Macro scenario - Uruguay

July 16, 2025

Lower rates ahead

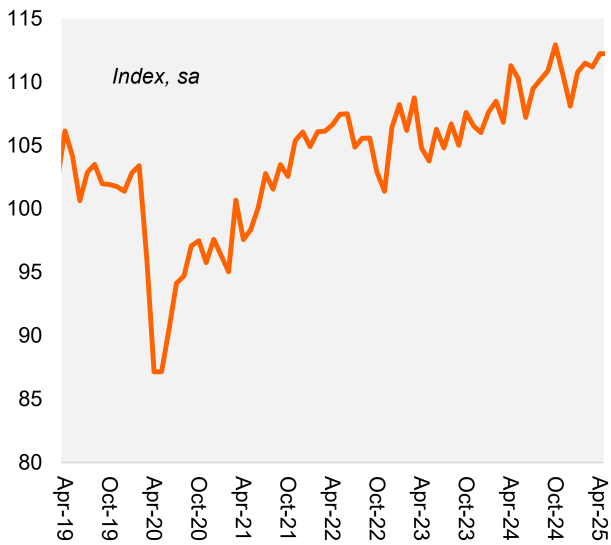
- We maintained our GDP growth forecast for 2025 stands at 2.3%, as leading indicators suggest the economy continues to expand sequentially at the margin.
- We revised our exchange rate forecast down to UYU/USD 41.7 by year-end, compared to 42.6 in our previous scenario, mainly due to a weaker global USD. We also adjusted our YE25 inflation forecast down to 4.5%, from 4.7% in our previous scenario, due to better-than-expected prints and our new exchange rate forecast.
- We now anticipate two 25 bp policy rate cuts in the monetary policy rate for the remainder of the year, down to 8.50%, assuming inflation expectations continue to decline.

Activity continued expanding in 2Q25

The central bank's monthly GDP proxy (IMAE) expanded 1.3% yoy in April, leading to a 2.7% expansion in the rolling quarter (3.4% yoy in 1Q25). On a sequential basis, the index rose 0.9% mom/sa in April after falling 0.3% mom/sa in March. Thus, the IMAE rose 1.6% qoq/sa in the rolling quarter. The statistical carryover for 2025 stood at 2.3%.

Meanwhile, the latest economic indicator from think tank Ceres shows that activity rose by 0.1% MoM in June, marking the eleventh consecutive gain. The diffusion index, which measures the number of sectors performing favorably, fell to 43% in June from 50% in May.

Activity Index



Source: BCU

Private sector wage bargaining rounds begin

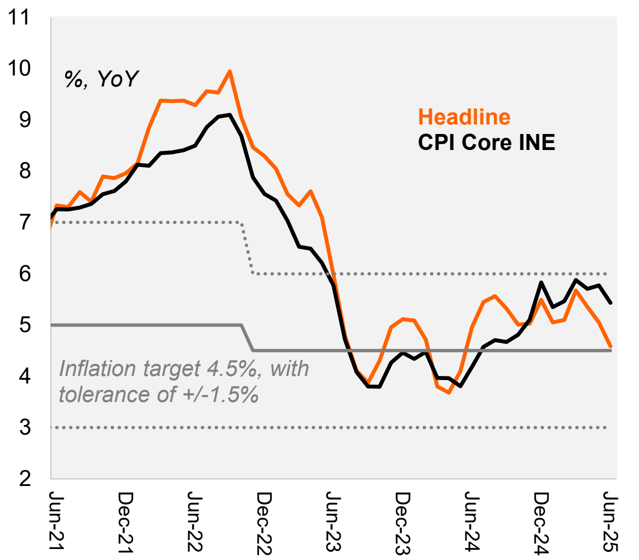
The Executive Branch presented the guidelines for the 11th round of Wage Councils. In this round, 185 negotiating tables will be convened with agreements that expired on June 30, 2025, and will expire between July and December of this year, representing approximately 745,000 workers of the private sector (43% of the total formal employment). According to the guidelines, the negotiation of two-year agreements (from July 2025 to June 2027) is proposed, with nominal, semi-annual, and differential wage adjustments according to income level. Additionally, annual adjustments are proposed based on core inflation during the first year of the agreement and on overall inflation for the second year.

The guidelines suggest an average annual nominal wage increase in the labor market of 6.1% in the first year and 5.5% in the second. If the inflation target of 4.5% is met, the real wage would increase by 1.6% on average in the year ending June 2026 and by 0.9% in the year ending June 2027. This is similar to the expected growth in aggregate productivity, which is around 2%. The guidelines are similar to the previous round that aimed to avoid falls in real wages in the period.

