S&P Global
Ratings

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Research Update:

Uruguay 'BBB+/A-2' Ratings Affirmed; Outlook Remains Stable

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Overview

- Broad consensus on policy direction point to post-election continuity, but a divided Congress might slow down reform and overall legislative approval.
- Promoting growth and lowering inflation will be key challenges for the next administration.
- We are affirming our 'BBB+/A-2' sovereign credit ratings in Uruguay.
- The outlook remains stable, indicating our expectation that economic growth and stable fiscal outcomes will moderate the increase in debt.

Rating Action

On Nov. 6, 2024, S&P Global Ratings affirmed its 'BBB+' long-term and 'A-2' short-term foreign and local currency sovereign credit ratings on Uruguay. The outlook on the long-term ratings remains stable. The transfer and convertibility assessment remains 'A'.

Outlook

The stable outlook reflects our view of continuity in key economic policies after the recent presidential election. We expect prudent fiscal policies and economic growth will maintain general government deficit at moderate levels and that debt will increase only modestly. We expect moderate investments, representing 15% of GDP, across diverse sectors of the economy to support GDP growth of about 2.6% in 2025-2027.

Downside scenario

We could lower the ratings in the next two years if fiscal performance unexpectedly slips and the government weakens its commitment to contain fiscal deficits. In this scenario, we would expect the net general government debt burden to rise to well above 60% of GDP. A consistently weaker long-term GDP growth trajectory could weigh on economic resilience and lead to a lower rating.

Upside scenario

We could upgrade Uruguay in the next two years if there's stronger-than-expected fiscal consolidation and a longer track record of lower inflation. Disinflation could support a more stable debt path, significantly reduce economic rigidities such as indexation and help expand private-sector credit. Such developments could accelerate economic growth above our base-case assumptions, while a deeper and well-capitalized financial system would promote financial intermediation and strengthen Uruguay's monetary flexibility.

Rationale

The 'BBB+' ratings are supported by GDP per capita that remains the highest in the region, and a strong external profile. The sovereign ratings also reflect the country's stable democracy and political institutions, which we expect to foster broad policy continuity following the change in administration. However, our ratings are constrained by the sovereign's limited fiscal flexibility. Although we expect deficits to remain moderate, the projected nominal depreciation, combined with a significant share of indexed and foreign currency debt, will likely result in a change in net general government debt above 5% of GDP from 2024 to 2027.

Institutional and economic profile: We expect broad continuity in economic policy following the presidential election.

- A strong social contract, which emphasizes consensus and cohesion and broad political party coalitions, helps to anchor macroeconomic stability, as seen in the rejection of the pension overhaul proposal.
- Uruguay's institutions stand out as drivers for large investment projects, partially compensating for the higher cost of production.
- We expect Uruguay's GDP to grow 2.6% on average in 2024-2027, supported by exports and consumption.

Results of the first round vote on October 27 point to a competitive presidential run-off on November 24. Frente Amplio's candidate Yamandu Orsi came first with nearly 44% of the votes, followed by Partido Nacional's Alvaro Delgado (approximately 27%) and Andres Ojeda from the Colorado party (16%). The latter two candidates belong to the current governing coalition. Regardless of the outcome, we don't expect a significant shift in the policy direction, as economic policy differences across party lines are narrow, especially when compared to other Latin American countries.

The defeat of the social security plebiscite illustrates Uruguayans' rejection of extreme policies as well as the limited space for outsiders in its well-established party system. Plebiscites are a form of direct democracy and could present some risk for economic predictability because they could amend the constitution by a popular decision and bypass the legislative procedure. The union-driven referendum proposed to reduce the retirement age, eliminate the private pension funds, and increase the minimum benefits. While 40% of the voters supported the proposal, the lack of backing from major political parties caused its defeat.

Both political parties share consensus on key economic challenges including the need for sustainable fiscal policies, microeconomic reforms to improve competitiveness and unlock the growth potential, as well as broadening trade agreements. Proposals differ in the view of role--and size--of the public sector and prioritization of spending.

