

Country Insight Snapshot

Uruguay

July 2019





OVERVIEW

OVERALL COUNTRY RISK RATING: DB4b

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Stable →

CORE OUTLOOK

- + Uruguay represents a good investment opportunity for firms looking to commence operations in Latin America.
- + A strong democracy and good social indicators provide a stable platform for business.
- The fiscal deficit is the main economic constraint.
- Uruguay's long-term economic potential is limited by its geographical proximity to the much larger economies of Argentina and Brazil, and by restrictions imposed by Mercosur.

KEY DEVELOPMENT

The FA's Daniel Martínez and the PN's Luis Lacalle Pou are the frontrunners for October's presidential election, but the winner is unlikely to enjoy a congressional majority.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

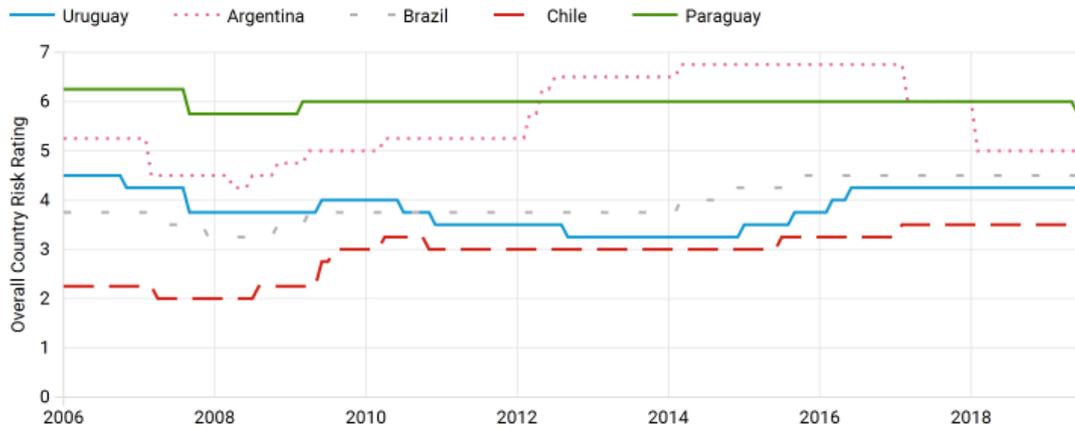
Trend: Stable →

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

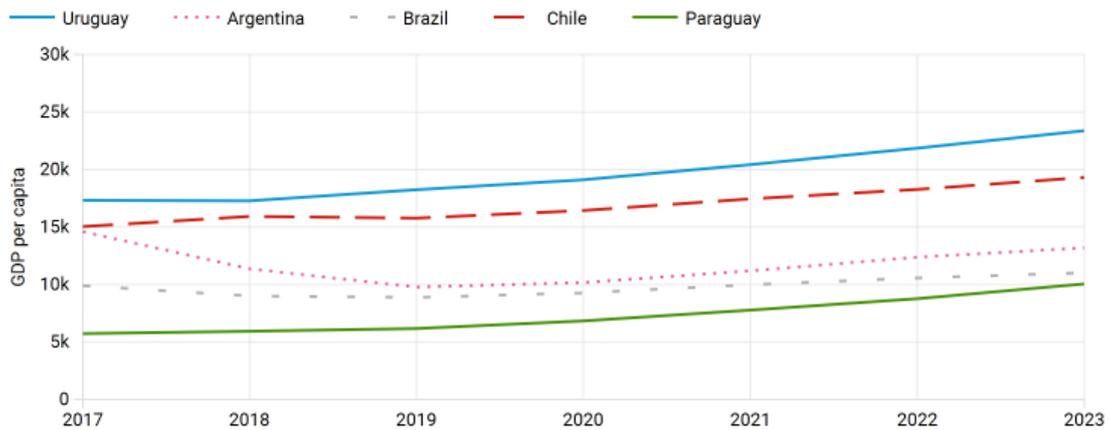
Rating History and Comparison



Source: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	0.6	0.8	-0.6	-0.7	-0.9	-1.0	-1.1	-1.3
Govt balance, % GDP	-3.1	-2.7	-2.0	-2.8	-2.5	-2.3	-2.0	-1.8
Inflation, annual avge %	9.7	6.2	7.6	7.5	6.8	6.6	6.5	6.4
Real GDP Growth, %	1.7	2.6	1.6	0.6	2.5	2.8	3.0	3.0
Unemployment, %	7.7	6.9	8.4	8.2	7.8	7.0	6.8	6.7

