FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Uruguay at 'BBB'; Outlook Stable

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Fitch Ratings - New York - 10 Sep 2026: Fitch Ratings has affirmed Uruguay's Local and Foreign Long-Term Issuer Default Ratings (IDRs) at 'BBB' with a Stable Rating Outlook.

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 long record of high inflation (albeit improving), and policy flexibility constrained by dollarization, indexation and shallow financial depth. Uruguay's public debt burden is higher than the 'BBB' median and sensitive to exchange-rate movements. The Stable Outlook balances an improving track record on inflation against a continued rising government debt burden.

KEY RATING DRIVERS

Reform Agenda Advances: The government of center-left President Yamandú Orsi has outlined its legislative priorities which include modest revisions to the five-year budget bill, a competitiveness law, and changes to the social security regime. The modified budget bill broadly preserves the original fiscal targets, weakening the prior path by 0.1% of GDP annually. A competitiveness bill was approved unanimously by the Senate in August and awaits final approval in the Chamber of Deputies. The government also plans to introduce modifications to the social security regime, likely allowing some workers to retire at 60 (at reduced payouts) and permit greater foreign investment by private and public pension funds.

Weak Growth: Growth slowed to 1.8% in 2025 from 3.3% in 2024, below prior budget estimates. The negative surprise was primarily driven by a drought last year, which will weigh on growth in 4Q25 and 2Q26. Fitch forecasts growth of 1% in 2026, below the government's revised 1.6% estimate. Weak growth remains a perennial challenge, averaging just 1.3% over 2015-2025, reflecting a high cost of doing business, low investment (16% of GDP in 2025), sluggish productivity, and unfavorable demographics.

Fitch forecasts average growth of 1.8% in 2027-2028, although there could be upside from competitiveness reforms.

Improving Inflation Track Record: Inflation has remained within the tolerance range for more than three years, with monetary policy credibility improving. The 4.5% inflation target remains above similar inflation-targeting peers. Inflation stood at 4.6% yoy in August, up from 3.1% in February, with the U.S.-Iran energy shock mitigated by Uruguay's mostly renewable electricity matrix. Anchored inflation expectations support wage moderation (particularly for the next round of wage negotiations in 2027) and de-dollarization efforts. Deposit dollarization of around 70% remains high but is gradually improving, and the central bank is implementing measures to reinforce this trend.

Back-Ended Fiscal Consolidation: The general government deficit rose to 3.7% of GDP in 2025 (4.2% excluding extraordinary social security inflows), in line with expectations. Fitch forecasts the deficit to remain at similar levels in 2026. Delivery on fiscal consolidation goals from 2027 onward could be more challenging. The five-year budget envisions 1.5% of GDP in fiscal adjustment through 2029, primarily from revenue measures, half of which are from implementation of the global minimum tax and the remainder from better tax administration. Fitch anticipates a slower pace of consolidation, with the deficit (excluding social security inflows) falling to 3.5% by 2028.

Debt Rising: Fitch forecasts gross general government debt (including central bank recapitalization bonds) to rise to 68% of GDP in 2026 (compared to the BBB median of 57% of GDP) from 64.4% in 2025 and will continue to increase thereafter. Net debt using the government's methodology was 55.8% of GDP in 2025. The five-year budget anticipates net debt rising to 62.7% of GDP by 2029, approaching the net debt anchor of 65% under the new fiscal framework. Risks are to the upside should growth or revenues underperform budget expectations.

Debt Composition Improving: Debt composition continues to improve, with local currency instruments comprising nearly 60% of 2025 issuance and the foreign currency share falling to 45% at end 2025 from 56% in 2019. The majority of domestic market debt issuance in 2025 and 1H26 was denominated in nominal fixed rate peso instruments, rather than indexed units (inflation and wages), supported by lower domestic rates and more credible monetary policy. Debt average time to maturity is one of the highest among emerging markets at about 12 years.

External Position Balanced: The current account deficit narrowed to 0.5% of GDP in 2025, fully financed by FDI. Fitch forecasts a modest widening to 1.3% in 2026 on higher fuel prices. Reserves remain robust at 8.5 months of external payments in 2025 (versus the BBB median of 5.0 months).

ESG - Governance: 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: Fiscal consolidation that stabilizes government debt to GDP at around or modestly higher than current levels;

--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 Sovereign Rating Model (SRM) assigns Uruguay a score equivalent to a rating of 'BBB+' on the Long-Term Foreign Currency IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final Long-Term Foreign Currency IDR by applying its qualitative overly (QO), relative to SRM data and output, as follows:

--Macro: -1 notch, to reflect macroeconomic policy flexibility constrained by high dollarization, indexation and a history of inflation above emerging market peers, reflecting shortcomings not fully captured in the strong governance indicators that feed into the SRM. However, authorities are taking steps to improve this and building a stronger track record on inflation targeting and monetary policy credibility.

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 Long-Term Foreign Currency 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 long-term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's long-term IDRs are 'BB-' and above. No Recovery Ratings are assigned at this rating level.

COUNTRY CEILING

The Country Ceiling for Uruguay is 'A-', two notches above the Long-Term Foreign Currency IDR. This reflects strong 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, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	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. 27 Apr 2026) (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, v1.4.0 (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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Uruguay	EU Endorsed, UK Endorsed

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