Macro scenario - Uruguay

November 19, 2025

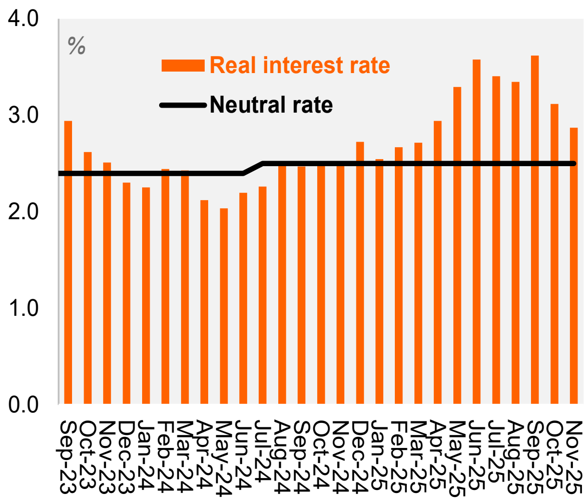
Monetary policy continues to fall towards the neutral range

- We revised our CPI forecast for YE25 to 3.9% from 3.6% in our previous scenario,due to higher-than-expected readings. However, we maintained our forecast for YE26 at 4.5%, in line with the BCU´s target.
- The monetary policy committee cut the policy rate by 25-bps to 8.00% in November. We expect the BCU to cut the policy rate by another 25-bps in December. For YE26 policy rate we foresee the policy rate at 7.25%, assuming inflation expectations fall further to the target.
- Our 2025 GDP growth forecast remains at 2.3% despite signals of softer activity at the margin. For 2026 we expect 1.8% GDP growth.

The BCU cut the policy rate, approaching the neutral level

The central bank's Monetary Policy Committee (MPC) unanimously cut the policy rate by 25-bps to 8.00% in November, reducing the pace from the previous meeting (-50 bps). The central bank's statement reiterated that monetary policy is gaining credibility amid historically low inflation expectations. Short-term inflation projections remain stable compared to the previous Copom meeting. Average inflation expectations for the monetary policy horizon (24 months) stand at 4.98% (4.95% in the previous meeting), which is within the tolerance range for the sixth consecutive month. Consequently, we estimate the ex-ante real policy rate at 2.87%, somewhat above the BCU's neutral real rate estimate of 2.5%.

Ex-ante real interest rate

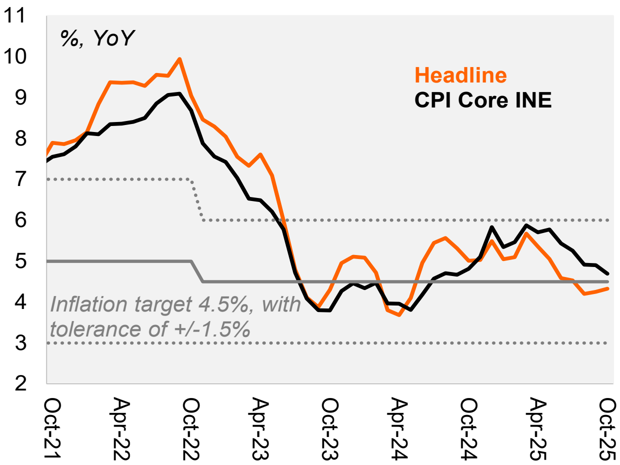


Source: BCU, INE, Bevsa

Higher-than-expected inflation in October

Inflation rose by 0.40% MoM in October (from +0.33 a year ago and a 5-year median of +0.55%). The print was above our forecast and market expectations according to the BCU's survey (0.24% MoM and 0.30% MoM, respectively). The main monthly impact in October came from food and non-alcoholic beverages prices, which rose by 0.85% MoM (incidence +0.22 p.p.) due to higher meat prices (1.12%) and fruit prices (2.68% MoM). On the other hand, clothing and footwear prices rose by 2.07% (incidence 0.05 p.p.) due to the start of the spring-summer season. On an annual basis, headline inflation rose to 4.32% in October (from 4.25% in September), while core decreased to 4.69% from 4.90% in the previous month. We note that both readings remain within the Central Bank's tolerance range for its inflation target of 4.5% ± 1.5%. Cumulative headline inflation in the year reaches 3.60%.