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Uruguay's Central Bank held reserves of USD14.98bn in mid-July (around 13 months of import cover), down from a recent high of USD18.0bn at end-April 2018, with the monetary authority having intervened on occasion to smooth currency fluctuations brought about by a strong US dollar. The Uruguayan peso has also felt the effects of a weak currency in neighbouring Argentina. The currency traded at UYU34.4:USD in late July, having drifted from UYU31.1:USD a year earlier. Inflation stood at 7.4% in June, outside the 3.0-7.0% target range for the fourteenth consecutive month, with import costs (associated with the weaker peso) having risen over the year. Inflation has also been boosted by mandated fuel price increases. There is pressure from the agricultural lobby to reduce fuel prices, as well as allow for a weaker currency, making our forecasts subject to change. Our recommended terms are LC.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

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

Recommended Terms: LC

Dun & Bradstreet'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.

Local Delays: 0-1 month

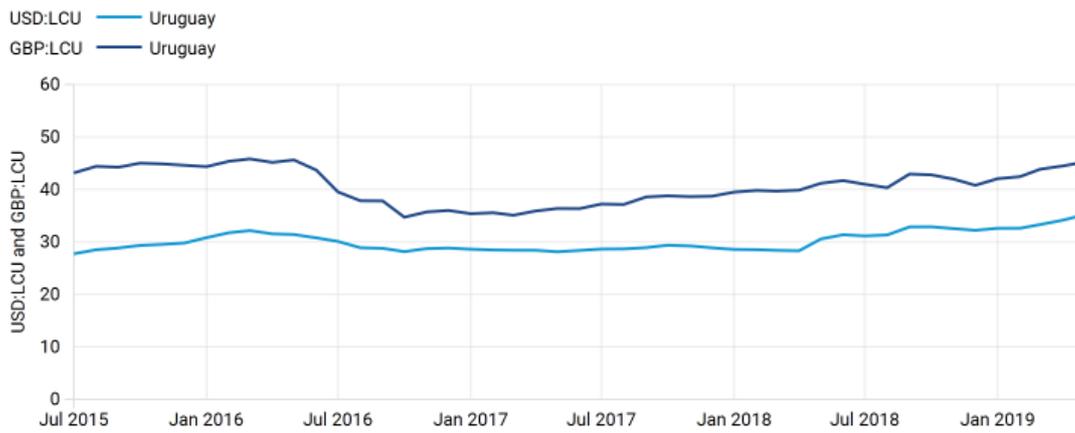
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



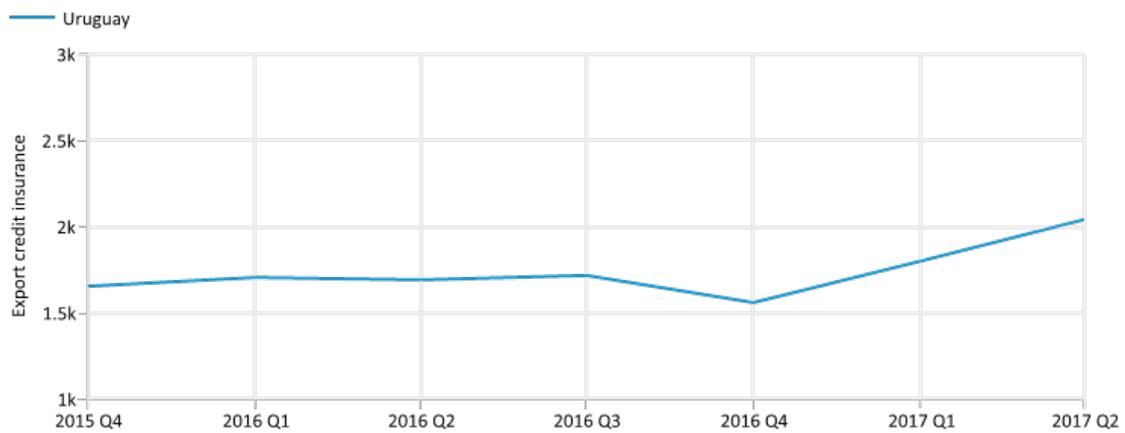
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Uruguayan peso

