

Macroeconomic Research

# **URUGUAY: Top themes for 2025**

# Uruguay: Top Themes for 2025

## 1. How fast will the economy grow in 2025?

- We forecast GDP growth of 2.3% for 2025, down from an estimated 3.0% in 2024.

## 2. What is our inflation scenario?

- We foresee inflation at 6.0% by the end of this year, at the upper bound of the central bank's target range.

## 3. Following the hike in December, what do we expect for monetary policy?

- With a new policy monetary committee, we expect the policy rate to reach 9.0% by yearend 2025.

## 4. What is the balance of risks to the currency?

- A strong USD and the impact of a possible drought are the main upward pressures on the exchange rate, while higher domestic interest rates and a stronger BRL would ease pressure on the UYU.

## 5. Will fiscal consolidation continue this year?

- We expect a fiscal deficit of 2.9% of GDP for 2025 and 2.5% of GDP in 2026, both with upside risks.

## 6. Scenario

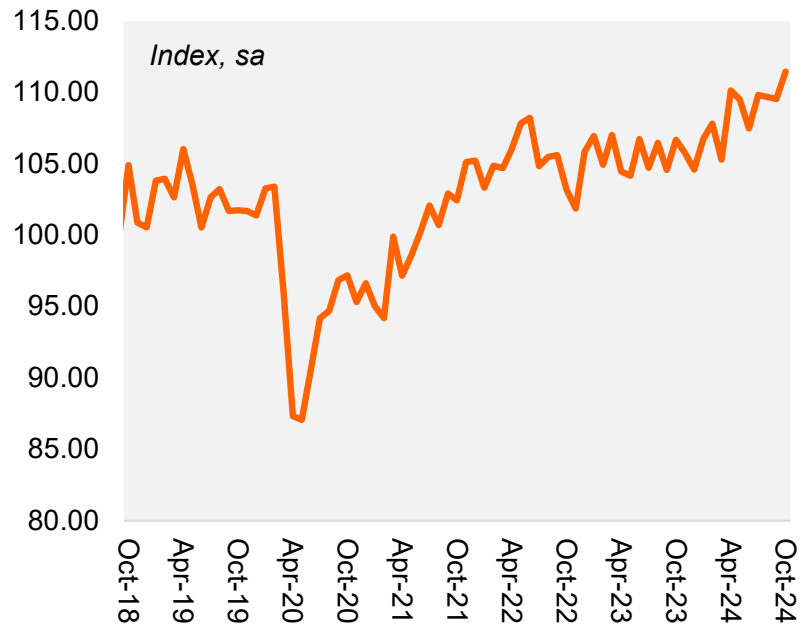
- With a new administration taking office in March, statements reflect a commitment to fiscal responsibility and to the policy rate as the main instrument of monetary policy. All eyes are on the fiscal accounts and measures to ensure the disinflation path continues.

# 1. How fast will the economy grow in 2025?

We forecast GDP growth of 2.3% for 2025, down from an estimated 3.0% in 2024.

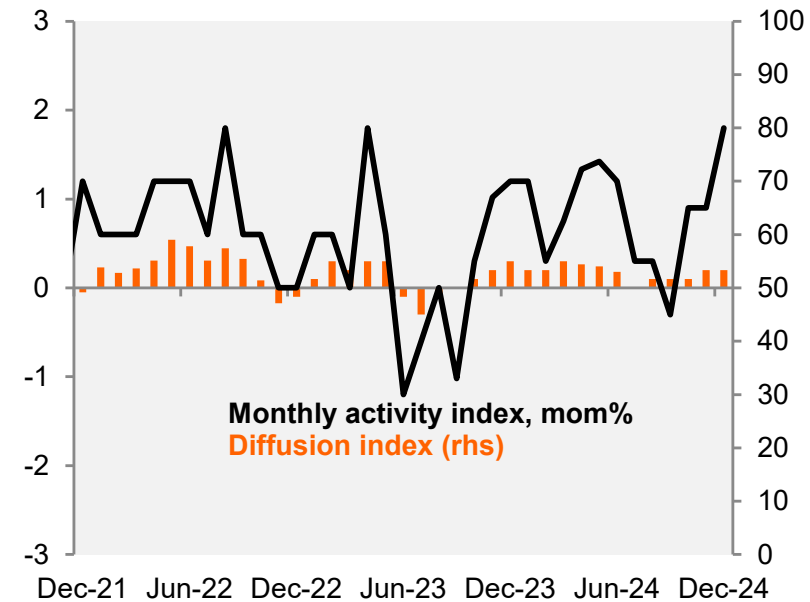
- Our expectation of a positive statistical carryover followed by a good tourism season in 1Q25 supports our forecast.
- On the demand side, private consumption will continue to support growth, along with spillovers from the macro adjustment in Argentina that we expect will continue this year.
- On the supply side, risks of a drought loom on the agricultural sector.

