

Macro scenario - Uruguay



June 16, 2025

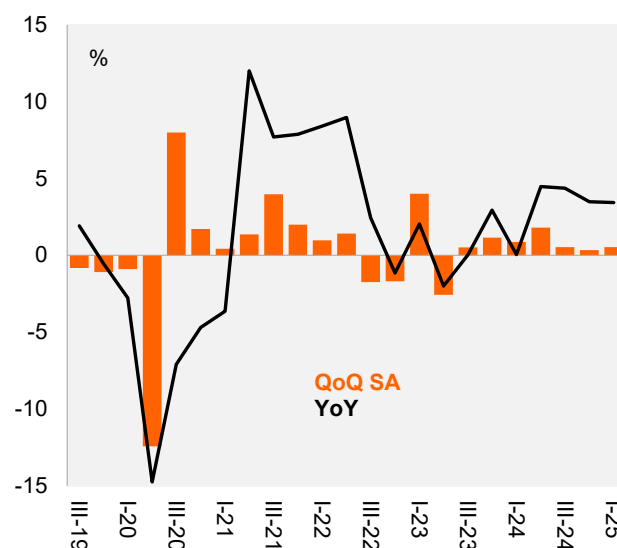
Well-behaved inflation

- ▶ Our GDP growth forecast for 2025 stands at 2.3%, with downside risks amid somewhat lower than expected growth in 1Q25.
- ▶ We revised our exchange rate forecast down to UYU/USD 42.6 by year-end, compared to UYU/USD 43.0 in our previous scenario due to a weaker global USD. We also revised our YE25 inflation forecast to 4.7%, down from 5.1% in our previous scenario.
- ▶ We believe the BCU completed its hiking cycle in the last meeting at 9.25%, while the average of inflation expectations remains within the inflation tolerance range.

Activity expanded sequentially in 1Q25

GDP rose by 3.4% yoy in 1Q25, down slightly from 3.5% in 4Q24. At the margin, using the central bank's seasonally adjusted series, GDP grew by 0.5% qoq/sa in 1Q25, while the monthly GDP proxy IMAE pointed to growth of 0.3% qoq/sa, expanding sequentially for the seventh consecutive quarter. Thus, the statistical carryover for 2025 stands at 1.5%. Domestic demand rose by 3.8% yoy in 1Q25 (3.3% in 4Q24), led by gross capital formation which rose by 4.2% yoy. Private consumption expanded by 2.1% yoy, due to higher spending on imported consumer goods such as clothing and other durable goods. Moreover, public consumption rose by 4.3% yoy. Finally, exports of goods and services rose by 4.2% yoy (from 4.4% in 4Q24), due to the increase in inbound tourism amid spillovers from Argentina. Imports of goods and services rose by 5.6% yoy (from 3.8% yoy in 4Q24) due to higher imports of durable goods, motor vehicles, and clothing. On the other hand, due to the refinery reopening, there was a decrease in imports of fuels and gasoline and a smaller increase in oil purchases.

GDP Growth



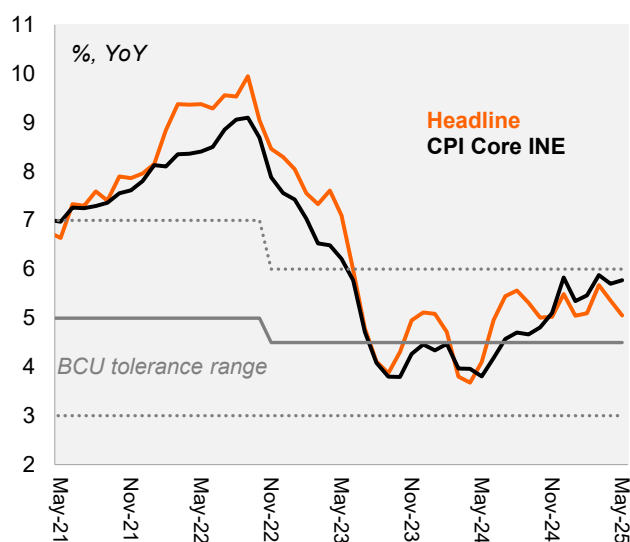
Source: BCU

Annual inflation decelerated in May

Inflation rose by 0.11% MoM in May (from 0.40% a year ago and a 5-year median of 0.38%). The main monthly impact in May came from housing (0.26% MoM, incidence of 0.03p.p) due to increases in construction services and residential taxes in Montevideo. Moreover, restaurants and hotels rose by 0.66% MoM with an incidence of 0.06p.p, due to higher cafes and restaurants prices. On the other hand, transport prices fell by 0.55% MoM (incidence of -0.06p.p) due to lower cars and truck prices (-1.49% MoM), diesel prices (-1.49% MoM) and lower airline tickets (-3.91% MoM). Core inflation (excluding fruits & vegetables and fuel

prices) increased by 0.22% MoM, from 0.15% MoM in May 2024. On an annual basis, headline inflation fell to 5.05% in May (from 5.36% in April), while core inflation rose to 5.77% from 5.70% in the previous month. We note both readings remain within the Central Bank's inflation tolerance range of 4.5% +/- 1.5%. Moreover, the average inflation expectations for the next 24 months stands at 5.77%, towards the upper bound of the Central Bank's inflation tolerance range.