Credit Conditions



Source: Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Presidential candidates are selected, with a tight race in store

Open primaries were held by all parties on 30 June to decide presidential candidates. The winners from the two main parties were the mayor of Montevideo, Daniel Martínez, of the ruling centre-left Frente Amplio (FA) and Senator Luis Lacalle Pou Daniel Martínez of the centre-right Partido Nacional (PN). The candidate for the third main party, the conservative Partido Colorado, is Ernesto Talvi. Presidential and legislative elections are due on 27 October, with a likely second-round presidential election on 24 November.

The FA leads voting intentions with around 30%, to the PN's 22%, meaning that a second-round run-off between Martínez and Lacalle Pou is almost certain. The FA has lost popularity over the course of the current parliament, and with growth stuttering and the population increasingly concerned about crime, Lacalle Pou has a good chance of winning the second round in what is certain to be a close election. He would offer a moderate free-market agenda, with a harder line on public security than has been offered by the FA. Whoever is president is unlikely to have the luxury of a majority in either the Chamber of Deputies or the Senate in 2020-25, as has been enjoyed by the FA since 2005.

Short-Term Economic Outlook

Short-term growth forecast cut again

We have again downgraded our forecast for GDP growth this year, this time from 1.3% to 0.6%. Industrial production fell by 1.8% y/y over January-May, mainly as a result in a sharp (8.0% y/y) fall in oil refining, affected in part by a two-month strike by gas workers, and torrential rains have affected large swathes of the country, damaging prospects for agriculture this year.

Prospects for a rebound from 2020 are good, though: on 23 July Finland's UPM confirmed that it will go ahead with the construction in 2020-21 of a USD2.7bn eucalyptus pulp mill in Paso de los Toros, with the company also committed to investing USD350m to upgrade port facilities in Montevideo. The initial capacity when the mill opens in 2022 will be of an annual 2.1m tonnes of wood pulp, and will also generate an annual surplus 110MW of renewable electricity. With the construction and investment phase confirmed, we have raised our forecasts for GDP growth in 2020 and 2021 to 2.5% and 2.8%, respectively.

Market Potential

Extensive free-trade deal agreed between Mercosur and the EU

In late June negotiators from Mercosur and the EU agreed on an extensive free-trade agreement that would eliminate tariffs on 93% of Mercosur exports to the EU and grant preferential treatment for the rest. The Uruguayan agricultural and meat industries will be particular beneficiaries. The deal will eventually remove tariffs on 91% of EU exports to Mercosur, with manufactured goods, cars and chemicals the most likely beneficiaries. The deal still needs to be ratified by all member states (Uruguay appears certain to ratify under whichever electoral scenario), with some EU states concerned about the impact on farming, and Argentina (under a potential de Kirchner presidency) the most likely stumbling blocks.



