

Macro scenario - Uruguay



August 20, 2025

More cuts to come

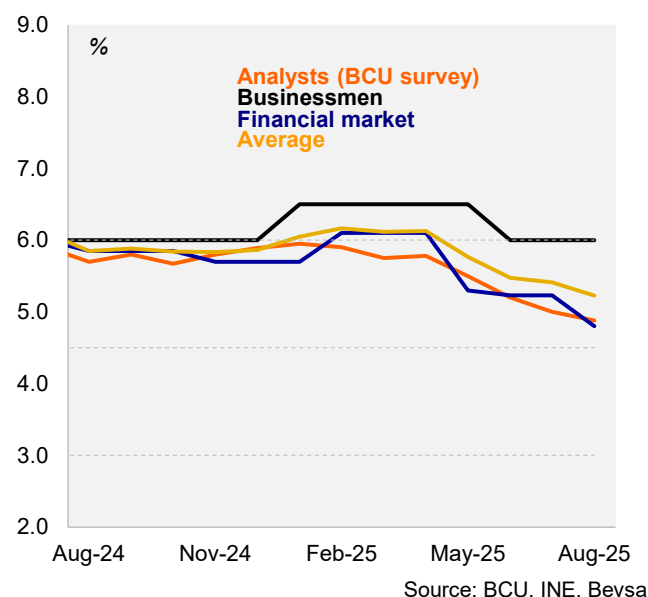
- ▶ Our GDP growth forecast for 2025 remains at 2.3%. However, we lowered our 2026 forecast from 2.5% to 2.0% in our previous scenario, mainly due to a weaker external backdrop.
- ▶ We maintained our YE25 inflation forecast at 4.5%, but now with downside risks due to the string of lower-than-expected prints.
- ▶ We now anticipate more cuts this year, bringing the rate to 8.0% by the end of 2025. This new forecast is based on guidance from the most recent meeting, the downward trend in inflation expectations, and lower-than-expected inflation prints.

All quiet on the inflation front

Inflation surprised to the downside again in July, rising by 0.05% MoM, well below our forecast and market expectations according to the BCU's survey (0.2% and 0.3%, respectively). Notably, this was the fourth consecutive downside inflation surprise with respect to market consensus. The main monthly impact in July came from food and non-alcoholic beverages prices, which rose by 0.31% MoM (incidence 0.08 p.p.) due to higher vegetables and legumes prices (4.95% MoM), while personal care and social protection prices rose by 1.03% MoM (incidence of 0.045 p.p.). On the other hand, housing, water, electricity and gas prices fell by 0.56% (incidence of -0.07 p.p.), while seasonal clothing and footwear prices fell by 2.0% (incidence of 0.05 p.p.). Core inflation (excluding fruits & vegetables and fuel prices) increased by 0.03% MoM. **On an annual basis, headline inflation fell to 4.53% in July (from 4.59% in June), edging closer to the 4.5% inflation target, while core decreased to 5.25% from 5.43% in the previous month.**

In the context of the string of downside inflation surprises, survey-based inflation expectations at the 2-year policy horizon have also declined, with the average at 5.23% in August, down from above 6% at the start of the year, thus continuing to converge towards the BCU's 4.5% inflation target. As can be seen in the following chart, analysts lowered their inflation forecasts earlier and faster than other market participants.

24-month inflation expectations

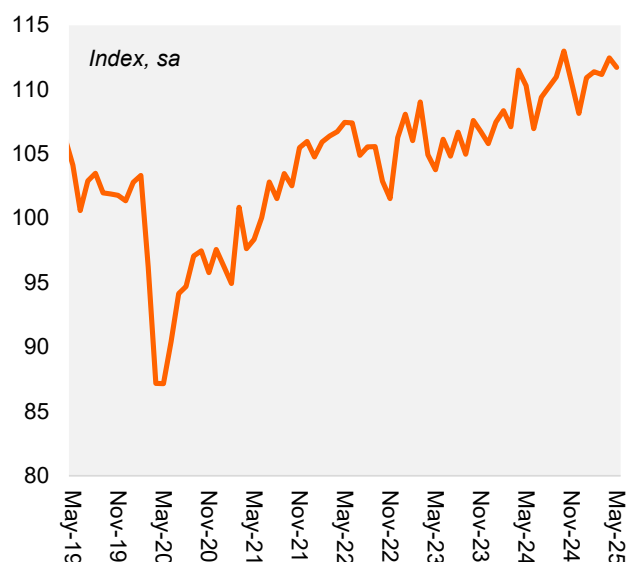


Leading indicators suggest a slowdown of economic activity in 2Q25

The central bank's monthly GDP proxy (IMAE) rose 1.6% YoY in May, leading to a 2.2% expansion in the quarter ending that month (3.4% YoY in 1Q25). On a sequential basis, the index decreased by 0.7% MoM/SA in May, following an increase of 1.2% MoM/SA in April. Thus, the IMAE rose 1.5% QoQ/SA in the quarter ended in May. The statistical carryover for 2025 stood at 1.9%.

