Macro scenario - Uruguay

May 8, 2026

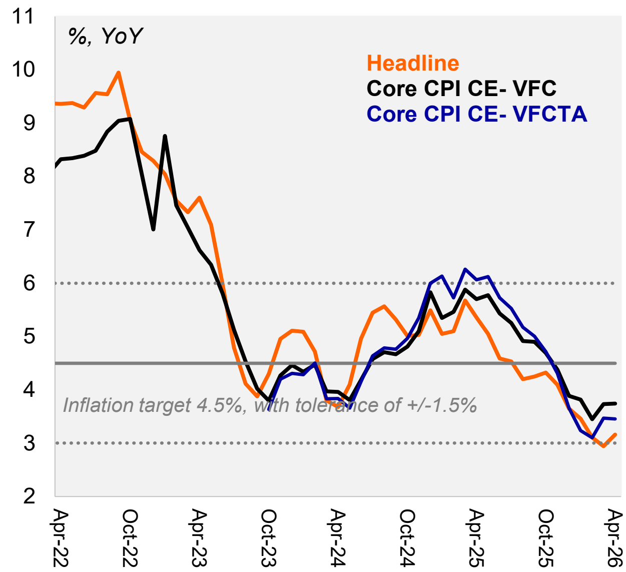
Pension System Back in the Spotlight

- We maintained our 2026 GDP growth forecast at 1.2%, decelerating from 1.8% in 2025, mainly reflecting the negative effects of this year's drought.
- Our YE26 inflation forecast has been revised up to 4.9% from 4.5% in our previous scenario, primarily driven by recent international dynamics. The adjustment mainly reflects the impact of higher oil prices on consumer basket components, along with their indirect and lagged effects on inflation in subsequent months.
- Regarding monetary policy, we forecast the policy rate to remain at 5.75% throughout the remainder of 2026, as the Central Bank balances inflation risks against still-moderate domestic activity. That said, a rate hike in 2026 cannot be completely ruled out, depending on the degree of pass-through from higher oil prices to headline inflation and — more critically — to inflation expectations.

Fuel shock pushes April CPI

Inflation rose by 0.54% MoM in April, in line with our call and the BCU's survey median, both at 0.6% MoM. The main upward contribution came from Transport, which rose 2.98% MoM (+0.31 p.p. incidence), driven by a 7% increase in oil prices and a sharp rise in airfare prices (+17.94%). Clothing prices also increased (+1.88%; +0.04 p.p.), as did Housing, water, electricity, gas and other fuels (+0.66%; +0.09 p.p.). On the downside, Recreation, sports and culture declined 0.23% MoM, while vegetable prices fell 0.63% and fruit prices dropped sharply (-5.40%), partially offsetting the headline increase. On a year over year basis, all CPI measures remain within the BCU's of the 4.5% target's +/-1.5% tolerance range. Headline inflation rose to 3.16% YoY in April, up from 2.94% in March.