That said, passage of any legislation could be difficult. Neither major party or coalition holds a majority in the lower chamber, and while the Frente Amplio has a majority in the Senate, diverse views within the party could slow the design and execution of the economic plan.

We expect economic growth of 3.1% in 2024, up from 0.4% in 2023, on a rebound of the agricultural and related sectors from last year's severe drought. However, growth will slow in 2025-2026 to 2.4%, given the decline in investment following the completion of the pulp plant and related infrastructure projects. The slowing population growth could also weigh on economic performance over the medium term.

Despite these challenges, we expect a variety of smaller-scale projects in the real estate, IT, and agribusiness sectors to sustain economic growth in line with those of peers with a similar level of economic development. Uruguay's GDP per capita should reach $23,000 in 2024-2025 and will remain the highest in Latin America, although the country faces challenges such as the high cost of living and rising levels of violence.

Flexibility and performance profile: Efforts to contain deficits have contributed to slow down in debt growth.

- We expect the general government deficit to remain near current levels in 2025-2026.
- The net general government debt should remain just below 60% of GDP.
- The reduction in inflation is an important step to improve the monetary policy credibility, but deepening domestic credit markets will demand more time.

Our base-case scenario assumes that the sovereign will remain committed to fiscal prudency, regardless of the electoral outcome. However, budgetary rigidities should keep the general government deficit at approximately 3.1% of GDP in 2024-2027. Payroll, pensions, and interest account for more than 80% of expenditures. Moreover, the 40% vote of the social security plebiscite highlights demand to increase social spending.

After the deficit narrowed by 2 percentage points in 2021-2022, progress on fiscal consolidation has slowed. The reduction of inflation has constrained the government's capacity to lower the deficit. Lower inflation also trimmed nominal GDP growth as well as revenue collection from budgetary estimates. Meanwhile, nominal expenditure commitments set in 2022, as well as indexation to past inflation of payroll and pensions constrained the expenditure flexibility.

Our key measure of the government's fiscal performance is the change in net general government debt stock, expressed as a percentage of GDP. This captures more than headline deficits and indicates debt trends. We expect that the change in general government debt will exceed the fiscal deficit and average 5.4% of GDP, also reflecting depreciation of the Uruguayan peso and inflation due to the country's debt composition. Effective debt management has slashed the risks in Uruguay's debt profile. However, foreign currency debt still represents 44% of the total debt stock, and the bulk of peso-denominated debt is indexed to inflation.

The fiscal rule implemented in 2020 has been an important tool to anchor fiscal policy and increase transparency, while reflecting an institutional commitment toward fiscal discipline. However, it still does not target a specific or prudent debt level. We expect net general government debt will rise to 58% by 2027 from 51% in 2023. We also expect general government interest payments to average 8.7% of general government revenue between 2024 and 2027.

A longer track record of lower inflation could steady the debt's trajectory, widen financial intermediation, reduce the level of dollarization in the economy, and improve monetary flexibility. Following roughly two decades of inflation at 7%-8%, the central bank has been focused on anchoring expectations through increased communication and transparency with the market. Annual inflation was 5% in October and remained within the target range of 3%-6% for over a year. Moreover, inflation expectations for the next two years remain just below the upper band of the range.

In our view, many years of elevated inflation, and still high dollarization (over 70% of deposits) have limited the private sector's access to credit. Credit allocation accelerated recently but remains below that of peers at 31% of GDP. That said, the financial system is well capitalized and highly liquid. We classify Uruguay in group '5' of our Banking Industry Country Risk Assessment, or BICRA (see "Banking Industry Country Risk Assessment: Uruguay," published Nov. 8, 2023). BICRAs are grouped on a scale from '1' to '10', ranging from what we view as the lowest-risk banking systems, or group '1', to the highest risk, or group '10'.

Uruguay's solid external position remains a key credit strength. The recovery in agricultural exports after the 2023 drought and incorporation of output from the UPM2 pulp mill will increase trade surplus to 3.8% of GDP from 2.8% in 2023. We expect current account deficits to narrow to 1% on average (2024-2027), from 3.3% in 2023. Net foreign direct investment has shrunk after the completion of UPM2, but we expected it to gradually recover in 2026-2027, contributing to current account financing. We expect narrow net external debt (gross debt net of liquid external assets) to remain stable at about 20% of current account reserves in the next couple of years.

