FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Uruguay at 'BBB'; Outlook Stable

Fri 19 Sep, 2025 - 1:45 PM ET

Fitch Ratings - New York - 19 Sep 2025: Fitch Ratings has affirmed Uruguay's Long-Term (LT) Foreign Currency (FC) Issuer Default Rating (IDR) at 'BBB' with a Stable Rating Outlook.

A full list of rating actions appears at the end of this rating action commentary.

KEY RATING DRIVERS

Credit Fundamentals: Uruguay's 'BBB' rating is supported by relatively high GDP per capita, strong governance indicators, and robust external finances. The rating is constrained by muted medium-term economic growth prospects, a public debt burden rising above the 'BBB' median and sensitive to exchange-rate movements, a long record of high inflation (albeit improving), and policy flexibility constrained by dollarization, indexation and shallow financial depth.

Broad Policy Continuity Post-Election: President Yamandú Orsi of the center-left Frente Amplio party took office in March 2025, following a defeat of the center-right candidate Álvaro Delgado in the November 2024 runoff by a narrow 52%-48% margin. Despite the close race, the candidates' platforms did not indicate stark policy differences. The new administration has not signaled plans for bold reform efforts but instead will prioritize efforts to boost economic growth and competitiveness and increase spending on social protection and public security. Fiscal constraints pose a challenge to the agenda.

Growth to Moderate: GDP growth rebounded to 3.1% in 2024 following the historic drought in 2023. We forecast growth to moderate to 2.4% in 2025. The strong Q1 growth print of 3.4% was impacted by the reopening of the oil refinery, the impact of which we expect to fade through the end of 2025. The government's microeconomic reform agenda aims to boost the low growth from the past decade by simplifying regulations, removing red tape and boosting productivity. Investment remains a weakness compared to peers, at 15.6%

of GDP in 2024 (22.4% for the BBB median), and weak demographics could present a challenge over the medium term.

Structural Improvements in Inflation: Uruguay is making gains in structurally lowering inflation and improving monetary policy credibility. Inflation stood at 4.2% yoy as of August, having stayed within the tolerance range (4.5% +/- 1.5%) for the last two years. Inflation expectations at the 24-month horizon fell to a new low of 4.9% in August from 5.9% in December. The new BCU president has demonstrated continuity with the disinflation strategy of the prior leadership, with a strong mandate to lower inflation, by further hiking the policy rate early in the year. As inflation and inflation expectations have fallen, the BCU restarted its easing cycle in July, cutting rates by 25 bps in July and August but still maintaining real rates above neutral levels.

Maintaining lower inflation would facilitate other goals such as containing the impact of wage indexation, reducing dollarization and improving monetary policy transmission. The government's proposed guidelines for the ongoing round of wage negotiations (pautas salariales [salary guidelines]), taking place this year and effective through 2027, incorporates the 4.5% inflation target and limits backward-looking inflation correctives.

Higher-than-Expected Budget Deficits: The central government + social security (Banco de Previsión Social) deficit (net of cincuentones [people in their 50s] transfers) remained 3.3% of GDP in 2024, in line with the prior year. But it was closer to 4.0% net of some extraordinary factors, including large dividends from the state-owned commercial bank (Banco de la República Oriental del Uruguay), tax advances and delayed expenditures.

The new government has subsequently revised up deficit projections for 2025 to 4.1% from 3.0%, to account for these timing issues as well as a weaker underlying structural balance. We expect a deficit at this level, as revenue growth has been strong (and above nominal GDP), but expenditures have risen considerably on structural pressures as well as the one-offs from payment of the delayed spending.

Five-Year Budget Announced: The authorities delivered their five-year budget proposal at the end of August, planning a mostly backloaded fiscal consolidation path to reaching a 2.6% overall balance and 0% primary balance by the end of the term in 2029. The strategy focuses primarily on a 1.5% of GDP increase in revenues. This increase is to come primarily from implementation of the global minimum tax and better tax administration. They expect spending to grow broadly in line with nominal GDP over their five-year term, including some moderate additional social and capex spending to deliver on election campaign promises.

Fitch assumes a 4.1% of GDP deficit in 2026, in line with the proposed five-year budget. We forecast gradual fiscal consolidation to begin in 2027, although at a somewhat slower pace (3.8% of GDP deficit net of cincuentones versus 3.5%) given slower growth than projected by the authorities and smaller gains from revenue measures.