Meanwhile, the latest economic indicator from think tank Ceres shows that activity was slightly positive in July, increasing by 0.1% MoM and thus completed a year of positive rates. The diffusion index, which measures the number of sectors performing favorably, rose to 50% in July from 43% in June.

Activity index

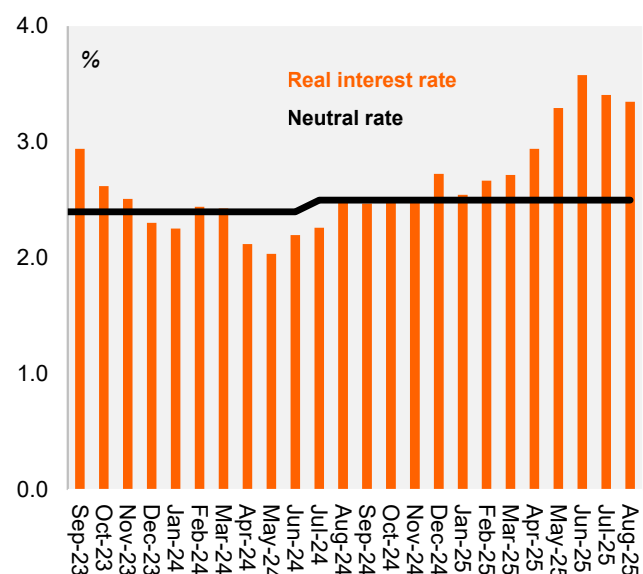


Source: BCU

Another 25 bps cut

In the monetary policy meeting held in August, the central bank (BCU) unanimously cut the monetary policy rate by 25 bps to 8.75%. The central bank's statement highlighted that average inflation expectations stand at 5.23%, within the tolerance range for the fourth month in a row. Consequently, we estimate the ex-ante real policy rate at 3.35% (also including the expectations from businessmen), above the center of the BCU's neutral real rate range estimate of 2.5%. The Central Bank mentioned that there may be room to continue reviewing the policy rate downward if inflation and inflation expectations continue to decline, particularly among businesses.

Ex-ante real interest rate



Source: BCU, INE, Bevsa

Fiscal deficit widened in 2Q25

The central government's 12-month nominal fiscal deficit rose to 3.7% of GDP in June 2025, compared to 3.4% one year ago. Total real revenues fell 2.1% YoY in 2Q25 (down from +5.4% in 1Q25), reflecting the deceleration of economic activity. On the expenditure side, real primary spending increased by 6.3% YoY, driven by non-personnel spending, which increased by 15% YoY in 2Q25.

A lower policy rate is on the horizon

Our 2025 GDP growth forecast remains at 2.3%. We now expect 2.0% GDP growth for 2026, down from 2.5% in our previous scenario. Leading indicators and national accounts data show that the economy is operating somewhat below potential. Furthermore, the downward adjustment in the 2026 GDP forecast is justified by lower growth in key business partners, such as Argentina and Brazil.

We maintained our YE25 inflation forecast at 4.5%, but now with downside risks due to lower-than-expected prints.

We now expect the BCU to cut the policy rate during the next few policy meetings, bringing the rate down to 8% by the end of 2025. Additionally, we have adjusted the YE26 policy rate to 7.5%. The goal of gradually reducing the monetary policy rate in this scenario is to sustain the recovery of economic activity without compromising macroeconomic stability and ensuring inflation expectations continue to converge to the 4.5% inflation target.

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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	2.0	2.5
Nominal GDP - USD bn	53.6	60.7	70.7	78.0	81.3	84.6	84.6	89.1	89.3
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	24,050	23,431	25,286	24,611
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	4.5	4.5	4.5	4.5
Interest Rate									
Reference rate - eop - %	4.50	5.75	11.50	9.00	8.75	8.00	8.50	7.50	8.00
Balance of Payments									
UYU / USD - eop	42.35	44.69	39.9	38.9	44.1	41.7	41.7	42.5	42.5
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	-0.2	-0.2	-0.2	-0.2
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	19.5	19.5	19.5
Public Finances									
Nominal Balance Central Gov. (*) - % GDP	-5.8	-4.2	-3.0	-3.3	-3.4	-4.0	-4.0	-3.5	-3.5
Gross Public Debt Central Gov. - % GDP	61.3	58.5	58.2	58.5	57.2	61.2	61.2	60.5	60.5

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

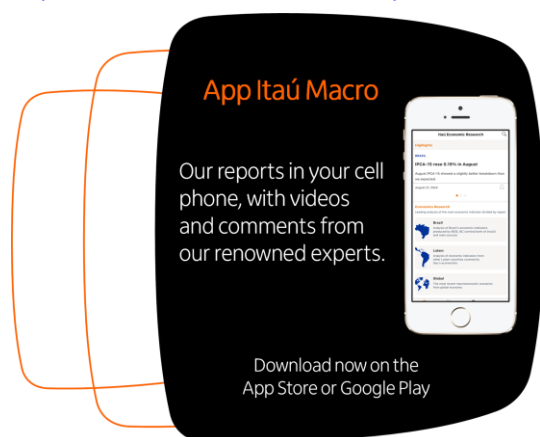
(*) Excludes extraordinary inflows to the Social Security Trust Fund.

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