

Uruguay

Update

Latest Credit Developments

Opposition Victory: Yamandu Orsi of the left-wing Frente Amplio (FA) coalition was elected president in 2024 elections, defeating his opponent from the ruling center-right Republican Coalition. The FA secured a majority in the Senate but not the lower chamber, though should be able to negotiate support from smaller parties. The return of a left-wing president is unlikely to significantly affect macroeconomic settings, given entrenched institutional stability, though this could also hinder bold efforts to address longstanding growth and fiscal challenges.

Growth Rebounds: Fitch estimates real GDP growth rose to 3.1% in 2024 from 0.4% on the base effect from last year's drought. Completion of the UPM pulp mill led to strong growth in exports and a contraction in investment. We expect growth to slow to 2.4% in 2025, slightly below the 'BBB' median of 2.8%. An adverse global backdrop poses downside risks, namely Brazil's sharp currency selloff, though Argentina's strong currency could offer a boost in the tourism sector.

Lacklustre Trend Growth: We expect growth to return to a lacklustre 2.0% pace in the medium term, restrained by low investment (16% of GDP after completion of UPM). Orsi hopes to lift growth via efforts to improve infrastructure and digitalization, but has not unveiled plans to address high production costs and other investment bottlenecks. Trade openness has seen little recent improvement, though recent movement on the EU-Mercosur FTA could be an upside.

Disinflation Progress: Inflation rose to 5.5% yoy by end-2024, though inflation expectations remain below the 6% upper bound of the target range (4.5%+/-1.5pp) and historic average of 8%. A strong currency has been key for disinflation progress, but the dynamic may have become self-reinforcing, and we only expect a recent peso selloff to drive a moderate uptick in inflation. Shallow credit markets, indexation, and dollarization continue to hinder policy transmission.

Fast Consolidation Unlikely: We estimate the central government deficit was broadly stable at 3.4% of GDP in 2024, above the budget projection of 3.1%. Recurrent revenues (taxes and social security contributions) grew in line with GDP, but did not achieve an outperformance projected in the budget. Spending grew in excess of nominal GDP, due to salary pressures and backward indexation of pensions. Extra SOE dividends (0.6% of GDP) helped avoid a rise in the deficit.

We project the deficit to rise to 3.7% in 2025 as the extraordinary SOE dividends end, and to fall only gradually in coming years given narrow consolidation options facing the new government. During the campaign, Orsi has pledged to reinforce the social programs that dominate Uruguay's budget, and not to hike taxes. The FA may seek to relax retirement parameters.

Fiscal Achievements Intact: Voter rejected a referendum that would have overturned the 2023 pension reform and eliminated the private pillar, averting a major shock. We expect Orsi to keep a fiscal rule introduced by the outgoing authorities, with possible modifications. The rule has not yet ensured consolidation, having not been complied with in 2024 and complied with in prior years after relaxations, but has helped improve accountability and transparency in our view.

Gradual Debt Increase: We estimate that general government debt jumped to 68.0% of GDP in 2024, above the 'BB' median of 54.7%, on the depreciation of the peso, but reflecting an underlying upward trend driven by the fiscal deficit and indexation of peso debt to inflation and wages. We expect this will keep debt metrics on a gradual upward path in coming years.

Solid External Position: We estimate the current account deficit fell to 0.8% of GDP in 2024 from 3.3% in 2023, driven by conclusion of the import-intensive investment stage and rise in exports from UPM. Tourism in late-2024 and early-2025 should benefit from improved prices relative to Argentina. The strong external position lifted reserves to USD17.4 billion at end-2024, covering a high 7.8 months of current external payments.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Local Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Country Ceiling

A-

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Data

	2024E
GDP (USDbn)	80
Population (m)	3.5

Source: Fitch Ratings

Applicable Criteria

[Sovereign Rating Criteria \(October 2024\)](#)

[Country Ceiling Criteria \(July 2023\)](#)

Related Research

[Fitch Affirms Uruguay at 'BBB'; Outlook Stable \(Jun 2024\)](#)

[Global Economic Outlook \(Dec 2024\)](#)

[Interactive Sovereign Rating Model](#)

[Fitch Fiscal Index - Analytical Tool](#)

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Forecast Summary

	2021	2022	2023	2024E	2025F	2026F
Macroeconomic indicators and policy						
Real GDP growth (%)	5.6	4.7	0.4	3.1	2.4	2.0
Unemployment (%)	9.4	7.9	8.3	7.8	7.8	8.8
Consumer price inflation (annual average % change)	7.7	9.1	5.9	4.8	5.5	5.5
Policy interest rate (annual average, %)	4.8	9.1	10.7	8.6	8.6	8.5
General government balance (% GDP)	-3.7	-3.1	-3.2	-3.2	-3.5	-3.3
Gross general government debt (% GDP)	62.5	59.1	63.5	68.0	69.2	70.3
UYU per USD (annual average)	43.6	41.2	38.8	40.3	44.6	45.4
Real private credit growth (%)	1.3	5.1	8.1	8.2	0.5	0.5
External finance						
Merchandise trade balance (USDbn)	4.7	4.1	2.1	3.6	3.9	4.1
Current account balance (% GDP)	-2.5	-3.7	-3.3	-0.8	0.3	0.3
Gross external debt (% GDP)	90.1	79.1	65.9	53.0	56.3	55.1
Net external debt (% GDP)	-21.6	-25.1	-22.0	-21.6	-23.6	-23.8
External debt service (principal + interest, USDbn)	3.6	4.0	4.2	3.1	3.4	4.1
Official international reserves including gold (USDbn)	17.0	15.1	16.3	17.4	18.0	18.6
Gross external financing requirement (% int. reserves)	24.1	30.9	32.8	11.8	9.6	13.0
Real GDP growth (%)						
US	6.1	2.5	2.9	2.7	2.1	1.7
China	8.4	3.0	5.2	4.8	4.3	4.0
Eurozone	5.4	3.5	0.4	0.8	1.2	1.3
World	6.3	2.7	3.0	2.8	2.6	2.3
Oil (USD/barrel)	70.6	98.6	82.1	80.0	70.0	65.0

Source: Fitch Ratings

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