deficit was widening due to rising current expenditures. Although spending has been tightly controlled during the pandemic, the rigidity of certain expenditure items, such as healthcare and pensions, could increasingly exert pressure on fiscal accounts over time. The government established an advisory council to propose adjustments to the pension system to ensure financial sustainability. The final recommendations are forthcoming. Some additional fiscal tightening – beyond what is currently planned – combined with a reform that stabilizes pension spending, will likely be necessary to put debt dynamics on a firm downward trajectory and rebuild fiscal space. The negative adjustment to the "Fiscal Management and Policy" building block reflects our view of the ongoing fiscal challenges.

Large Investments, Strong Global Demand And Better Health Conditions Support Uruguay's Growth Outlook

Before the pandemic hit in 2020, the Uruguayan economy was growing at a slow pace. GDP growth averaged just 0.9% from 2015 to 2019. This followed a decade (2005-2014) of rapid growth when the economy expanded 5.3% per year. The slowdown was partly due to lower commodity prices and deep recessions in neighboring Brazil and Argentina, but weak underlying domestic dynamics were also contributing factors. The two most salient features during this period of weak economic growth were rising unemployment and declining investment.

However, growth prospects look better in the post-pandemic period. The construction of a large new pulp mill in central Uruguay by Finnish firm UPM, as well as various railway and port facility projects, is underway and should bolster growth prospects over the medium term. Micro-reforms that promote greater efficiency in the domestic market (i.e. reforms to state-owned utilities) and that foster greater integration in global markets (i.e. potential trade agreements) could also have a positive impact on productivity and investment. The IMF expects GDP growth of 2.6% per year from 2022 to 2025.

Volatility in the external environment poses risks to the outlook. The small and open nature of the Uruguayan economy leaves it exposed to shifts in global commodity prices and the economic cycles of its large neighbors. Macroeconomic volatility in Argentina or Brazil could negatively affect Uruguay through the trade channel, specifically weaker demand for goods exports and tourism services. Outside of the region, a sharper-than-expected deceleration in China could affect Uruguay's outlook directly through the terms of trade channel, as well as indirectly through weaker demand from Uruguay's commodity-exporting neighbors.

Prudent Debt Management And Large Liquidity Buffers Safeguard Against External Shocks

The larger deficit and economic recession led to a significant increase in government debt. Non-financial public sector debt increased from 60% of GDP in 2019 to 68% of GDP in 2020. The debt ratio is projected to increase slightly over the next few 3-4 years but then stabilize as fiscal consolidation advances. The currency composition presents some risk, as more than half of central government debt is denominated in foreign currency, thereby leaving public finances vulnerable to exchange rate shocks. To incorporate this risk, a negative adjustment is applied to the "Debt and Liquidity" building block.

However, conservative public debt management supports Uruguay's credit profile. Rollover and liquidity risks are minimal. Liquid assets held by the central government combined with contingent credit lines from multilateral organizations largely cover all debt servicing needs for 2022. Exposure to interest rate risk is also limited due to the long average maturity of government debt (13 years) and the high share of debt that carry fixed rates (95%).

Sound external accounts and sizable reserves also bolster the economy's defenses. The current account shifted from a surplus of 1.6% of GDP in December 2019 (rolling 4 quarters) to a deficit of 2.3% in June 2021. The shift was due to the sharp decline in tourism service exports, the increase in imports related to construction of the new pulp mill, and an increase in primary income outflows. However, the deficit is fully funded by net inflows of foreign direct investment, which totaled 3.0% of GDP in June 2021, and exchange rate flexibility should help the economy adjust to evolving global conditions. In addition, reserves are high at USD 17.2 billion (31% of GDP). This includes the allocation of Special Drawing Rights from the IMF in August, which totaled USD 585 million. The high level of reserves provide the central bank with substantial foreign exchange liquidity in the event of turbulence in global financial markets.