**Activity Index**



Source: BCU

**Gaining steam**



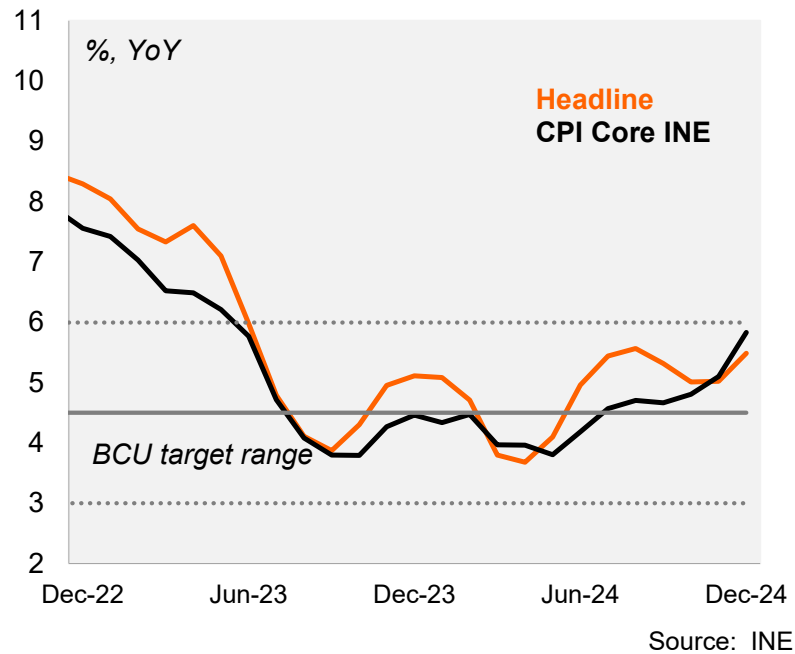
Source: CERES

## 2. What is our inflation scenario?

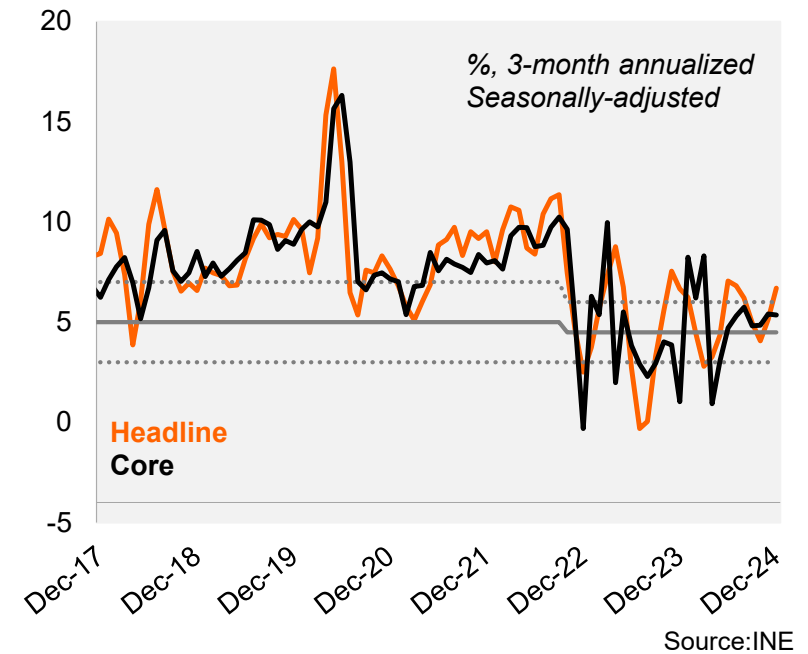
We foresee inflation at 6.0% by YE25, at the upper bound of the central bank's inflation target range.