Inflation Dynamics

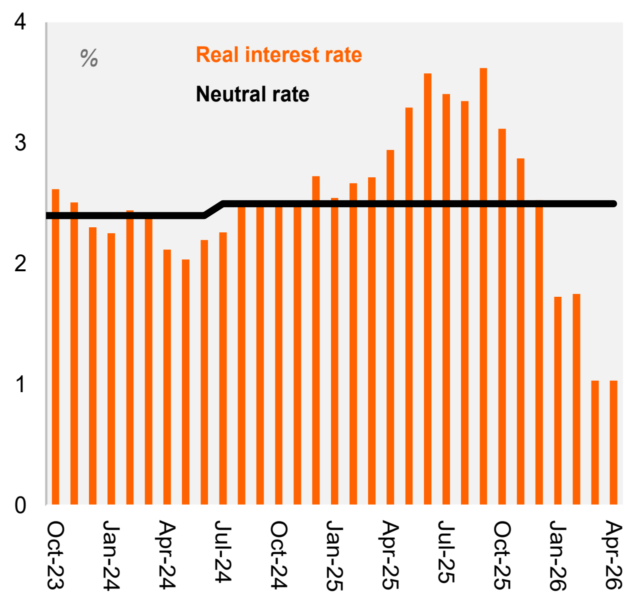


Source: INE

BCU pauses easing cycle amid heightened global uncertainty

At its April monetary policy meeting, the Central Bank of Uruguay (BCU) decided to keep the policy rate on hold at 5.75%. The decision was in line with our expectations and market consensus, reflecting the sharp increase in global uncertainty following the escalation of the Middle East conflict, which has pushed energy prices significantly higher. This pause comes after a cumulative easing of 350 bps since July 2025. Inflation expectations remain firmly anchored around the target across the policy horizon, despite prolonged geopolitical tensions. Analysts and financial markets continue to forecast annual inflation at 4.5%, while firms' expectations remain stable at 5%. Average inflation expectations over the 24-month horizon stand at 4.67%, unchanged from the previous meeting and within the tolerance band for the tenth consecutive month. Against this backdrop, we estimate the ex-ante real policy rate at 1.04%, still well below the BCU's neutral real rate estimate of 2.5%, indicating that the monetary stance remains accommodative.

Ex-ante real interest rate



Source: BCU, INE, Bevsa

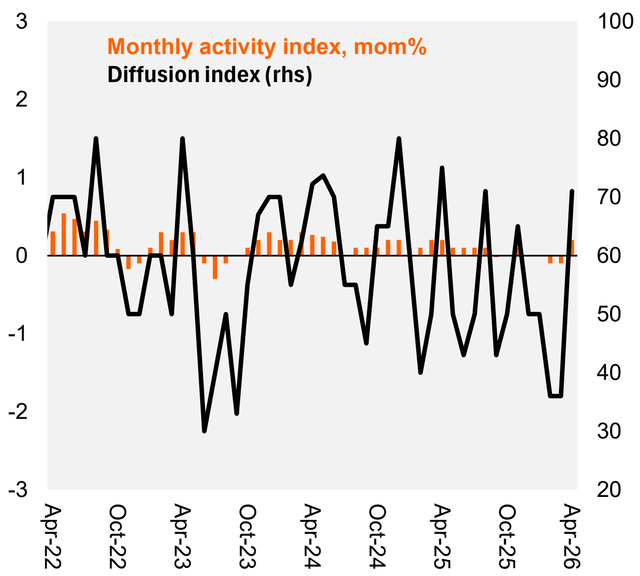
Slight Improvement, Still Below Trend

The central bank's monthly GDP proxy (IMAE) increased by 0.1% YoY in February, decelerating from the 0.4% growth recorded in the previous month. As a result, the IMAE rose by 1.0% YoY in the quarter ended in February. On a sequential basis, the index edged up by 0.1% MoM/SA in February, equivalent to a 0.1% QoQ/SA increase.

Meanwhile, the CERES Leading Index (ILC) posted a positive reading of 0.2% in April, interrupting the negative trend observed over the prior two months and marking the first increase since October 2025. The index showed zero growth in December and January, followed by negative readings (-0.1%) in February and March, before turning positive again in April. Nevertheless, additional positive readings will be required to confirm that economic activity is moving away from the stagnation trend observed so far.

Our activity indicator (IDAT- UY) gained momentum in 1Q26, rising by 7.7% YoY, up from 7.1% YoY in 4Q25, signaling a broad-based strengthening of activity. Goods-related activity maintained a solid pace, with the IDAT goods component expanding 7.0% YoY in real terms, slightly moderating from 7.5% in the previous quarter. Services emerged as the key growth driver, with the IDAT services component accelerating to 7.3% YoY in 1Q26, a marked improvement from 6.2% in 4Q25.

CERES Index



Source:CERES

The pension system at the center of the political agenda, again

In April, the Social Dialogue's results were published, establishing non-binding guidelines for potential changes to the social protection system. The key priorities are to expand social coverage, particularly for children, and to allow voluntary retirement at 60, with the necessary adjustments, while maintaining the legal retirement age at 65. Regarding pensions, the proposal introduces a reconfiguration of the AFAPs' role: custody of contributors' funds would be transferred to a state agency, while the AFAPs would be limited to managing investments through competitive bidding processes with a focus on minimizing costs. The Dialogue's results are under review by the Executive, with proposed changes requiring legislative approval. Although the associated fiscal costs have not yet been reported, this package would pose an additional risk to public spending in the context of strained fiscal accounts. Thus, the sustainability of the proposal will depend critically on stricter spending management to prevent the fiscal profile from deteriorating further. Meanwhile, the central government's 12-month nominal fiscal deficit reached 4.1% of GDP in March 2026, unchanged from the end of 2025.

