S&P Global Ratings

RatingsDirect®

Uruguay

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This report does not constitute a rating action.

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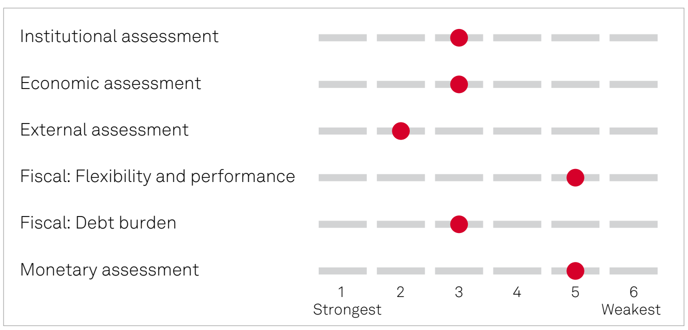
Ratings Score Snapshot



Sovereign credit rating

Foreign currency
BBB+/Stable/A-2

Local currency
BBB+/Stable/A-2

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
Stable institutions underpin prospects for sustained investments and economic growth.	External strength and a moderate debt profile are offset by limited by monetary policy flexibility.
-- Track record of stable and predictable economic policies and well-established institutions.	-- Increases in net general government debt (at over 50% of GDP) are affected by exchange rate and inflation dynamics, beyond fiscal results.
-- Uruguay has the highest GDP per capita in South America.	--Strong external position, with foreign direct investment covering current account deficits and reserves equal to 20% of GDP.
-- A comprehensive fiscal framework should help anchor public policy implementation and expectations.	-- A track record of relatively high inflation and dollarization constrains monetary policy flexibility.

We expect Uruguay's GDP to grow 2.7% on average in 2024-2027, supported by consumption, private investment, and exports. The economy should recover in 2024 from both the effects of last year's drought on the agricultural sector and from high relative price distortions with Argentina that damped domestic consumption and boosted imports of goods into Uruguay from Argentina. We expect diversified private investment to sustain growth, while foreign direct investment (FDI) moderates after the completion of the UPM 2 pulp plant in 2023. However, the first full year of cellulose production from the plant will increase overall export volume this year. Green hydrogen projects, more likely to materialize toward the end of the decade, would also support economic growth and the country's environmental agenda.

Enhancements to the fiscal framework should help contain debt level increases, despite budget rigidities. We believe that recent strengthening of Uruguay's fiscal framework will contribute to anchoring public sector finances. We expect general government fiscal deficits to remain roughly unchanged at 3.4% of GDP in 2024-2027, reflecting economic growth prospects but also spending rigidities in the country's budget. The social security reform approved in April 2023 should contain spending in the next few years. Our base case assumes that there will not be sufficient political or popular support to reverse some aspects of the reform, such as the increased age of retirement and the elimination of private pension funds. In our view, such setbacks would hurt Uruguay's medium-term public finances and local market dynamics.

We expect broad continuity in economic policy following the presidential and legislative elections in October 2024. Uruguay's stable policy track record reflects the cohesive and consensual nature of its political class. While there are differences in views across parties and coalitions such as about the role of government and spending priorities, there is general consensus on maintaining macroeconomic stability and rule of law. We don't expect broad changes in economic policy. We anticipate that the fiscal framework will remain in place after the elections and will help support the predictability and sustainability of fiscal outcomes.

Outlook

The stable outlook reflects our expectations that contained fiscal deficits under Uruguay's strengthened fiscal policy framework, along with moderate economic growth, will limit a rise in debt in 2024-2027. We expect investments across diverse sectors of the economy to support GDP growth of about 2.7% on average in 2024-2027.

Downside scenario

We could lower the ratings over the next two years if fiscal execution unexpectedly slips and there's weaker government 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 sustained 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 we see a successful track record of lower inflation and a sustained decline in inflation expectations. This could support a more stable debt path, significantly reduce economic rigidities such as indexation, help expand private-sector credit, and deepen capital markets in local currency. Such developments could accelerate economic growth above our base case, and a deeper and well-capitalized financial system would strengthen Uruguay's monetary flexibility.

Rationale

Institutional and economic profile: Macroeconomic and institutional stability will continue to support growth

We expect economic growth of just above 3.0% in 2024, up from 0.4% in 2023, on a rebound from the hit to the agricultural and related sectors from last year's severe drought. In addition, we expect some reversal in the pronounced difference in relative prices with Argentina that led Uruguayans to import cheaper Argentine goods, especially at the border. In 2024, recovery in real wages and employment will also support consumption. The first full year of operations of the UPM 2 pulp plant will support higher export volumes in 2024, although subdued demand from China could pressure export prices. We expect China's GDP growth to slow to 4.6% in 2024 from 5.2% in 2023.

