

# Macro scenario - Uruguay



March 24, 2025

## All eyes on the next monetary policy meeting

- ▶ Even though inflation has surprised to the downside recently, inflation expectations remain above the target, leading us to maintain our call for the policy rate to reach 9.5% by YE25. However, we cannot rule out a pause in the tightening cycle. We have left our year-end inflation forecast unchanged at 5.5%, but with downside risk.
- ▶ Activity grew at a solid pace in 2024, reflecting the recovery of the primary sector after the severe drought in 2023. We forecast GDP growth of 2.3% in 2025, with upside risk due to a positive carryover.

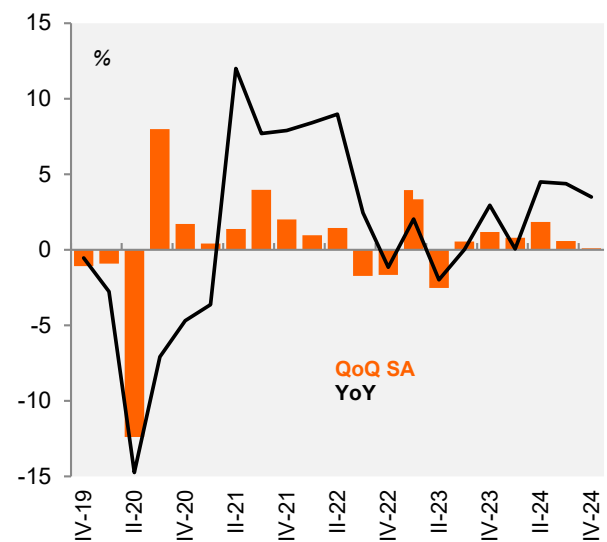
### Activity increased by 3.1% in 2024

**GDP rose by 3.5% yoy in 4Q24, down from the 4.4% growth posted in 3Q24.** At the margin, using the central bank's seasonally adjusted series, GDP grew by 0.1% qoq/sa in 4Q24, growing sequentially for the sixth consecutive quarter. Thus, GDP increased by 3.1% in 2024, reflecting the recovery of the primary sector after the severe drought in 2023. The statistical carryover for 2025 was 1.0%.

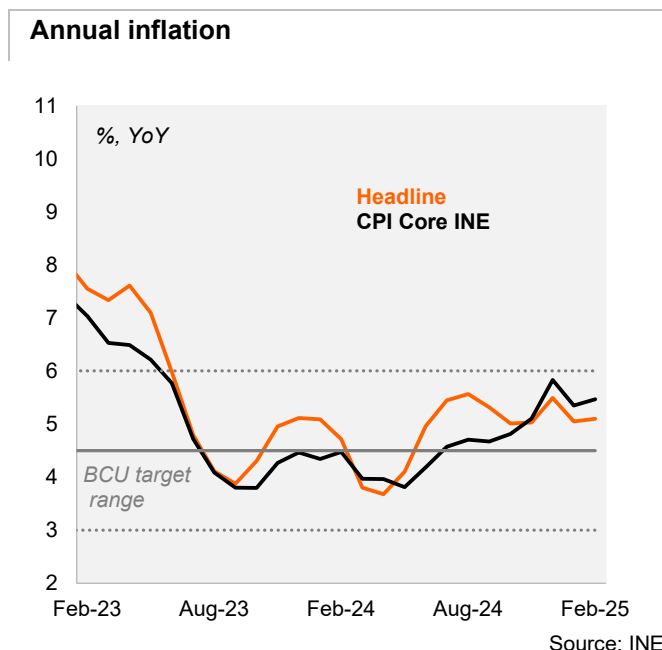
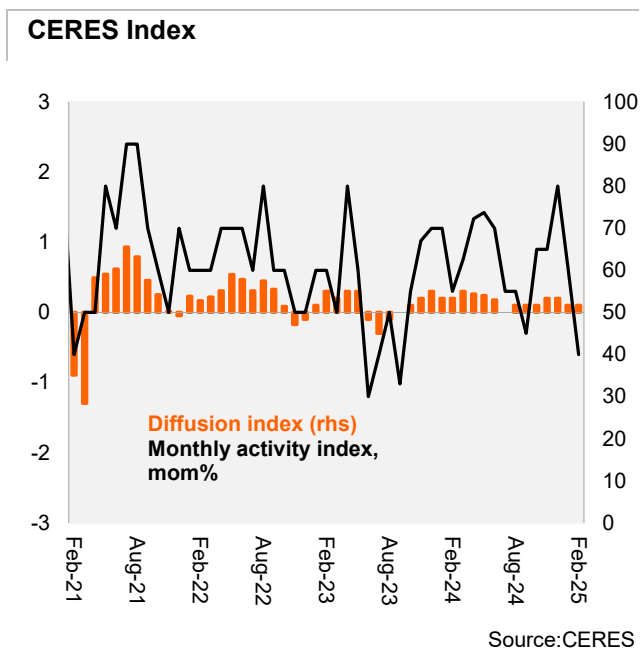
**Domestic demand rose by 3.3% yoy in 4Q24 (0.6% in 3Q24), led by gross capital formation, which rose by 5.5% yoy.** Private consumption increased by 2.7% yoy, due to higher spending on imported consumer goods such as clothing and other durable goods, which was partially offset by a reduction in tourism spending abroad.