- The currency's performance, tariff adjustments and wage negotiations will be key to inflation this year.

Annual inflation



Inflation at the margin

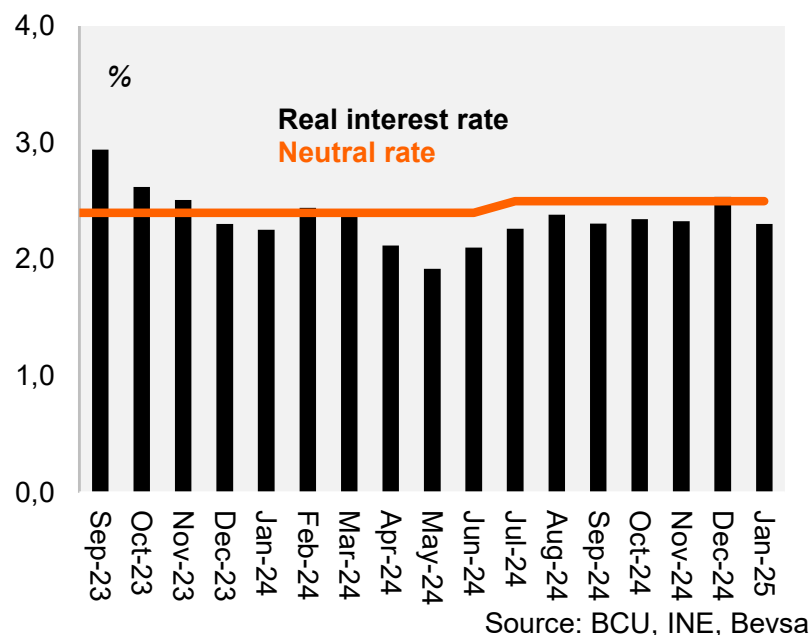


### 3. Following the hike in December, what do we expect for monetary policy?

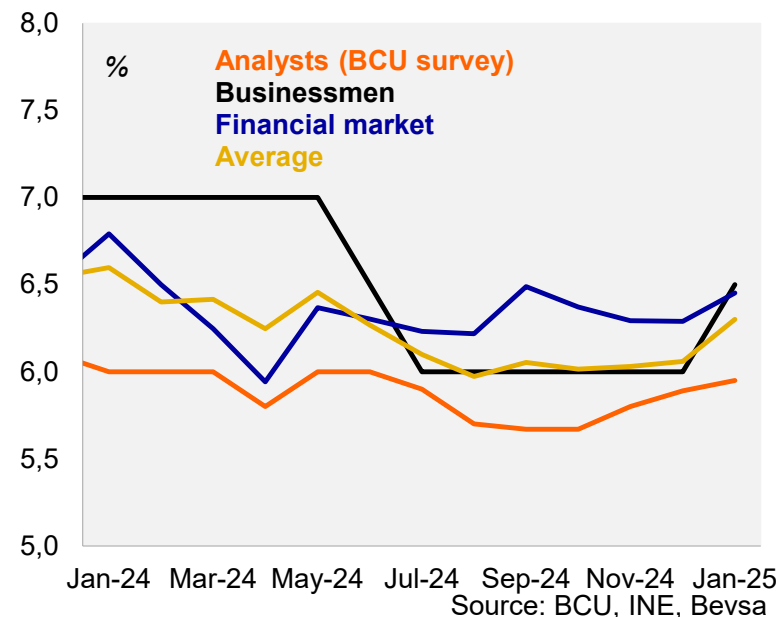
We expect the policy rate to reach 9.0% in 2025.

- The recent deterioration of inflation expectations limits the room to keeping the monetary policy rate unchanged this year.
- We expect the board to raise the policy rate by 25 bps to 9.0% on February 13.
- A new board will take office in March. The new authorities have reaffirmed their commitment to reducing inflation, which increases the odds for higher interest rates.

