Decide with Confidence

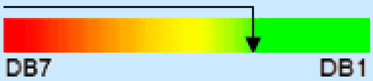
D&B Country RiskLine Report

URUGUAY

Region : The Americas
Edition : February 2012

D&B Country Risk Indicator

DB3c



This "DB" Rating Indicates:

Slight risk

Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Trend

Stable

The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	3.4m
Surface area (sq km):	176,220
Capital:	Montevideo
Timezone:	GMT -03:00
Main languages:	Spanish
Head of state:	President Jose MUJICA
GDP (USD):	40.6bn
GDP per capita (USD):	12,026
Life expectancy (years):	76
Urban population (% of total):	92.0

Country Overview:

Situated in the south of South America, Uruguay lies between the Uruguay River to the west and Atlantic Ocean. The country's fertile coastal areas and rolling plains provide first-class land for agriculture and stock-raising, which provide the mainstay of Uruguay's exports. The country also offers tourism and banking services to non-residents, mainly from Argentina and Brazil. After recovering from a serious economic downturn over 1999-2002, mainly stemming from difficulties in its two large neighbouring economies, Uruguay has experienced healthy economic growth.

The leftist President Tabare Vazquez and his ruling Broad Front coalition broke 170 years of two-party rule when elected in 2004, a trend that was confirmed by the triumph of Jose Mujica in the presidential election in 2009. However, the country's democratic political system is stable and benefits from a robust system of checks and balances.

The government has maintained sound economic management and a commitment to a social-democratic model that has supported high human development indicators in the country.

Trade & Commercial Environment

Trade Terms

Minimum Terms: SD

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 60-90 days

Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

Uruguay's exports grew by 18.1% in 2011, which was outpaced by import growth 23.6%, resulting in a four-fold increase in the trade deficit to USD549m (USD 144m in 2010). Inward capital flows offset the trade deficit, and helped to support the country's FX reserves: by mid-January, these stood at a comfortable USD10.5bn and provided import cover of over 10.0 months. However, exports and capital flows are likely to be erratic into 2012 given the slowing global economy and ongoing financial market volatility; the peso has already seen considerable volatility since August. Currency volatility, at a time of ongoing inflationary pressures, could cause some firms payment difficulties. D&B recommends LC terms with Uruguay-based counterparties.

Export Credit Agencies

US Eximbank	Full cover available subject to limitations
Atradius	ST cover available, no discretionary limits
ECGD	Refer to underwriter
Euler Hermes UK	Full ST cover available

Economic Indicators

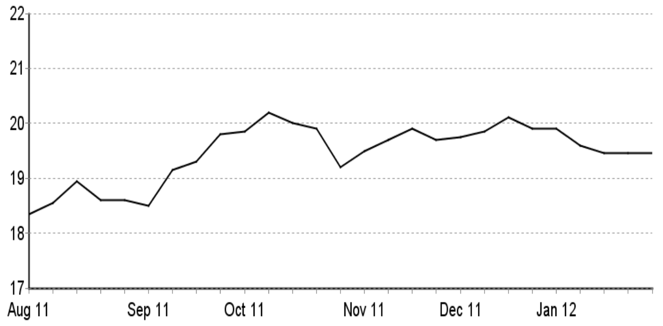
	2009	2010	2011	2012f	2013f
Real GDP growth, %	2.6	8.5	5.8	4.7	5.2
Inflation, annual ave, %	7.1	6.7	8.1	7.2	6.5
Govt balance, % GDP	-1.8	-1.1	-1.7	-1.5	-1.1
Unemployment, %	7.3	6.8	6.2	6.0	6.0
C/A balance, % GDP	-0.2	-1.1	-1.2	-3.0	-2.8

Currency Information

Exchange Rates (London, 23 Jan 12)	
EUR	25.1285
GBP	30.2001
JPY*	25.2204
USD	19.45
*(x 100)	

Local Currency

(Uruguayan peso [UYU]: USD)



Local Currency (Uruguayan peso [UYU]: USD)	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12
Week 1	18.350	18.500	19.850	19.500	19.750	19.900
Week 2	18.550	19.150	20.200	19.700	19.850	19.600
Week 3	18.950	19.300	20.000	19.900	20.100	19.450
Week 4	18.600	19.800	19.900	19.700	19.900	19.450
Week 5	18.600		19.200			19.450

Export Growth

Export Growth

(y/y rate, %)

Data Table						
Q3 09	**Q4 09**	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10**	**Q1 11**
-10.48	5.56	22.11	27.14	20.54	25.69	26.84

Risk Factor

Uruguay's economy is continuing to see firm growth, in spite of deteriorating economic conditions both regionally and globally. The latest national accounts show a re-acceleration in the pace of growth following an easing to 4.7% year on year (y/y) in Q2 from 6.7% y/y in Q1. According to the Banco Central del Uruguay (BCU), real-term GDP growth rose to 7.5% y/y in Q3, which was the fastest rate since Q3 2010. The breakdown of the GDP figures showed firm growth across all sectors; in particular, there was strong growth in utilities, which recovered by 13.0% y/y (from a 31.3% y/y decline in Q2), transport and communications up by 13.0%y/y, and services of 10.4% y/y. Elsewhere construction output rose by 6.9% y/y following the flat reading in Q2. The corresponding expenditure breakdown of Q3 GDP showed that underlying domestic demand remains firm; consumer spending was up 9.1% y/y, fixed investment by 11.1% y/y, and government spending by 4.5% y/y. In terms of external demand, export growth recovered by 6.3% y/y in Q3 following a contraction of 2.2% y/y in Q2.

Looking ahead, the re-acceleration in growth seen in Q3 may not be sustained into Q4 2011, and Uruguay will not be immune from a slowdown during 2012 given the weakening external environment. Indeed, following real-term growth of 8.5% in 2010, D&B forecasts 2011 GDP growth of 5.8% with a modest slowing to about 5% in 2012-13. In terms of economic indicators, industrial production growth fell by 14% y/y in October, with a further fall of 8.7% y/y in November. However, this weakness was due largely to the continued maintenance closure of the state-owned refinery, and underlying November production was up by 4.5% y/y. At the same time, unemployment has continued to decline, with the rate falling to 5.5% in November (from 6% in Q3 and 6.3% in Q1 2011). Leading indicators do, however, point to some softening in Q4 economic activity. Notably, the CERES leading activity index (ILC) rose by only 0.6% month on month (m/m) in October, following average monthly rises of 1.1% m/m during Q3.

Elsewhere, CPI inflation is still running above the BCU's 4- 6% target range. In December there was a further acceleration in CPI to 8.6% (from 7.8% in September), which implies average inflation of 8.1% for 2011. With other inflation indicators (producer prices, construction prices, average earnings) running at elevated levels, and CPI having been above target for 24 months, the BCU decided to hike interest rates in December. The unexpected increase in the benchmark rate by 75bp to 8.75% ended the pause in rates since June 2011. The BCU noted that, despite the likely negative impact of the weaker external environment on activity, inflation needed to be brought back to target.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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Recommended Terms:

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Usual Terms:

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Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

D&B Country Risk Services
For information relating to D&B's Country Risk Services.

UK
Telephone: 01628 492700
Fax: 01628 492929
Email: CountryRisk@dnb.com

USA Inquiry
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CountryRiskServices@dnb.com

Rest of World
Telephone: +44 1628 492700
Email: CountryRisk@dnb.com

D&B Customer Services
For all other information or queries relating to D&B products and services.

UK
Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)
Email: CustomerHelp@dnb.com

USA
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CustomerService@dnb.com

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