Key Statistics

Table 1

Uruguay--selected indicators

	2018	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f
Economic indicators (%)										
Nominal GDP (bil. LC)	2,007.72	2,193.67	2,254.80	2,646.33	2,888.51	2,998.59	3,168.84	3,407.14	3,680.80	3,969.00
Nominal GDP (bil. $)	65.34	62.22	53.67	60.76	70.16	77.24	78.71	80.49	83.61	87.33
GDP per capita (000s $)	19.0	18.1	15.6	17.7	20.4	22.4	22.8	23.3	24.2	25.3
Real GDP growth	0.2	0.9	(7.4)	5.6	4.7	0.4	3.1	2.4	2.4	2.5
Real GDP per capita growth	0.1	0.9	(7.5)	5.5	4.6	0.3	3.0	2.3	2.3	2.4
Real investment growth	(10.5)	(3.0)	(1.7)	19.3	11.8	(7.0)	(9.0)	3.0	3.0	5.0
Investment/GDP	14.9	14.1	16.4	18.3	18.9	17.3	15.2	15.3	15.4	15.8
Savings/GDP	14.4	15.4	15.7	15.8	15.2	13.9	14.2	14.1	14.6	14.6
Exports/GDP	26.4	27.7	25.6	32.0	32.0	27.5	28.5	28.0	28.8	28.9
Real exports growth	(1.1)	4.6	(15.4)	13.5	9.8	0.7	9.7	0.4	5.5	2.9

Table 1

Uruguay--selected indicators (cont.)

	2018	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f
Economic indicators (%)										
Unemployment rate	8.3	8.9	10.4	9.3	7.9	8.3	8.3	8.0	8.0	7.5
External indicators (%)										
Current account balance/GDP	(0.5)	1.3	(0.7)	(2.5)	(3.7)	(3.3)	(1.1)	(1.2)	(0.8)	(1.1)
Current account balance/CARs	(1.6)	4.2	(2.6)	(7.0)	(10.2)	(10.4)	(3.3)	(3.9)	(2.4)	(3.5)
CARs/GDP	29.5	31.0	28.1	35.3	36.5	32.1	31.8	31.3	32.0	32.1
Trade balance/GDP	3.6	5.0	4.2	7.8	5.8	2.8	3.8	3.8	4.4	3.9
Net FDI/GDP	(1.1)	2.2	2.0	4.2	4.0	3.6	0.5	2.0	2.0	2.5
Net portfolio equity inflow/GDP	2.3	(1.7)	(2.8)	(1.8)	(3.0)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)
Gross external financing needs/CARs plus usable reserves	87.8	85.7	100.2	101.6	103.7	105.2	96.5	93.7	93.1	93.3
Narrow net external debt/CARs	17.8	30.8	41.9	25.0	13.5	22.6	13.4	16.8	18.0	18.7
Narrow net external debt/CAPs	17.6	32.1	40.8	23.4	12.3	20.5	12.9	16.2	17.6	18.1
Net external liabilities/CARs	76.6	77.2	106.4	66.5	58.7	66.4	70.4	73.8	71.9	72.1
Net external liabilities/CAPs	75.4	80.6	103.7	62.2	53.3	60.2	68.2	71.1	70.2	69.6
Short-term external debt by remaining maturity/CARs	32.7	31.8	45.0	36.6	31.5	29.1	29.4	28.3	26.6	24.1
Usable reserves/CAPs (months)	6.2	6.1	5.5	4.6	4.0	3.6	4.4	4.7	4.5	4.3
Usable reserves (mil. $)	9,461	7,145	8,876	9,382	8,110	9,407	10,318	10,318	10,318	10,318
Fiscal indicators (general government; %)										
Balance/GDP	(1.9)	(2.8)	(5.2)	(3.6)	(3.0)	(3.2)	(3.2)	(3.2)	(3.1)	(3.0)
Change in net debt/GDP	5.7	7.6	9.1	6.4	1.3	4.0	5.9	5.5	5.4	4.9

Table 1

Uruguay--selected indicators (cont.)