COUNTRY PROFILE AND STATISTICS

Overview

Situated in the southern cone of South America, Uruguay lies between the Uruguay River to the west and the Atlantic Ocean to the east. The country's fertile coastal areas and rolling plains provide first-class land for agriculture and stock-raising, which act as the mainstay of Uruguay's exports. The country also offers tourism and financial services to non-residents (mainly from Argentina and Brazil). In recent years, Uruguay has also developed a strong pulp and paper production industry. After recovering from a serious economic downturn over 1999-2002, stemming from difficulties in its two large neighbouring economies, Uruguay experienced healthy and stable economic growth averaging 5.3% in 2004-14. In 2015, economic growth slipped to 0.4%, but a slow recovery started in 2016, when growth reached 1.7%. After strengthening to 2.6% in 2017, growth slipped again to 1.6% in 2018.

The centre-left president, Tabaré Vázquez, and his ruling Broad Front (FA) coalition started a five-year term of office in March 2015. This is the third consecutive FA-led government, a dramatic change in party dynamics in Uruguay, as it followed 170 years of rule by the country's two traditional parties. The democratic political system is stable, and benefits from a robust system of checks and balances. Recent governments have maintained broadly sound economic management and a commitment to a social-democratic model that has supported good human development indicators. Presidential and legislative elections are due in October 2019, with Daniel Martínez of the FA and Luis Lacalle Pou of the right-wing Partido Nacional (PN) set to face each other in what promises to be a close two-round presidential election.

Key Facts

Key Fact	Detail
Head of state	President Tabare VAZQUEZ
Capital	Montevideo
Timezone	GMT -03-00
Main languages	Spanish
Population (millions)	3.4
GDP (USD billions)	59.6
GDP per capita (USD)	17,278
Life expectancy (years)	77.4
Literacy (% of adult pop.)	98.6
Surface area (sq km)	176,220

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	3.2	0.4	1.7	2.6	1.6
Nominal GDP in USDbn	57	53	53	60	60
Nominal GDP in local currency (bn)	1,331	1,456	1,589	1,707	1,831
GDP per Capita in USD	16,832	15,614	15,387	17,322	17,278
Population (year-end, m)	3.4	3.4	3.4	3.4	3.4
Exchange rate (yr avge, USD-LCU)	23.2	27.3	30.2	28.7	30.7
Current Account in USDbn	-1.8	-0.5	0.3	0.5	-0.4
Current Account (% of GDP)	-3.2	-0.9	0.6	0.8	-0.6
FX reserves (year-end, USDbn)	17.5	15.6	13.5	16.0	15.6
Import Cover (months)	12.6	13.5	13.7	15.7	14.5
Inflation (annual avge, %)	8.9	8.7	9.7	6.2	7.6
Govt Balance (% GDP)	-2.8	-2.2	-3.1	-2.7	-2.0

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	0.6	2.5	2.8	3.0	3.0
Nominal GDP in USDbn	63	66	71	76	82
Nominal GDP in local currency (bn)	1,979	2,164	2,367	2,592	2,835
GDP per Capita in USD	18,245	19,109	20,428	21,862	23,379
Population (year-end, m)	3.5	3.5	3.5	3.5	3.5
Exchange rate (yr avge, USD-LCU)	31.3	32.6	33.2	33.9	34.6
Current Account in USDbn	-0.5	-0.6	-0.7	-0.9	-1.0
Current Account (% of GDP)	-0.7	-0.9	-1.0	-1.1	-1.3
FX reserves (year-end, USDbn)	15.1	15.4	15.7	16.1	16.4
Import Cover (months)	13.1	12.3	11.7	11.0	10.4
Inflation (annual avge, %)	7.5	6.8	6.6	6.5	6.4
Govt Balance (% GDP)	-2.8	-2.5	-2.3	-2.0	-1.8

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Uruguay	Argentina	Brazil	Chile	Paraguay
Income per Capita (USD)	18,245	9,773	8,871	15,772	6,168
Country Population (m)	3.5	44.8	210.7	19.0	7.0
Internet users (% of population)	66.4	70.2	59.7	66.0	51.3
Real GDP Growth (% p.a., 2019 - 2028)	1.2 - 2.5	1.5 - 2.8	1.0 - 2.0	2.2 - 3.2	3.0 - 4.2

Source: Various sources/Dun & Bradstreet



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