

Macro scenario - Uruguay



May 19, 2025

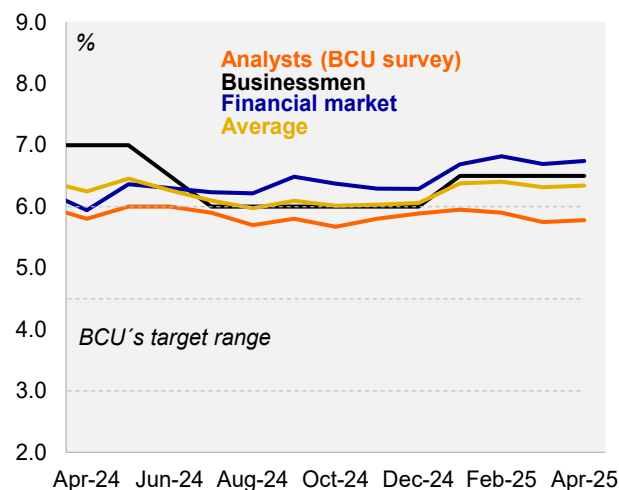
Nearing the end of the hiking cycle

- ▶ Our 2025 GDP growth forecast of 2.3% has upside risks, mainly due to last year's carryover and a record harvest. Private consumption and spillovers from the macro adjustment in Argentina will likely continue to support growth.
- ▶ We revised our exchange rate forecast down to UYU/USD 43.0 by year-end, compared to UYU/USD 45.3 in our previous scenario, amid a weaker global dollar. Consequently, we revised our YE25 inflation forecast to 5.1%, down from 5.5% in our previous scenario. We continue to expect a terminal rate of 9.50% amid still above-target inflation expectations. However, we cannot rule out a pause in the cycle due to lower inflation readings and a stronger UYU.

Annual inflation decelerated in April, but inflation expectations remained above target

Headline inflation rose by 0.32% MoM in April (from 0.63% a year ago and a 5-year median figure of 0.87%). The main monthly impact came from the food basket (0.78% MoM, incidence of 0.20 p.p.) driven by higher meat prices (2.62% MoM) and volatile vegetables and legumes (1.82% MoM). On the other hand, transport prices fell by 0.27% MoM due to lower diesel prices. Core inflation (excluding fruits & vegetables and fuel prices) increased by 0.35% MoM. On an annual basis, headline inflation decelerated to 5.36% in April (from 5.67% in March), while core inflation also decelerated to 5.70% from 5.88% in the previous month, both readings remain within the Central Bank's inflation target of 4.5% +/- 1.5%. On the other hand, the average of inflation expectations for the next 24 months stands at 6.13%, still above the upper bound.

24-month inflation expectations



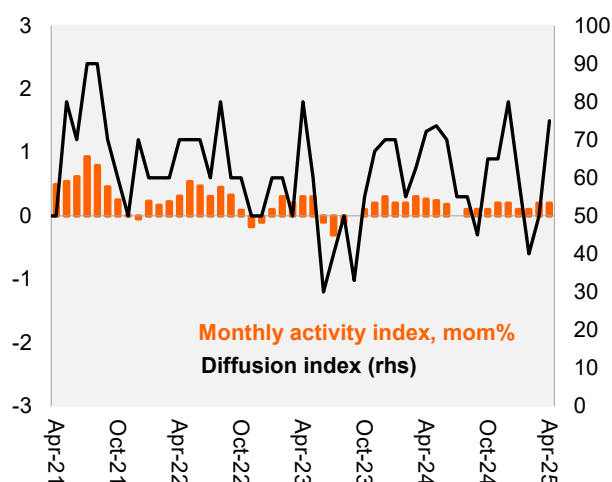
Source: BCU, INE, Bevsa

Leading indicators point to solid growth at the start of 2025

The central bank's monthly GDP proxy (IMAE) rose 2.6% YoY in February, leading to a 2.6% expansion in the quarter ending that month (3.5% YoY in 4Q24). On a sequential basis, the index increased by 0.6% MoM/SA in February after rising a revised 1.8% MoM/SA in January (originally reported as 1.2% MoM/SA).

Meanwhile, the latest economic indicator from think tank Ceres shows that activity was positive in April, increasing by 0.2% MoM, marking the ninth consecutive month of growth. The diffusion index, which measures the number of sectors performing favorably, rose to 75% in April from 50% in March.

CERES Index



Source: CERES

Waiting for the next policy meeting

In the run-up to the third monetary policy meeting of the year, we expect the BCU to hike the policy rate by 25 bps to a terminal rate of 9.50%. In the previous meeting, the central bank's Monetary Policy Committee (MPC) increased the policy rate by 25 bps to 9.25%, marking the third consecutive hike. This decision aims to support the ongoing decline in inflation towards the Monetary Policy Horizon (MPH) target of 4.5%. The statement noted that annual inflation has remained within the target range (3%-6%) for twenty-two consecutive months, while inflation expectations for the next twenty-four months (monetary policy horizon) are around the upper bound of the target. Consequently, we estimate the ex-ante real policy rate at 2.75%, which is slightly above the BCU's neutral real rate estimate of 2.5%.