	2018	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f
Economic indicators (%)										
Primary balance/GDP	0.7	(0.4)	(2.5)	(1.5)	(0.8)	(0.9)	(0.7)	(0.6)	(0.6)	(0.4)
Revenue/GDP	29.6	29.2	29.2	28.0	28.7	29.1	29.0	29.2	29.2	29.2
Expenditures/GDP	31.5	32.0	34.4	31.7	31.7	32.3	32.2	32.4	32.3	32.2
Interest/revenues	8.7	8.1	9.1	7.6	7.7	8.1	8.6	8.7	8.7	8.9
Debt/GDP	46.3	49.2	58.7	56.6	53.1	55.1	58.2	59.8	61.0	61.7
Debt/revenues	156.5	168.4	200.8	201.7	184.7	189.1	200.7	204.9	209.0	211.4
Net debt/GDP	41.4	45.4	53.3	51.8	48.8	51.0	54.2	55.9	57.2	57.9
Liquid assets/GDP	5.0	3.8	5.3	4.8	4.2	4.1	4.0	4.0	3.9	3.8
Monetary indicators (%)										
CPI growth	7.6	7.9	9.8	7.7	9.1	5.9	5.0	5.5	5.5	5.2
GDP deflator growth	7.5	8.3	11.0	11.2	4.2	3.4	2.5	5.0	5.5	5.2
Exchange rate, year-end (LC/$)	32.39	37.34	42.34	44.70	40.07	39.02	41.50	43.16	44.89	46.01
Banks' claims on resident non-gov't sector growth	12.5	10.7	12.0	12.5	9.4	11.5	12.0	14.0	9.0	9.0
Banks' claims on resident non-gov't sector/GDP	25.7	26.0	28.3	27.2	27.2	29.3	31.0	32.9	33.2	33.5
Foreign currency share of claims by banks on residents	50.2	49.3	48.8	48.2	47.0	46.8	46.0	45.0	45.4	45.7
Foreign currency share of residents' bank deposits	73.6	76.2	77.4	77.2	75.0	71.5	71.5	71.5	71.0	71.0
Real effective exchange rate growth	1.5	(3.2)	(4.6)	(2.2)	11.1	7.9	N/A	N/A	N/A	N/A

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Uruguay--ratings score snapshot

Key rating factors	Score	Rationale
Institutional assessment	3	Stable democracy, predictable policies, free press, and peaceful changes of government. No external threats. Largely middle-class society with consensus on key economic policies. Policymaking during the past 15 years has remained generally effective. Strong institutional checks and balances, low perception of corruption, and respect for the rule of law.
Economic assessment	3	Based on GDP per capita (US$) and growth trends as per Selected Indicators table. We estimate GDP per capita growth over our forecast period will be in line with that of countries with similar levels of development.
External assessment	2	Based on narrow net external debt and gross external financing needs/(CAR plus usable reserves) as per Selected Indicators table.
Fiscal assessment: flexibility and performance	5	Based on the change in net general government debt (% of GDP) as per Selected Indicators table.
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators table.Over 40% of gross government debt is denominated in foreign currency.
Monetary assessment	5	The Uruguayan peso is a free-floating currency with central bank intervention in foreign exchange markets. CPI as per Selected Indicators table. The central bank has a track record of independence and has the ability to act as lender of last resort for the financial system.Resident deposits/loans in foreign currency account for more than 50% of the total.
Indicative rating	bbb+	As per table 1 of "Sovereign Rating Methodology.
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	BBB+	
Notches of uplift	0	
Local currency	BBB+	Default risks do not apply differently to foreign currency and local currency debt.

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Economic Outlook Emerging Markets Q4 2024: Lower Interest Rates Help As Pockets Of Risk Rise, Sept. 24, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Uruguay	
Sovereign Credit Rating	BBB+/Stable/A-2
Transfer & Convertibility Assessment	A
Uruguay	
Senior Unsecured	BBB+
Short-Term Debt	A-2