A monthly deflation surprise in June

Inflation unexpectedly fell by 0.09% MoM in June (from +0.36 a year ago and a 5-year median of +0.23%), leading to the third consecutive downside inflation surprise with respect to market consensus. On a monthly basis, the main impact in June came from transport prices which decreased by 0.97% MoM (incidence of -0.11.p.p) due to lower cars and truck prices (-1.80% MoM), diesel prices (-4.84% MoM), passenger transportation with driver (-2.64% MoM) and lower airline tickets (-5.80% MoM). Moreover, food and non-alcoholic beverages prices fell 0.25% MoM, due to lower vegetables and legumes. Core inflation (excluding fruits & vegetables and fuel prices) increased by 0.09% MoM, down from 0.41% MoM in June 2024. On an annual basis, headline inflation fell to 4.59% in June (from 5.05% in May), while core inflation decreased to 5.43% from 5.77% in the previous month. We note both readings remain within the tolerance range of the Central Bank's inflation target of 4.5% +/- 1.5%.

Annual inflation

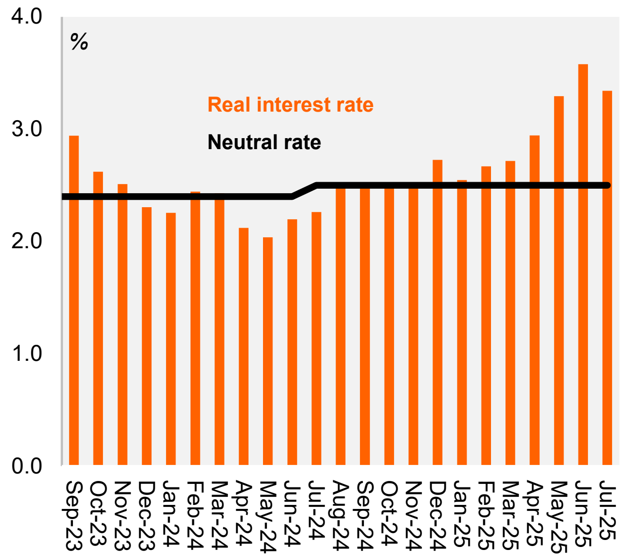


Source: INE

The BCU cut the policy rate

In the monetary policy meeting held in July, the central bank (BCU) unanimously cut the monetary policy rate by 25 bps to 9.00%. The central bank's statement highlighted that average inflation expectations stand at 5.5%, within the tolerance range for the third month in a row. Consequently, we estimate the ex-ante real policy rate at 3.34% (also including the expectations from businessmen), above the center of the BCU's neutral real rate range estimate of 2.5%. In our view, the statement opened the door for additional cuts by mentioning "that there may be room to continue reviewing the policy rate downward as long as inflation and inflation expectations continue to decline."

Ex-ante real interest rate



Source: BCU, INE

There is room to continue lowering the policy rate

We revised our YE25 inflation forecast to 4.5%, down from 4.7%, in our previous scenario due to the string of lower-than-expected inflation prints and a stronger UYU. Additionally, we revised our YE25 exchange rate forecast to UYU 41.7/USD from UYU 42.6/USD in our previous scenario amid a weaker global USD.

Following the BCU's decision to cut in July along with the revised guidance, we now envisage two more 25 bp cuts this year, bringing the rate to 8.5% by the end of 2025. This new forecast is based on guidance from the most recent monetary policy meeting and the downward trend in inflation expectations.

Our GDP growth forecast for 2025 stands at 2.3%. A record soybean harvest supports our call.

Andrés Pérez M.
Diego Ciongo
Soledad Castagna

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**	82.4	**86.7**	86.7
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**	23,431	**24,611**	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**	4.7	**4.5**	4.7
Interest Rate									
Reference rate - eop - %	4.50	5.75	11.50	9.00	8.75	**8.50**	9.25	**8.00**	9.00
Balance of Payments									
UYU / USD - eop	42.35	44.69	39.9	38.9	44.1	**41.7**	42.6	**42.5**	43.5
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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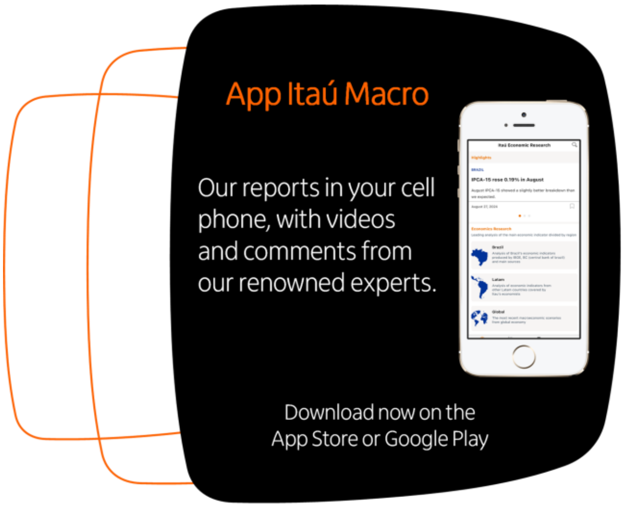

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