Slight improvement in fiscal accounts in 1Q25

The central government's 12-month nominal fiscal deficit slightly improved to 3.3% of GDP in March 2025, compared to 3.4% at the end of 2024. This fiscal balance measure excludes extraordinary income from the social security agency, such as asset transfers from individuals switching from the private pension system to the public pension system. Total real revenues rose by 5.4% YoY in 1Q25 (up from 5.0% in the previous quarter), in line with the recovery of economic activity. On the expenditure side, primary spending rose by 3.8% YoY in real terms, driven by non-personnel spending, which increased by 9.8% YoY in 1Q25.

Lower inflation ahead

We revised our YE25 inflation forecast down to 5.1%, from 5.5%, in our previous scenario due to recent lower-than-expected inflation prints, a stronger UYU, and lower oil prices. Additionally, we revised our YE25 exchange rate forecast to UYU 43.0/USD from UYU 45.3/USD in our previous scenario amid a weaker global USD.

We continue to expect the BCU to hike the policy rate by 25 bps to a terminal rate of 9.50% at the next monetary policy meeting on May 27, amid still above-target inflation expectations. However, we cannot rule out a pause in the cycle due to lower inflation readings and a stronger UYU.

Our 2025 GDP growth forecast remains at 2.3%, with an upside risk due to last year's carryover and a record harvest. On the demand side, private consumption is likely to continue supporting growth, along with spillovers from the macroeconomic adjustment in Argentina.

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Uruguay | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-7.4	5.6	4.8	0.7	3.1	2.3	2.3	2.5	2.5
Nominal GDP - USD bn	53.6	60.7	70.7	78.0	81.3	82.4	80.4	86.7	82.9
Population (millions)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Per Capita GDP - USD	15,426	17,424	20,253	22,282	23,174	23,431	22,689	24,611	23,526
Unemployment Rate - year avg	10.4	9.3	7.9	8.3	8.2	7.8	7.8	7.6	7.6
Inflation									
CPI - %	9.4	8.0	8.3	5.1	5.5	5.1	5.5	5.0	5.2
Interest Rate									
Reference rate - eop - %	4.50	5.75	11.50	9.00	8.75	9.50	9.50	9.50	9.50
Balance of Payments									
UYU / USD - eop	42.35	44.69	39.9	38.9	44.1	43.0	45.3	44.3	46.8
Trade Balance - USD bn	-0.2	0.0	-0.8	-2.5	-1.4	-1.0	-1.0	-1.0	-1.0
Current Account - % GDP	-0.7	-2.4	-3.7	-3.4	-1.0	-2.0	-2.0	-2.0	-2.0
Foreign Direct Investment - % GDP	1.9	2.4	4.5	5.5	2.0	1.5	1.5	1.5	1.5
International Reserves - USD bn	16.2	17.0	15.1	16.2	17.4	19.5	18.5	19.5	18.5
Public Finances									
Nominal Balance Central Gov. (*) - % GDP	-5.8	-4.2	-3.0	-3.3	-3.4	-3.4	-3.4	-2.9	-2.9
Gross Public Debt Central Gov. - % GDP	61.3	58.5	58.2	58.5	57.2	59.9	59.9	59.6	59.6

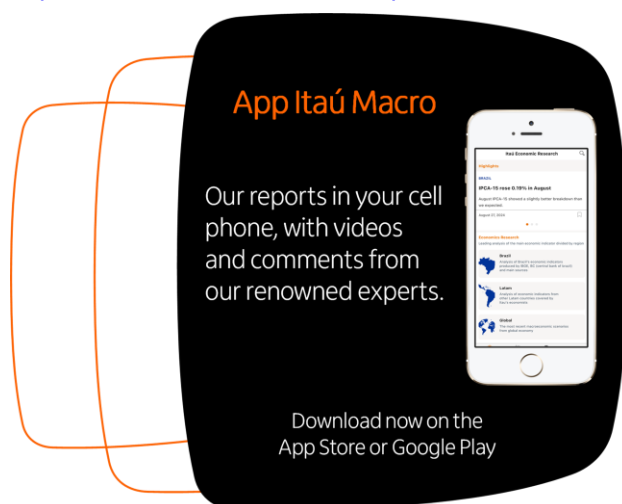
Source: FMI, Haver, Bloomberg, BCU, Itaú.

(*) Excludes extraordinary inflows to the Social Security Trust Fund.

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