Ex-ante real interest rate



24-months inflation expectations

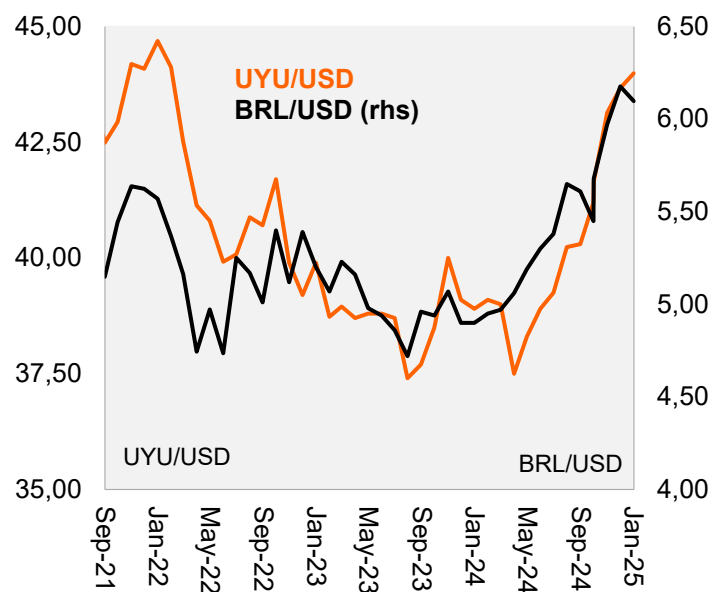


## 4. What is the balance of risks to the currency?

A strong USD and the impact of a possible drought are the main upward pressures on the exchange rate, while higher domestic interest rates and a stronger BRL would ease pressure on the UYU.

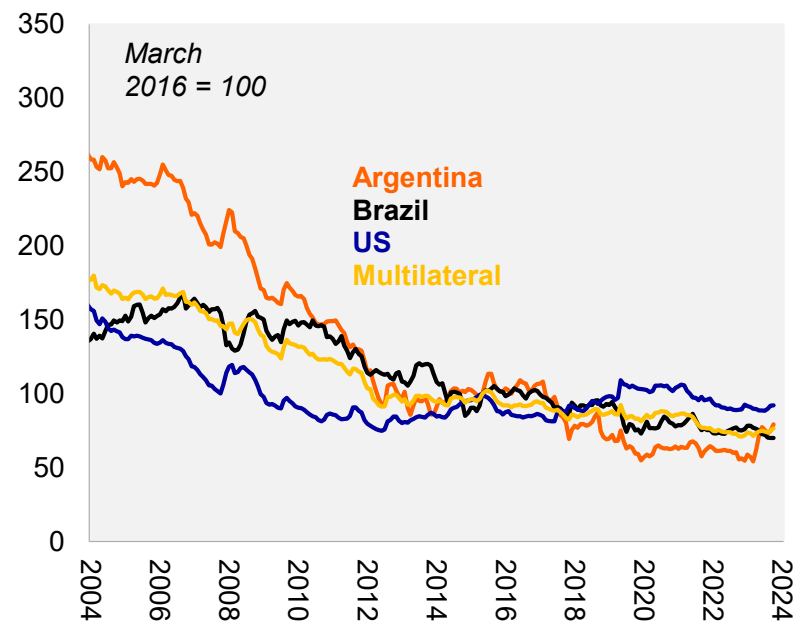
- Competitiveness with Argentina improved in 2024, leading to a better tourism balance.