Uruguay's New Monetary Policy Framework Is Being Tested

The central bank is gradually withdrawing highly accommodative monetary policy as inflation remains above the upper threshold (7%) of the central bank's target range. Headline inflation increased to 7.9% year-over-year in October 2021. This partly reflects rising global commodity prices but the upward price pressures are broad-based. In response, the central bank has started withdrawing monetary stimulus. Policymakers have hiked rates three times from August to November, cumulatively increasing the policy rate 125bps to 5.75%. In its November meetings, the central bank also signaled that additional hikes should be expected. The measured pace of policy tightening reflects the central bank's efforts to lower inflation expectations while avoiding sharp policy changes that could disrupt the recovery.

Policymakers have made several changes to the monetary policy framework to better anchor inflation expectations: reaffirming price stability as the principal objective, changing the main policy instrument from the growth in monetary aggregates to a short-term policy rate, and lowering the upper limit of the target range to 6 percent starting in September 2022. DBRS Morningstar views these changes positively. However, while inflation expectations over 24 months have declined over the last year, they remain above central bank's upper limit. The challenge of anchoring expectations for the central bank is complicated by the weak transmission of monetary policy amid high financial dollarization and low financial intermediation.

The banking system has weathered the COVID-19 shock relatively well and financial stability risks appear contained. The banking system continues to be profitable, highly liquid, and well-capitalized. Non-performing loans remain low at 2.4% of total loans in June 2021. Risks to the banking system stemming from events in Argentina are well-contained, with non-resident deposits accounting for less than 10% of total bank deposits and only 4% of loans directed to non-residents. With financial stability risks contained, a positive adjustment was made to the "Monetary Policy and Financial Stability" building block assessment.

Uruguay's Strong Institutional Quality And Stable Politics Facilitate The Government's Policy Agenda

Uruguay's political environment remains a key credit strength. Uruguay is a stable liberal democracy with an effective government and low levels of corruption, and the country scores highly across international governance measures. A centrist electorate facilitates political moderation and pragmatic policymaking. The basic pillars of macroeconomic policy are broadly supported across the political spectrum. The predictability of the policy framework through the electoral cycle fosters a favorable environment for economic growth.

The current government is well-placed to carry out their policy agenda. The National Party and its coalition partners hold a majority in both houses of congress. With the next elections scheduled for late 2024, the government can largely set the course for policy over the next three years. Nevertheless, the government faces some political risks. In July 2021, social organizations, worker unions, and opposition parties called for a referendum to repeal 135 articles of the Urgent Consideration Law, which includes the new fiscal framework. The referendum will most likely take place in the first half of 2022. If the referendum passes, the government would likely continue to operate fiscal policy within the new framework even if it is no longer written in law. On the other hand, if the referendum does not pass, the government may have greater political capital to pursue its other policy priorities, such as the pension reform, prior to the 2024 general elections.

ESG CONSIDERATIONS

Human Rights and Human Capital (S) were among the key ESG drivers behind this rating action. Uruguay's per capita GDP is relatively low at USD 16,022 in 2020. This factor has been taken into consideration in the "Economic Structure and Performance" building block.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/373262.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments: https://www.dbrsmorningstar.com/research/388666.

Notes:
All figures are in U.S. dollars unless otherwise noted. Public finance statistics reported on a general government basis unless specified. The non-financial public sector includes: the central government (including the Social Security public fund), local governments, public enterprises, and the state-owned insurance bank. The consolidated public sector includes the non-financial public sector and the central bank. Metrics in the report calculated with the recently released (December 2020) rebased GDP statistics from the Banco Central del Uruguay, unless indicated otherwise.

The principal methodology is the Global Methodology for Rating Sovereign Governments https://www.dbrsmorningstar.com/research/381451/global-methodology-for-rating-sovereign-governments (July 9, 2021). Other applicable methodologies include DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (February 3, 2021).

Generally, the conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are monitored.