Rising Government Debt Trajectory: Government debt (including central bank recapitalization bonds) rose to 67% of GDP at end-2024 from 63.1% in 2023, in part due to sharp peso depreciation, surpassing its previous high observed during the 2020 pandemic (66%). We expect gross government debt to rise over the medium term due to wider fiscal deficits and indexation of most local currency debt (i.e., interest accruing on inflation and wage-indexed debt but not captured in the headline fiscal figures), and to reach 69% of GDP by 2027, above the 'BBB' median of 60%.

The government is modifying the existing fiscal framework, introducing a net debt anchor of 65% along with structural deficit targets that must be calibrated to levels needed to respect this debt anchor. Net debt was 52.9% at end 2024, or 58% under a new debt calculation methodology with both numerator and denominator expressed in nominal pesos rather than USD. It is removing a spending cap but keeping a legal cap on net government financing. The government has relied more on external financing in recent years, including drawdown of several credit lines with multilaterals, but has continued its issuance of global local currency denominated notes. The foreign currency share of central government debt fell to 44% in 2024 from 51% in 2020.

External Risks Contained: Uruguay's current account deficit narrowed to 1% of GDP in 2024, from an average of 3.2% over 2021-2023 as large investment projects that rely heavily on capital imports wind down. Absent new large investments, we project the external position to remain roughly in balance over the coming years. International reserve coverage in terms of current external payments reached 7.6 months in 2024, up from 7.1 months in 2023. Uruguay is relatively insulated from the effects of U.S. tariffs, as only about 10% of Uruguay's exports go to the U.S. (primarily meat).

Uruguay has an ESG Relevance Score (RS) of '5'[+] for both Political Stability and Rights, and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. Theses scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in Fitch's proprietary Sovereign Rating Model (SRM). Uruguay has a high WBGI ranking at the 83rd percentile, reflecting its long track record of stable and peaceful political transitions, well established rights for participation in the political process, strong institutional capacity, effective rule of law and low level of corruption.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Public Finances: A substantial rise in government debt/GDP due to, for example, widening of the fiscal deficit;

--Macro: Significant weakening of economic growth prospects or developments that undermine policy predictability and macroeconomic stability, particularly if it weakens public finances.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Macro: A sustained reduction in inflation and anchoring of expectations around the target, and progress in de-dollarization and/or reducing indexation that improves policy flexibility:

--Public Finances: A sustained decline in government debt/GDP consistent with a low budget deficit;

--Macro: Improved economic growth and investment prospects via, for example, economic reforms that address competitive weaknesses.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Uruguay a score equivalent to a rating of 'BBB+' on the LT FC IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its qualitative overlay (QO), relative to SRM data and output, as follows:

--Macro: -1 notch, to reflect macroeconomic policy flexibility constrained by high dollarization, indexation and historically higher inflation than emerging market peers. A poor record of compliance with inflation targets reflects institutional shortcomings not captured in the strong governance indicators that feed into the SRM, though the authorities are taking steps to improve this.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centered averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework

designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

DEBT INSTRUMENTS: KEY RATING DRIVERS

Senior Unsecured Debt Equalized: The senior unsecured long-term debt ratings are equalized with the applicable LT IDR, as Fitch assumes recoveries will be 'average' — when the sovereign's LT IDR is 'BB-' and above.

No Recovery Ratings are assigned at this rating level. Please see the Rating Actions table below for the full set of instrument ratings.

COUNTRY CEILING

The Country Ceiling for Uruguay is 'A-', two notches above the LT FC IDR. This reflects no material constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +2 notches above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for Uruguay.

ESG CONSIDERATIONS

Uruguay has an ESG Relevance Score of '5'[+] for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Uruguay has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Uruguay has an ESG Relevance Score of '5'[+] for Rule of Law, Institutional and Regulatory Quality and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are

therefore highly relevant to the rating and a key rating driver with a high weight. As Uruguay has a percentile rank above 50 for the respective Governance Indicators, this has a positive impact on the credit profile.

Uruguay has an ESG Relevance Score of '4'[+] for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Uruguay has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Uruguay has an ESG Relevance Score of '4'[+] for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Uruguay, as for all sovereigns. As Uruguay has record of 20 years without a restructuring of public debt, which is captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Uruguay	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
	LC LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable

	LC ST IDR	F2	Affirmed	F2
	Country Ceiling	A-	Affirmed	A-
senior unsecured	LT	BBB	Affirmed	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country Ceiling Criteria (pub. 24 Jul 2023)

Sovereign Rating Criteria (pub. 15 Sep 2025) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.3 (1)

Debt Dynamics Model, v1.3.2 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Climate Risk Model, v1,0,0 (1)

Sovereign Rating Model, v3.14.4 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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