FX market



Source: Bloomberg

Real exchange rate

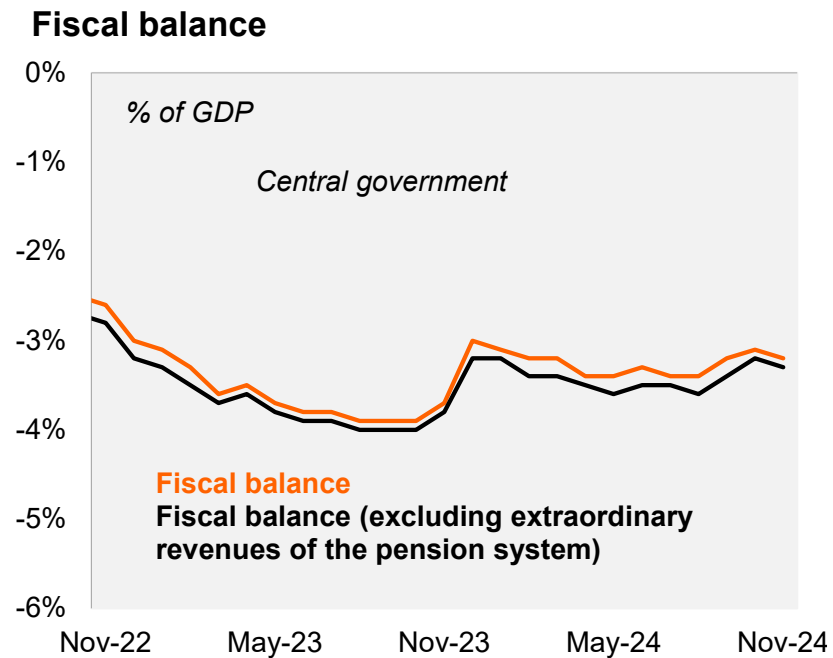


Source: BCU

## 5. Will fiscal consolidation continue this year?

We expect a fiscal deficit of 2.9% of GDP for 2025 and 2.5% of GDP in 2026, with upside risks.

- The central government's 12-month nominal fiscal deficit rose to 3.3% of GDP in November, from 3.2% in October.
- Our expectation of weaker growth and higher inflation limits the scope for improving the fiscal outlook this year.
- The new government will present the new Budget for the next five years by mid-year.



Source: Ministry of Economy and Finance

## 6. Uruguay | Scenario forecast

	2019	2020	2021	2022	2023	2024F		2025F		2026F	
						Current	Previous	Current	Previous	Current	Previous
<b>Economic Activity</b>											
Real GDP growth - %	0.7	-6.3	5.3	4.9	0.4	<b>3.0</b>	3.0	<b>2.3</b>	2.3	<b>2.5</b>	2.5
Nominal GDP - USD bn	62.1	53.7	61.4	71.3	77.3	<b>80.5</b>	80.5	<b>77.9</b>	77.9	<b>76.9</b>	76.9
Population (millions)	3.5	3.5	3.5	3.5	3.5	<b>3.5</b>	3.5	<b>3.5</b>	3.5	<b>3.5</b>	3.5
Per Capita GDP - USD	17,908	15,461	17,616	20,418	21,665	<b>22,962</b>	22,962	<b>22,158</b>	22,159	<b>21,813</b>	21,815
Unemployment Rate - year avg	8.9	10.4	9.3	7.9	8.3	<b>8.0</b>	8.0	<b>7.8</b>	7.8	<b>7.6</b>	7.6
<b>Inflation</b>											
CPI - %	8.8	9.4	8.0	8.3	5.1	5.5	-	<b>6.0</b>	6.0	<b>5.5</b>	5.5
<b>Interest Rate</b>											
Reference rate - eop - %	8.57	4.50	5.75	11.50	9.00	8.75	-	<b>9.00</b>	8.50	<b>8.75</b>	8.00
<b>Balance of Payments</b>											
UYU / USD - eop	37.35	42.35	44.69	39.9	38.9	44.1	-	<b>46.0</b>	46.0	<b>47.5</b>	47.5
Trade Balance - USD bn	-0.1	-0.2	0.0	-0.8	-2.5	<b>-1.0</b>	-1.0	<b>-1.0</b>	-1.0	<b>-1.0</b>	-1.0
Current Account - % GDP	1.2	-0.8	-2.5	-3.9	-3.6	<b>-2.0</b>	-2.0	<b>-2.0</b>	-2.0	<b>-2.0</b>	-2.0
Foreign Direct Investment - % GDP	2.2	1.9	2.4	4.5	5.5	<b>2.0</b>	2.0	<b>1.5</b>	1.5	<b>1.5</b>	1.5
International Reserves - USD bn	14.5	16.2	17.0	15.1	16.2	17.4	-	<b>18.5</b>	18.5	<b>18.5</b>	18.5
<b>Public Finances</b>											
Nominal Balance Central Gov. (*) - % GDP	-4.0	-5.8	-4.2	-3.0	-3.3	<b>-3.1</b>	-3.1	<b>-2.9</b>	-2.9	<b>-2.5</b>	-2.5
Gross Public Debt Central Gov. - % GDP	45.1	48.0	61.2	58.5	58.3	<b>57.4</b>	57.4	<b>60.9</b>	60.9	<b>62.7</b>	62.7

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

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



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