Commentary
Uruguay Avoids a Series of Global Shocks

Morningstar DBRS
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Key Highlights

- Against a complicated global backdrop, Uruguayan exporters have performed well, the government has maintained favorable access to financing, and sharply higher oil prices have failed to derail the economy.
- Uruguay's macroeconomic position is solid, but near-term growth prospects are mediocre.
- The key issue for Uruguay's sovereign credit rating is the large fiscal deficit. While the government has a fiscal consolidation plan in place, Morningstar DBRS expects the pace of adjustment will likely be slower than the government projects.

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The Uruguayan economy has shown remarkable resilience in a complex international environment. The U.S.-Iran conflict is pushing energy prices higher, advanced economies are raising protectionist measures, and financial markets are adjusting to higher interest rates. Uruguay (BBB, Stable) has weathered the global turmoil so far due to its reduced reliance on imported energy, diversified trading relationships, and credible macroeconomic policymaking. External shocks could still weigh on Uruguay's performance, but the country's macroeconomic position is solid. The key challenge for Uruguay's sovereign credit outlook is more domestic in nature: to maintain solid public finances.

Three External Shocks Have Had a Limited Impact on Uruguay

Sizable investment in renewable energy over the last two decades has materially reduced Uruguay's vulnerability to oil price shocks. The sharp increase in energy prices since February is a headwind for the Uruguayan economy, as it generates inflationary pressures and erodes local consumers' purchasing power. The country relies on fossil fuels to power industry and transportation. However, the country now generates nearly all its electricity from renewables, a sharp change from the past. Oil imports amounted to just 1.6% of GDP in 2025, down from 4.6% in 2005.

The performance of Uruguayan exporters has also been solid this year despite rising global protectionism. Demand from key trading partners, such as China, Brazil, and the European Union, has remained firm, while prices for Uruguay's key exports, such as livestock, have increased. In addition, the direct impact of the 12.5% Section 301 tariffs imposed by the U.S. on Uruguayan exports is limited. Only 10% of Uruguay's goods exports go to the U.S., and a large share of those goods are exempt from tariffs (i.e. beef and pulp products).

In addition, Uruguay has maintained favorable access to external financing amid volatility in global bond markets. Over the course of this year, Uruguayan bonds have continued to benefit from low spreads, which reflects investors' confidence in the country's economic and political fundamentals. Last month, the Uruguayan government issued a dollar-denominated 2037 bond in the international market with an annual yield of 5.36%.

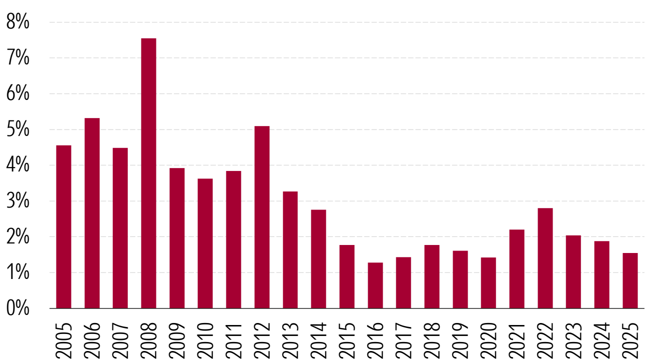
The Macroeconomic Picture Is Stable But Growth Prospects Are Uninspiring

Uruguay is confronting the current episode of global volatility from a position of strength. Inflation has fluctuated within the central bank's 3-6% tolerance range for 39 consecutive months (with one brief exception when inflation hit 2.9% y/y in March 2026), and inflation expectations are anchored to the

4.5% target. External accounts are in good shape. In addition, the local banking system is well-capitalized and profitable. All said, Uruguay is in a solid macroeconomic position.

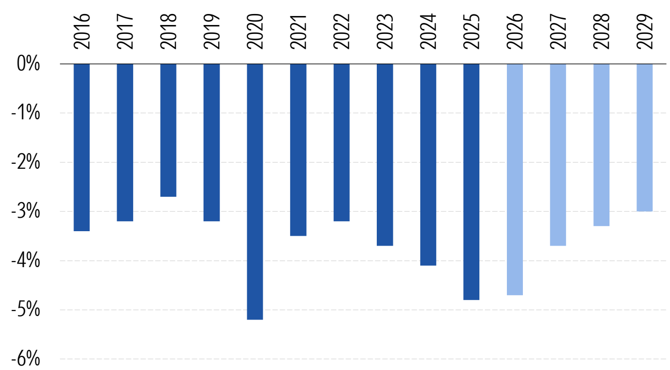
The growth outlook, however, is mediocre. Private consumption and exports are supporting growth, but investment activity is weak. According to our estimate of the market consensus, the economy is forecast to expand by 1.5% in 2026 and 2.0% in 2027. Weather-related risks stemming from El Niño, which could adversely affect economic activity, also pose downside risks to the growth forecast.

Exhibit 1 Oil Imports (% GDP)



Source: Banco Central de Uruguay; IMF; Macrobond; Morningstar DBRS.

Exhibit 2 Consolidated Public Sector Fiscal Balance (% GDP)



Source: Ministerio de Economía y Finanzas; Morningstar DBRS.

Holding the Line

The key issue for Uruguay's sovereign credit rating is the fiscal outlook. The consolidated public sector deficit (excluding cuarentones effects) reached 4.8% of GDP in 2025, its highest level since the pandemic in 2020. The Orsi administration aims to reduce the deficit to 3.0% by 2029 through modest revenue measures and improved tax collection.

Morningstar DBRS views the Orsi administration as committed to fiscal sustainability and expects the fiscal imbalance to gradually narrow going forward. However, the pace of consolidation may be slower than planned. Revenues may underperform expectations since growth projections in the budget look slightly optimistic. At the same time, President Orsi of the left-leaning Frente Amplio coalition has made a political commitment to protect expenditure. Against this backdrop, the principal challenge for President Orsi will be to persuade members of his own party, many of whom favor greater social spending and a more redistributive state, to hold the line on spending as the revenue-based consolidation plan slowly advances.

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