The primary sources of information used for this rating include the Ministerio de Economía y Finanzas, Banco Central del Uruguay, Instituto Nacional de Estadística, Superintendencia de Servicios Financieros, the IMF, the World Bank, NRGI, Brookings, Bank for International Settlements, UNDP, Transparency International, and Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating was of satisfactory quality.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar did not have access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

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| Issuer | Debt Rated | Rating Action | Rating | Trend |
|---|---|---|---|---|
| Uruguay, Oriental Republic of | Long-Term Foreign Currency - Issuer Rating | Confirmed | BBB (low) | Stable |
| Uruguay, Oriental Republic of | Long-Term Foreign Currency - Issuer Rating | Trend Change | BBB (low) | Pos |
| Uruguay, Oriental Republic of | Long-Term Local Currency - Issuer Rating | Confirmed | BBB (low) | Stable |
| Uruguay, Oriental Republic of | Long-Term Local Currency - Issuer Rating | Trend Change | BBB (low) | Pos |
| Uruguay, Oriental Republic of | Short-Term Foreign Currency - Issuer Rating | Confirmed | R-2 (middle) | Stable |
| Uruguay, Oriental Republic of | Short-Term Foreign Currency - Issuer Rating | Trend Change | R-2 (middle) | Pos |
| Uruguay, Oriental Republic of | Short-Term Local Currency - Issuer Rating | Confirmed | R-2 (middle) | Stable |
| Uruguay, Oriental Republic of | Short-Term Local Currency - Issuer Rating | Trend Change | R-2 (middle) | Pos |

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# Uruguay

## Scorecard Indicators

| Scorecard Indicators | | | | | | | | | | Source | Current Scorecard Input | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fiscal Management and Policy** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | | | |
| Overall Fiscal Balance (% of GDP) | -1.9% | -2.7% | -2.5% | -1.9% | -2.7% | -4.7% | -4.2% | -3.6% | -2.6% | IMF WEO | 13 year average | -2.6% |
| Government Effectiveness (Percentile Rank) | 71.6 | 72.6 | 69.7 | 73.1 | 74.5 | 75.0 | - | - | - | World Bank | 5 year average | 72.3 |
| **Debt and Liquidity** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | | | |
| General Government Gross Debt (% of GDP) | 58.2% | 56.8% | 56.5% | 58.6% | 60.5% | 68.1% | 67.5% | 68.8% | 70.0% | IMF WEO | 5 year projection | 70.7% |
| Interest Costs (% of GDP) | 2.1% | 2.4% | 2.4% | 2.4% | 2.2% | 2.6% | 2.3% | 2.5% | 2.6% | IMF WEO | 5 year average | 2.4% |
| **Economic Structure and Performance** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | | | |
| GDP per Capita (USD thousands) | 16.7 | 16.4 | 18.4 | 18.5 | 17.6 | 16.0 | 17.0 | 17.9 | 18.5 | IMF WEO | 10 year average | 17.1 |
| Output Volatility (%) | 3.8% | 3.7% | 4.1% | 4.1% | 3.9% | 3.8% | 3.6% | 2.9% | 2.9% | IMF WEO | Latest | 3.8% |
| Economic Size (USD billions) | 58 | 57 | 64 | 65 | 62 | 57 | 60 | 64 | 66 | IMF WEO | 5 year average | 61 |
| **Monetary Policy and Financial Stability** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | | | |
| Rate of Inflation (%, EOP) | 9.4% | 8.1% | 6.6% | 8.0% | 8.8% | 9.4% | 7.2% | 5.8% | 5.0% | IMF WEO | 13 year average | 7.8% |
| Total Domestic Savings (% of GDP) | - | - | - | 12% | 12% | 14% | 13% | - | - | BCU/IMF | Latest[1] | 14% |
| Change in Domestic Credit (% of GDP) | 3.0% | -2.1% | -1.6% | 0.9% | 0.5% | 2.0% | - | - | - | BIS/IMF | 7 year average[1] | 0.6% |
| Net Non-Performing Loans (% of Capital) | 3.9% | 6.9% | 5.7% | 6.0% | 4.4% | 3.8% | - | - | - | IMF IFS | Latest[1] | 3.8% |
| Change in Property Price/GDP Index (%) | 12.8% | 1.9% | -3.0% | -6.5% | 4.2% | 20.2% | - | - | - | INE/IMF | 7 year average[1] | 5.1% |
| **Balance of Payments** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | | | |
| Current Account Balance (% of GDP) | -0.3% | 0.7% | 0.0% | -0.5% | 1.3% | -0.7% | -1.3% | -0.3% | -0.2% | IMF WEO | 8 year average | -0.1% |
| International Investment Position (% of GDP) | -30.0% | -27.3% | -26.7% | -25.7% | -27.5% | -32.1% | - | - | - | IMF | 5 year average[1] | -27.9% |
| Share of Global Foreign Exchange Turnover (Ratio) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | - | - | - | BIS/IMF | Latest | 0.0% |
| Exchange Rate Classification (see footnote) | 3 | 3 | 3 | 3 | 3 | 3 | - | - | - | IMF | Latest | 3 |
| **Political Environment** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | | | |
| Voice and Accountability (Percentile Rank) | 85.7 | 86.7 | 86.7 | 88.4 | 88.9 | 93.7 | - | - | - | World Bank | 5 year average | 87.3 |
| Rule of Law (Percentile Rank) | 75.0 | 74.5 | 72.6 | 73.1 | 74.5 | 74.0 | - | - | - | World Bank | 5 year average | 73.9 |

