Best's Country Risk Report

Uruguay

CRT-4

August 22, 2018

Region: Latin America

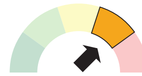
Country Risk Criteria Procedures

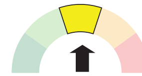
Guide to Best's Country Risk Tiers

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Uruguay, a CRT-4 country, has a moderate level of political risk and a high level of economic and financial system risk. As a large exporter, Uruguay is vulnerable to volatility in the global markets. For the past few years, growth has been tepid owing to slowdowns in its main trading partners, China and Brazil. However, GDP is expected to rise to roughly 3.4% in 2018. Inflation is expected to range between 6.0% and 7.0% over the medium term.
- The map depicts the countries A.M. Best evaluates in Central America, South America and the Caribbean. The majority of Latin American countries are categorized as CRT-3, CRT-4, or CRT-5.

Vital Statistics 2017		
Nominal GDP	USD bn	58.42
Population	mil	3.5
GDP Per Capita	USD	16,722
Real GDP Growth	%	3.1
Inflation Rate	%	6.2
United Nations Estimates		
Literacy Rate	%	98.5
Urbanization	%	95.6
Dependency Ratio	%	55.9
Life Expectancy	Years	77.4
Median Age	Years	35.0
Insurance Statistics		
Insurance Regulator	Central Bank of Uruguay	
Premiums Written (Life)	USD mil	665
Premiums Written (Non-Life)	USD mil	911
Premiums Growth (2016 - 2017)	%	10.5
Regional Comparison		
	Country Risk Tier	
Uruguay	CRT-4	
Bolivia	CRT-5	
Argentina	CRT-5	
Brazil	CRT-4	
Colombia	CRT-4	
Ecuador	CRT-5	

Source: IMF, UN, Swiss Re, Axco and A.M. Best


Economic Risk


Political Risk

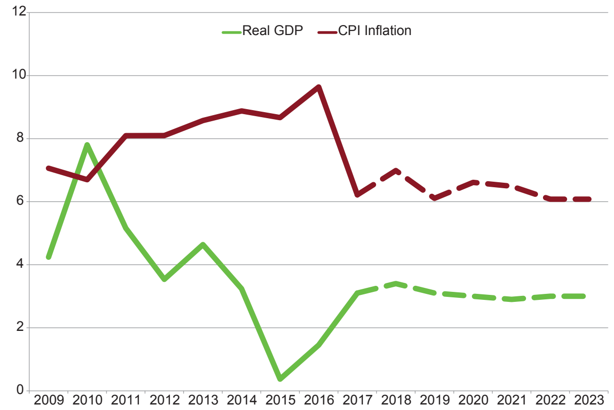

Financial System Risk

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

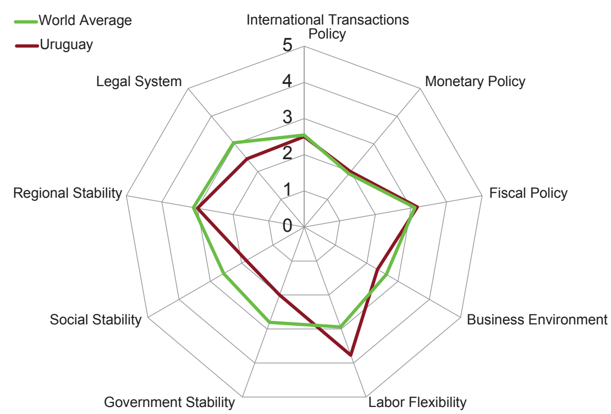
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

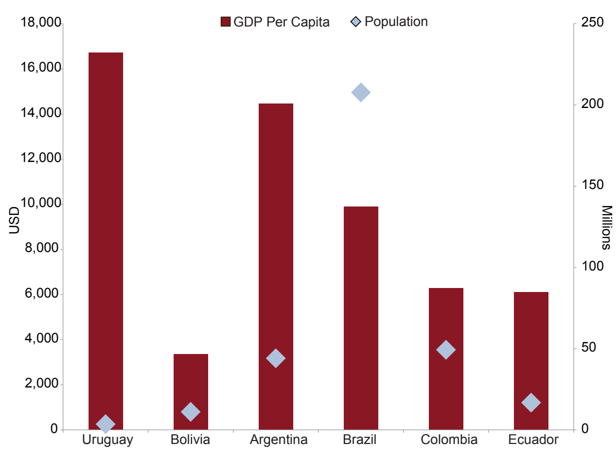
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Uruguay's economy depends heavily on its export-oriented agriculture industry and the construction sector. Recent strong performance in exports and growth in private consumption, encouraged by improved purchasing power, have supported recent GDP growth.
- Agriculture accounts for 6% of GDP but more than half of exports. The economy benefits from openness and a well-educated population, but the country is vulnerable to volatility in world prices and shifts in demand and in terms of trade.
- The middle class is expanding with a high per-capita income. Income inequality is low and extreme poverty has largely been eliminated.
- Uruguay relies highly on energy imports exposing the economy to energy price volatility. Higher global oil prices in 2018 are expected to drive moderate inflation.

Political Risk: Moderate

- Uruguay's political system is broadly stable. President Tabaré Vázquez is center-left and is committed to controlling inflation, lowering the fiscal deficit, and attracting foreign direct investment. However, his party is subject to internal division and thus faces difficulties passing legislation—plus, its slim majority in Congress, along with external pressure from social groups, will require compromises at times.
- The political environment is business-friendly and the legal framework is straightforward. The judiciary is highly independent and efficient. Corruption is among the lowest in the region. Uruguay's judicial independence ranks at 22 out of 137 countries by World Economic Forum.
- Business operations are sometimes threatened by social unrest. Environmental activist groups oppose the country's large mining projects and there are labor strikes. However, overall political stability is not disrupted.
- Crime rates are very low but slowly rising, which remains a major concern the government is dedicated to deterring.

Financial System Risk: High

- Uruguay's insurance and banking sectors are supervised by the Central Bank of Uruguay.
- The country's tax system is based on the source principle. Tax incentives are likely, given the government's interest in attracting investment. Tax evasion is very limited and the efficiency of tax collection continues to improve.
- Monetary policies are expected to remain relatively tight due to inflation.
- The current account has improved to reach a surplus. However, the loss of competitiveness and a decline in investor interest, as well as the country's reliance on the performance of main trading partners (Brazil, Argentina, and China), will continue to dampen its financial strength.
- Non-performing loans have increased but are currently covered by bank provisions and capital.