We expect a decline in foreign investment over the next several years following the completion of the UPM 2 pulp plant and related infrastructure projects. However, we believe that diversified private-sector investment in other sectors such as real estate, commerce, transport, software, and agribusiness--both domestic and external--will continue to support economic growth. Beyond that, large projects in the green hydrogen sector, such as the e-fuel project announced by HIF Global for US$6 billion (7% of GDP), would be very positive for the economy and the country's environmental agenda, although we think these will take years to materialize.

We project GDP growth to average 2.5% in 2025-2027 and GDP per capita to reach US$27,000 by 2027. Income levels compare favorably with regional peers. Uruguay is a largely middle-class country with a strong social contract that emphasizes consensus and cohesion. Economic policy differences across party lines are limited compared with most of the region. Uruguay has a vibrant democracy and ranks high in global institutional quality rankings. Its well-established institutions and cohesive political culture anchor economic policy. Given there is broad consensus on key macroeconomic policies, we don't expect shifts following this year's national election on Oct. 27 (with a likely runoff on Nov. 24).

The current Lacalle Pou administration that assumed office in 2020 adjusted its policy priorities early on amid the pandemic but remained committed to addressing structural weaknesses in Uruguay's public finances. It has advanced legislation to strengthen the fiscal framework and make it more transparent. In addition, the administration passed a social security reform, which while not having an immediate financial impact, will contain budget pressures in the longer term and supports our view of the country's institutional effectiveness.

Flexibility and performance profile: A moderate rise in government debt is in line with contained spending

We expect the general government (GG) deficit of 3.4% of GDP in 2024 to remain at similar levels over 2025-2027. Economic growth will contribute to revenue. We also assume spending will remain broadly unchanged as a share of GDP considering continued recovery in real salaries, along with rigidities in Uruguay's budget. While not in our base case, pressure could also stem from lower-than-expected inflation (as in 2023) given that nominal revenue would be lower, and commitments to nominal spending in the budget cannot be modified. Our definition of GG debt excludes the central bank and public-sector enterprises.

Between 2019 and 2023, the government engineered a 1.8 percentage point decline (or improvement) in the structural fiscal deficit, as defined by Uruguay's fiscal rule that excludes impact from the economic cycle and extraordinary revenue and expenditures. This is consistent with the administration's commitment to structurally improve the fiscal stance and reduce cyclical spending. Extraordinary factors in recent years, such as COVID-19-related spending and inflows from the "cincuentones" ring-fenced trust (from changes to the social security system that enabled certain groups of future retirees in private pension plans to return to the public-sector pension system), are no longer affecting the deficit.

Our key measure of a government's fiscal performance is the change in net GG debt stock, expressed as a percentage of GDP, which captures more than headline deficits and indicates debt trends. We estimate an average increase in net GG debt of 5.7% of GDP in 2024-2027, above our projections for the GG deficit. Uruguay’s change in net debt reflects headline deficits and the effects from the depreciation of the Uruguayan peso (UYU) and inflation due to the country's debt composition. However, effective debt management has significantly reduced the risks in Uruguay's debt profile compared to the past, reflected in longer maturities and the increased share of local currency debt. Most UYU-denominated debt is indexed to inflation, although the administration also issued a 10-year nominal fixed-rate UYU bond in 2023.

Accounting for projected deficits, inflation, and depreciation, we expect net GG debt will rise to 57% by 2027, from 50% in 2023. We also expect GG interest payments to average 7.0% of GG revenue between 2024 and 2027. Our debt metrics exclude central bank debt.

We expect the government will continue meeting its financing needs mainly through local and international bond issuance. At the same time, Uruguay has ample external liquidity to manage potential financing disruptions. Liquidity buffers as of year-end 2023 included contingent credit lines for a total of US$1.04 billion (1.3% of GDP) with multilateral institutions, as well as government liquid assets of 3.7% of GDP. Starting in 2024, the funds from the “cincuentones” trust will be an additional source of deficit financing and will partly cover the social security deficit for the equivalent of US$130 million (0.2% of GDP).

Inflation has been falling and was 3.8% as of March 2024, its lowest level since August 2005. Following roughly two decades of inflation at 7%-8%, the central bank has been focused on anchoring inflation expectations through increased communication and transparency with the market and business chambers. We think these efforts have contributed to lower expectations, which are currently roughly at the top of the target range (3%-6%). We forecast inflation just below 6% in 2024-2026, driven by potential pressure from foreign exchange depreciation, higher local demand from the recovery in real salaries, and diminished relative price distortions with Argentina.