Higher inflation due to higher oil prices

We maintained our YE26 GDP growth forecast at 1.2%, down from 1.8% in 2025, as activity is expected to decelerate following the negative supply shock from this year's drought. Beyond weather-related effects, the external backdrop has become less supportive, with higher energy prices acting as an additional headwind for domestic demand in an economy that relies heavily on fuel imports.

Our YE26 inflation forecast was revised up to 4.9% (from 4.5%), mainly reflecting less favorable international dynamics. As a net oil-importing country, Uruguay is particularly exposed to increases in crude prices, which feed relatively quickly into fuel costs and regulated prices, with subsequent second-round effects across transport, logistics and food-related components of the consumer basket. These direct and indirect channels are expected to exert persistent upward pressure on inflation over the coming quarters.

In terms of monetary policy, we expect the policy rate to remain on hold at 5.75% throughout 2026, as the Central Bank continues to balance rising inflation risks against still-moderate economic activity. However, the recent oil price shock introduces an asymmetric risk profile: while a near-term hike is not our base case, a tightening bias cannot be ruled out in 2026 if higher fuel costs translate into a stronger-than-expected pass-through to headline inflation and, more importantly, begin to affect medium-term inflation expectations.

Uruguay is a net fuel importer (approximately USD 1.5bn annually), leaving the external accounts exposed to a prolonged increase in international oil prices.

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Uruguay | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	4.6	0.8	3.3	1.8	**1.2**	1.2	**1.5**	1.5
Nominal GDP - USD bn	70.7	78.0	81.3	85.0	**92.2**	92.2	**98.2**	98.2
Population (millions)	3.5	3.5	3.5	3.5	**3.5**	3.5	**3.5**	3.5
Per Capita GDP - USD	20,253	22,276	23,174	24,192	**26,165**	26,165	**27,858**	27,858
Unemployment Rate - year avg	7.9	8.3	8.2	7.4	**7.6**	7.6	**7.6**	7.6
Inflation								
CPI - %	8.3	5.1	5.5	3.6	**4.9**	4.5	**4.5**	4.5
Interest Rate								
Reference rate - eop - %	11.50	9.00	8.75	7.50	**5.75**	5.75	**6.50**	6.50
Balance of Payments								
UYU / USD - eop	39.9	38.9	44.1	39.0	**39.5**	39.5	**40.0**	40.0
Trade Balance - USD bn	-0.8	-2.5	-1.5	-0.9	**-2.0**	-2.0	**-1.3**	-1.3
Current Account - % GDP	-3.6	-3.0	-0.8	-0.4	**-1.2**	-1.2	**-0.5**	-0.5
Foreign Direct Investment - % GDP	4.1	4.0	-3.2	0.5	**1.5**	1.5	**1.5**	1.5
International Reserves - USD bn	15.1	16.2	17.4	19.0	**19.5**	19.5	**19.5**	19.5
Public Finance								
Nominal Balance Central Gov. (*) - % GDP	-3.0	-3.3	-3.4	-4.1	**-4.0**	-4.0	**-3.5**	-3.5
Gross Public Debt Central Gov. - % GDP	56.7	58.3	62.3	60.5	**61.2**	61.2	**61.4**	61.4

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

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To access our reports and forecast visit our website:
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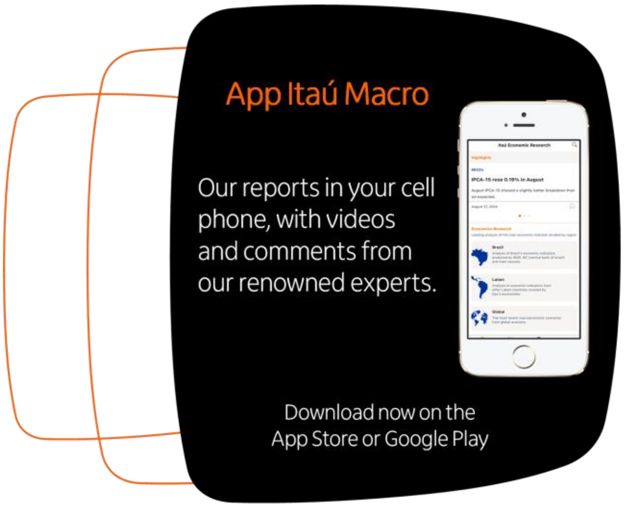

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