Annual inflation



Source: INE

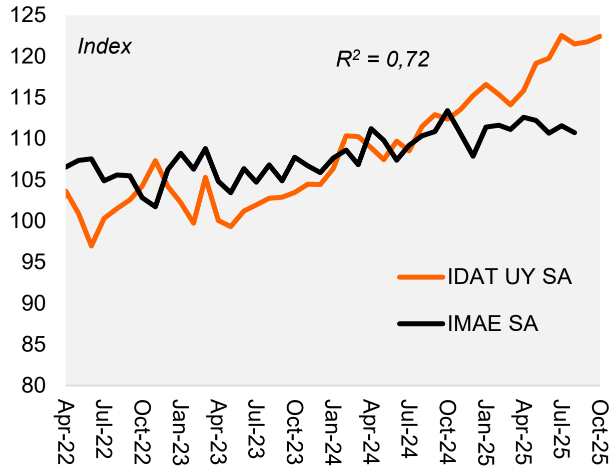
Several signs point to a slowdown in activity

The central bank's monthly GDP proxy (IMAE) rose 0.2% yoy in August, leading to a 1.6% expansion in the quarter ended in August (2.1% yoy in 2Q25). On a sequential basis, the index fell 0.8% mom/sa in August after increasing 0.8% mom/sa in July. Thus, the IMAE fell by 0.9% qoq/sa in the quarter ended in August. The statistical carryover for 2025 stood at 1.8%.

The CERES Leading Index (ILC) remained unchanged in October (0.0%). The slowdown and this neutral rate in October are signs of some cooling in the economy. The Diffusion Index (DI) was 50% in October, indicating that only half of the variables that make up the ILC showed growth.

Our own activity indicator slowed at the margin in the quarter ended in October. The IDAT UY index increased by 0.5% month over month (MoM) in October but remained unchanged in the quarter ended in October (0.0% QoQ/SA). Mixed signals in seasonally adjusted terms in both goods and services. The IDAT – Goods index increased 0.7% QoQ/SA, accelerating compared to the 0.1% QoQ/SA growth recorded in 3Q25. On the other hand, the IDAT – Services index decreased 0.9% QoQ/SA, compared to the 0.5% QoQ/SA growth recorded in 3Q25. **On an annual basis (non-seasonally adjusted series), the IDAT UY index expanded 8.9% YoY in October and 8.6% YoY in the quarter ended in October.** See our report for more details here.

IDAT UY SA vs. IMAE SA



Source: Itau and BCU

Fiscal deficit rose in September

The central government's 12-month nominal fiscal deficit reached 3.6% of GDP in September 2025, from a deficit of 3.4% in August. Total real revenues rose 4.1% YoY in 3Q25 (-2.1% in 2Q25). On the expenditure side, real primary spending increased by 3.0% YoY, driven by pension and social transfers (3.3% YoY and 4.7% YoY, respectively). The data was in line with the fiscal deficit forecast included in the draft budget, which envisages a deficit of 4.1% of GDP for year end.

More cuts ahead

We revised our CPI forecast for YE25 to 3.9% from 3.6% in our previous scenario, due to higher-than-expected readings. However, we maintained our forecast for YE26 at 4.5%, in line with the BCU´s target supported by a strong UYU.

We expect the BCU to cut the policy rate by 25 bps at the next meeting, which is scheduled for December 23, bringing it to 7.75%. We maintained our YE26 policy rate forecast at 7.25%, assuming inflation expectations fall further to the target.

Our 2025 GDP growth forecast stands at 2.3% despite signals of softer activity at the margin. We still expect 1.8% GDP growth in 2026, supported by private consumption amid spillovers from the macro 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	**1.8**	1.8
Nominal GDP - USD bn	53.6	60.7	70.7	78.0	81.3	**85.2**	85.1	**91.2**	91.0
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	**24,227**	24,199	**25,888**	25,828
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	**3.9**	3.6	**4.5**	4.5
Interest Rate									
Reference rate - eop - %	4.50	5.75	11.50	9.00	8.75	**7.75**	7.75	**7.25**	7.25
Balance of Payments									
UYU / USD - eop	42.35	44.69	39.9	38.9	44.1	**40.5**	40.5	**41.0**	41.0
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	**-4.1**	-4.1	**-4.0**	-4.0
Gross Public Debt Central Gov. - % GDP	61.3	58.5	58.2	58.5	57.2	**61.5**	61.5	**61.4**	61.4

Source: FMI, Haver, Bloomberg, BCU, Itaú.
(*) Excludes extraordinary inflows to the Social Security Trust Fund.

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