In our view, many years of elevated inflation and still high dollarization continue to limit Uruguay's monetary policy flexibility. They also pose risks to the financial sector in case of potential sudden spikes in the exchange rate. Over 50% of resident loans and more than 70% of resident deposits are denominated in dollars.

Despite the high dollarization, the Uruguayan banking system has remained relatively healthy and resilient thanks to financial institutions' strong liquidity and capital. Credit to the private sector increased in 2024, but remains relatively low at around 30% of GDP. Asset quality metrics have remained stable. 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 balanced external profile remains a rating strength. We expect current account deficits to narrow to 2% on average (2024-2027) from 3.7% (2022-2023) given a favorable agricultural harvest in 2024, and as the completion of the UPM 2 pulp plant generates increased export volumes and lowers imports. Cellulose is slated to become Uruguay’s leading export this year, with beef falling to second. Given that the value of exports will also depend on demand from trade partners, notably China (22% of goods exports) and Brazil (19%), prices could remain somewhat pressured because we expect lower growth in these countries.

Gross external financial needs should gradually return to just below 100% of current account receipts (CAR) plus usable reserves. We expect current account deficits to be fully funded by FDI and narrow net external debt to hover around 30% of CAR in 2024-2027. We expect the government to continue to finance part of the fiscal deficit with external sources through bond issuance and multilateral institution loans.

Uruguay--Selected Indicators

	2018	2019	2020	2021	2022	2023	2024bc	2025bc	2026bc	2027bc
Economic indicators (%)										
Nominal GDP (bil. UYU)	2,003.4	2,187.6	2,254.7	2,646.3	2,930.2	2,998.6	3,274.0	3,553.8	3,853.9	4,191.6
Nominal GDP (bil. $)	65.2	62.1	53.7	60.8	71.2	77.2	82.3	85.9	89.5	93.6
GDP per capita (000s $)	19.0	18.1	15.6	17.7	20.7	22.4	23.9	24.9	25.9	27.1
Real GDP growth	0.2	0.7	(6.3)	4.5	4.7	0.4	3.1	2.5	2.5	2.8
Real GDP per capita growth	0.1	0.7	(6.3)	4.4	4.6	0.3	3.0	2.4	2.4	2.7
Real investment growth	(10.5)	(2.0)	1.2	14.7	11.8	(7.0)	2.0	2.0	2.0	2.5
Investment/GDP	14.8	14.3	16.4	18.3	18.7	17.3	17.1	17.0	16.9	16.9
Savings/GDP	14.4	15.6	15.7	15.9	14.8	13.6	15.6	15.0	14.7	14.6
Exports/GDP	26.5	27.8	25.2	32.0	31.5	27.5	28.9	28.5	28.6	28.7
Real exports growth	(1.1)	4.6	(16.3)	14.7	9.8	0.7	8.3	1.0	2.9	3.2
Unemployment rate	8.3	8.9	10.4	9.3	7.9	8.3	7.5	7.5	7.5	7.5
External indicators (%)										
Current account balance/GDP	(0.4)	1.3	(0.7)	(2.4)	(3.8)	(3.6)	(1.5)	(2.0)	(2.2)	(2.2)
Current account balance/CARs	(1.4)	4.2	(2.4)	(7.0)	(11.1)	(11.8)	(4.5)	(6.4)	(6.9)	(7.1)
CARs/GDP	29.6	30.9	27.9	34.8	34.5	30.8	32.0	31.5	31.5	31.5
Trade balance/GDP	3.7	5.0	4.1	7.6	4.9	2.7	5.1	5.0	5.5	6.0
Net FDI/GDP	(1.1)	2.2	1.9	2.5	4.2	5.5	2.3	2.3	2.3	2.3
Net portfolio equity inflow/GDP	2.3	(1.7)	(2.8)	(1.8)	(2.8)	(1.8)	0.0	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	87.9	86.3	98.8	98.9	101.5	107.1	98.8	98.4	98.0	97.7
Narrow net external debt/CARs	27.8	31.5	26.4	20.2	24.7	30.3	29.7	28.5	27.5	29.8
Narrow net external debt/CAPs	27.4	32.8	25.8	18.9	22.2	27.1	28.4	26.8	25.8	27.8
Net external liabilities/CARs	86.4	78.2	91.5	64.1	71.3	80.6	82.4	87.0	90.5	100.2
Net external liabilities/CAPs	85.2	81.6	89.4	59.9	64.2	72.1	78.8	81.8	84.7	93.5
Short-term external debt by remaining maturity/CARs	32.9	33.0	43.5	33.6	29.3	31.9	29.5	27.7	25.7	23.8
Usable reserves/CAPs (months)	6.2	6.2	5.6	4.7	4.1	3.7	4.1	4.1	4.0	3.8
Usable reserves (Mil. $)	9,460.9	7,145.1	8,876.0	9,381.9	8,110.5	9,373.6	9,779.3	9,925.3	9,994.1	10,031.5
Fiscal indicators (general government %)										
Balance/GDP	(1.9)	(2.9)	(5.0)	(3.7)	(2.8)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Change in net debt/GDP	5.7	7.2	9.1	6.3	1.4	3.8	5.6	5.7	5.8	5.8
Primary balance/GDP	0.7	(0.5)	(2.3)	(1.6)	(0.6)	(1.0)	(1.0)	(0.9)	(0.9)	(0.8)
Revenue/GDP	36.2	35.1	35.0	33.6	33.8	34.9	35.0	35.0	35.0	35.0
Expenditures/GDP	38.2	38.0	40.0	37.2	36.6	38.3	38.4	38.4	38.4	38.4
Interest/revenues	7.1	6.8	7.6	6.3	6.4	6.7	6.9	7.1	7.2	7.4
Debt/GDP	46.4	48.9	58.3	56.2	51.9	54.7	55.9	57.4	58.9	60.2
Debt/revenues	128.2	139.2	166.4	167.5	153.5	156.6	159.8	164.1	168.3	171.9
Net debt/GDP	41.5	45.2	52.9	51.5	47.9	50.6	52.0	53.6	55.2	56.6
Liquid assets/GDP	5.0	3.8	5.3	4.8	4.0	4.0	3.9	3.8	3.7	3.6
Monetary indicators (%)										
CPI growth	8.0	8.8	9.4	8.0	8.3	5.1	5.9	5.9	5.8	5.8
GDP deflator growth	7.3	8.4	10.0	12.3	5.8	2.0	5.9	5.9	5.8	5.8
Exchange rate, year-end (UYU/$)	32.4	37.3	42.3	44.7	40.1	39.0	40.6	42.2	43.9	45.7
Banks' claims on resident non-gov't sector growth	11.5	10.0	12.9	12.4	9.5	12.9	13.0	14.0	9.0	9.1
Banks' claims on resident non-gov't sector/GDP	25.5	25.7	28.2	27.0	26.7	29.4	30.5	32.0	32.1	32.2