*See DBRS Morningstar's Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.*

*[1] Scores for 2020 have been computed using the most recent data when year-end data is not available.*

Rating Committee Date: 22-Nov-2021

# Uruguay

Building Block Assessments and Rating Committee Summary

22-Nov-2021

| Building Blocks | Scorecard Result | Quantitative Assessment | Net Impact of Qualitative Factors | Building Block Assessment |
|---|---|---|---|---|
| Fiscal Management and Policy | 14.77 | Good | - 1 Category | Good/Moderate |
| Debt and Liquidity | 11.13 | Good/Moderate | - 1 Category | Moderate |
| Economic Structure and Performance | 5.47 | Poor | N/A | Poor |
| Monetary Policy and Financial Stability | 10.46 | Moderate | + 1 Category | Good/Moderate |
| Balance of Payments | 12.21 | Good/Moderate | N/A | Good/Moderate |
| Political Environment | 18.13 | Strong | N/A | Strong |

| Overall Assessment | Composite Scorecard Result | Scorecard Rating Range | Composite Building Block Assessment | Indicative Rating Range |
|---|---|---|---|---|
| | 60.1 | A (low) - BBB | 58.5 | A (low) - BBB |

**Uruguay's Long-Term Foreign Currency - Issuer Rating** BBB (low)

Main topics discussed in the Rating Committee include: the outlook for fiscal consolidation, the growth outlook and external risks, and the political environment. The Rating Committee Decision reflects additional emphasis on the following factors: Fiscal Management and Policy, and Economic Structure and Performance. For additional details on DBRS Morningstar analysis and opinions, please see the accompanying rating report.

**DBRS Morningstar Scorecard: Scoring Ranges and Associated Assessment Categories**

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Lower Bound | 0.00 | 1.00 | 3.00 | 5.00 | 7.00 | 9.00 | 11.00 | 13.00 | 15.00 | 17.00 | 19.00 |
| Upper Bound | 0.99 | 2.99 | 4.99 | 6.99 | 8.99 | 10.99 | 12.99 | 14.99 | 16.99 | 18.99 | 20.00 |
| Assessment Category | Very Weak | Weak | Weak/ Poor | Poor | Poor/ Moderate | Moderate | Good/ Moderate | Good | Strong/ Good | Strong | Very Strong |