Annual inflation

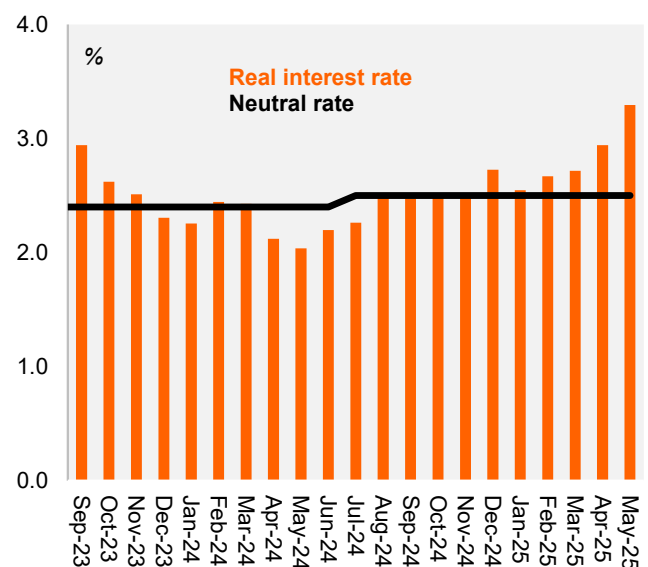


Source: INE

BCU pauses the tightening cycle

In the last meeting, the central bank's Monetary Policy Committee maintained the policy rate at 9.25%, pausing the tightening cycle that began in December 2024 after three consecutive 25-bps hikes. The central bank highlighted that annual inflation has remained within the inflation target's tolerance range (3%-6%) for almost two years. Inflation expectations for the following twenty-four months (the monetary policy horizon) fell to 5.5% in the analyst survey (down from 5.8%) and to 5.3% in the financial markets (down from 6.1%). As a result, we estimate the ex-ante real policy rate at 3.30% (also including the expectations from businessmen), above the center of the BCU's neutral real rate range estimate of 2.5%.

Ex-ante real interest rate



Source: BCU, INE, Bevsa

Although the fiscal deficit has narrowed this year, the official yearend forecast was revised higher

The central government's 12-month nominal fiscal deficit fell to 3.1% of GDP in April 2025, compared to 3.4% at the end of 2024. Total real revenues rose by 4.1% YoY in the quarter ended in April (down from 5.4% in 1Q25), reflecting the deceleration of economic activity. On the expenditure side, primary spending increased by 3.4% YoY in real terms, driven by non-personnel spending, which increased by 5.9% YoY in the quarter ended in April.

The 2024 accountability revised the 2025 fiscal deficit forecast to approximately 4.0% of GDP, from 2.9% of GDP estimated by the previous administration in same period 2024. The Ministry of Finance's document presented to parliament reflects payments of inherited liabilities and weaker revenue outcomes.

Lower figures from the nominal side

We revised our YE25 inflation forecast down to 4.7%, from 5.1%, in our previous scenario due to recent lower-than-expected inflation prints and a stronger UYU. Additionally, we revised our YE25 exchange rate forecast to UYU 42.6/USD from UYU 43.0/USD in our previous scenario amid a weaker global USD.

We expect the BCU to keep the policy rate at 9.25% for the remainder of the year. However, if inflation expectations continue easing towards the target of 4.5%, we believe the central bank may cut rates as soon as the second half of the year.

Our GDP growth forecast for 2025 stands at 2.3%, but now with downside risks amid somewhat lower than expected growth in 1Q25. A record soybean harvest also supports our call.

Finally, we revised our forecast for the nominal fiscal balance in 2025 to -4.0% of GDP, from -3.4% in the previous scenario in line with changes to the Ministry of Finance's forecast for 2025, after the

2024's accountability. We will have more information on the fiscal balance path for the coming years when the Ministry of Finance presents the five-year budget to Congress in the coming months. In our view, this document will be key in determining the medium-term fiscal outlook and financing needs.

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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	2.5	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	4.7	5.1	4.7	5.0
Interest Rate									
Reference rate - eop - %	4.50	5.75	11.50	9.00	8.75	9.25	9.50	9.00	9.50
Balance of Payments									
UYU / USD - eop	42.35	44.69	39.9	38.9	44.1	42.6	43.0	43.5	44.3
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	-2.0	-0.2	-2.0
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	-3.4	-3.5	-2.9
Gross Public Debt Central Gov. - % GDP	61.3	58.5	58.2	58.5	57.2	61.2	59.9	60.5	59.6

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

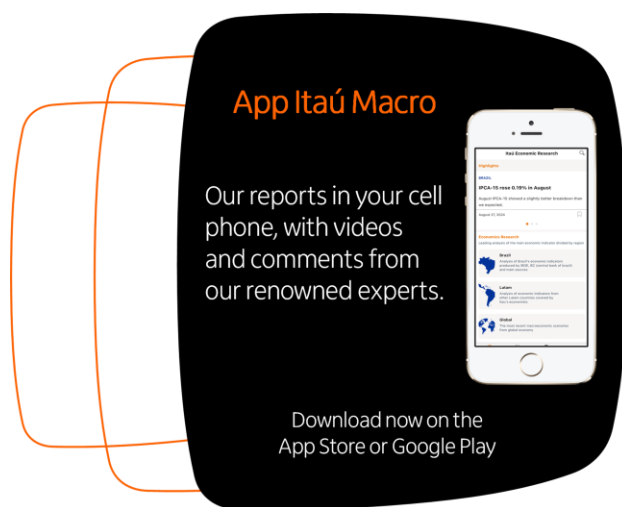
(*) Excludes extraordinary inflows to the Social Security Trust Fund.

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