Uruguay--Selected Indicators

Foreign currency share of claims by banks on residents	50.7	50.0	49.1	48.6	47.3	46.5	45.77	44.38	44.97	45.63
Foreign currency share of residents' bank deposits	73.6	76.2	77.4	77.2	75.0	71.5	71.49	71.49	71.49	71.49
Real effective exchange rate growth	1.5	(3.2)	(4.6)	(2.2)	11.1	7.9	0	0	0	0

Sources: N.A.

Adjustments: None

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. UYU--Uruguayan peso. 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.

Uruguay--Rating Component Scores

Key rating factors	Score	Explanation
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

- Sovereign Ratings List, April 10, 2024
- Sovereign Ratings History, April 10, 2024
- Banking Industry Country Risk Assessment Quarterly Monitor: Q1 2024, April 3, 2024
- Credit Conditions Emerging Markets Q2 2024: Unmet Expectations Could Heighten Risks, March 27, 2024
- Sovereign Debt 2024: The Americas See A Continued Rise In Sovereign Borrowing, Especially In The U.S., Feb. 27, 2024
- Pension Reforms In Latin America: Balancing Act To Improve Benefits And Contain Fiscal Pressure, Feb. 6, 2024
- Uruguay's Banking Industry Country Risk: Industry Risk Trend Revised To Positive On Lower Funding Risks, Nov. 6, 2023
- Uruguay Long-Term Ratings Raised To 'BBB+' On Stronger Fiscal Policy; Outlook Stable, April 26, 2023

Ratings Detail (as of May 02, 2024)*

Uruguay

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

Sovereign Credit Ratings History

26-Apr-2023	*Foreign Currency*	BBB+/Stable/A-2
30-May-2017		BBB/Stable/A-2
06-Jun-2016		BBB/Negative/A-2
26-Apr-2023	*Local Currency*	BBB+/Stable/A-2

Ratings Detail (as of May 02, 2024)*

30-May-2017	BBB/Stable/A-2
06-Jun-2016	BBB/Negative/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.