## Oriental Republic of Uruguay

### ESG Checklist

| ESG Factor | | ESG Credit Consideration Applicable to the Credit Analysis: | Y/N | Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)* |
|---|---|---|---|---|
| **Environmental** | | **Overall:** | **Y** | **R** |
| | **Emissions, Effluents, and Waste** | Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk? | N | N |
| | **Carbon and GHG Costs** | Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk? | N | N |
| | | Will recent regulatory changes have an impact on economic resilience or public finances? | N | N |
| | | **Carbon and GHG Costs:** | **N** | **N** |
| | **Resource and Energy Management** | Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive? | N | N |
| | | Is the economy reliant on industries that are vulnerable to import or export price shocks? | N | N |
| | | **Resource and Energy Management:** | **N** | **N** |
| | **Land Impact and Biodiversity** | Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities? | N | N |
| | **Climate and Weather Risks** | Will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy? | Y | R |
| **Social** | | **Overall:** | **Y** | **S** |
| | **Human Capital and Human Rights** | Compared with regional or global peers, is the domestic labour force more or less competitive, flexible, and productive? | Y | S |
| | | Are labour or social conflicts a key source of economic volatility? | N | N |
| | | Are individual and human rights insufficiently respected or failing to meet the population's expectations? | N | N |
| | | Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights? | N | N |
| | | **Human Capital and Human Rights:** | **N** | **N** |
| | **Access to Basic Services** | Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy? | N | N |
| **Governance** | | **Overall:** | **N** | **N** |
| | **Bribery, Corruption, and Political Risks** | Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges? | N | N |
| | **Institutional Strength, Governance, and Transparency** | Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness? | N | N |
| | | Are regulatory and oversight bodies insufficiently protected from inappropriate political influence? | N | N |
| | | Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct? | N | N |
| | | **Institutional Strength, Governance, and Transparency:** | **N** | **N** |
| | **Peace and Security** | Is the government likely to initiate or respond to hostilities with neighboring governments? | N | N |
| | | Is the government's authority over certain regions contested by domestic or foreign militias? | N | N |
| | | Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government? | N | N |
| | | **Peace and Security:** | **N** | **N** |
| | | **Consolidated ESG Criteria Output:** | **Y** | **S** |

* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

## Oriental Republic of Uruguay: ESG Considerations

November 24, 2021

**Environmental**

This factor does not affect the ratings assigned to Uruguay. Under the 2015 Paris Agreement, Uruguay expects to be a net carbon sink by 2030 through the expansion of tree plantations. Uruguay has also set targets to reduce the emissions intensity of the cattle industry. More than 90% of the electricity generated within the country comes from renewable sources such as wind, solar, hydropower, and biomass. Additionally, efforts are underway to transition to electric vehicles and to become a green hydrogen producer. In DBRS Morningstar's view, the fiscal, regulatory, and enforcement measures required to achieve the country's climate goals are unlikely to impact sovereign credit quality. Uruguay faces climate and weather-related risks in the form of occasional droughts which impact agriculture output and electricity generation.

**Social**

The subfactor Human Rights and Human Capital affects the rating. Uruguay's per capita GDP is relatively low at USD 16,022 in 2020, reflecting a low level of labor productivity. The subfactor Access to Basic Services does not affect the ratings. Uruguay has a robust social welfare system and the government provides for relatively high-quality healthcare, education, and social assistance. Uruguay ranks 38th among the 163 countries assessed in the 2020 Social Progress Index.

**Governance**

This factor does not affect the ratings assigned to Uruguay. Uruguay has independent and transparent governing institutions, which provide a stable environment for investment relative to regional peers. Uruguay scores above the 70$^{th}$ percentile rank in all the Worldwide Governance Indicators, but is a particularly strong performer in the Control of Corruption indicator (ranking in the 89$^{th}$ percentile) and in the Voice and Accountability indicator (ranking in the 93$^{rd}$ percentile).