**Meanwhile, the latest economic indicator from think tank Ceres shows that activity was slightly positive in February (0.1% mom), increasing for the seventh consecutive month.** However, the diffusion index (the number of sectors performing favorably) fell to 40% in February from 60% in January.

GDP Growth



Source: BCU



### Inflation surprised to the downside again

#### Headline inflation rose by 0.69% MoM in February.

The print was below market expectations according to the BCU's survey (1.0%). The main monthly impacts came from prices for housing, electricity, and water, which rose by 2.84% MoM (incidence of 0.36 pp), mainly due to the end of the application of "UTE rewards" to electricity (electricity prices rose by 8.6% MoM). On the other hand, food and non-alcoholic beverage prices increased by 0.26% mom (incidence 0.2 pp), driven by higher prices for legumes but partially offset by lower meat prices. In addition, education prices increased by 2.0% MoM, reflecting the annual adjustment. Core inflation (excluding fruits and vegetables and fuel prices) increased by 0.72% MoM, compared with a 0.61% MoM increase in February 2024. On an annual basis, headline inflation rose slightly to 5.10% in February (from 5.05% in January), while core inflation accelerated to 5.46% (from 5.35% the previous month). We note that both readings remain within the Central Bank's inflation target of 4.5% ± 1.5%.

### Hiking cycle likely to continue this year

#### The next policy meeting will be held on April 8 by a newly recomposed monetary policy committee.

In its previous meeting, the central bank's monetary policy committee unanimously hiked the policy rate by 25 bps for the second consecutive meeting, bringing the rate to 9.0%. According to the committee's accompanying statement, the hike was intended to consolidate the continuing decline in inflation and bring it to the 4.5% target in the monetary policy horizon (MPH). The new administration has stated its commitment to keeping inflation within the target range (3%-6%). As inflation expectations remain above the upper bound of the target range, we expect the tightening cycle to be continued at the next meeting. However, we cannot rule out a pause in the cycle due to the recent downward surprises in inflation readings and the appreciation of the UYU.

### Slight improvement in the fiscal deficit at the start of 2025

The central government's 12-month nominal fiscal deficit fell slightly to 3.3% of GDP in January, from 3.4% in December 2024. This fiscal-balance measure excludes extraordinary income from the social security agency (namely, asset transfers from individuals switching from the private pension system to the public pension system).

## All eyes on the next policy meeting

**We still expect the BCU to increase the policy rate to 9.5% by YE25, but we cannot rule out a pause in the tightening cycle given the recent downside inflation surprises and a stronger UYU.** The behavior of the exchange rate and the March inflation reading, to be released on April 3, will be key to the next policy decision on April 8.

**We have left our YE25 inflation forecast unchanged at 5.5%, but with downside risk.** Wage negotiations, set to take place in the second half of the year, will be important for inflation and inflation expectations.

**We see downside risk to our YE25 exchange rate forecast of 45.3 UYU/USD.** The easing of the international environment and the expectation of a global weakening of the dollar support our call.

**Our 2025 GDP growth forecast remains at 2.3%, with upside risk due to last year's carryover.** On the demand side, private consumption will likely continue to support growth, as will spillovers from the macro adjustment in Argentina that we expect to continue this year. In particular, the tourism season is expected to be positive, giving a boost to growth in 1Q25.

**Our forecast for the 2025 nominal fiscal balance stands at -2.9% of GDP.** The new administration will present the new budget for the next five years by mid-year.

**Andrés Pérez M.  
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## Uruguay | Forecasts and Data

	2020	2021	2022	2023	2024F		2025F		2026F	
					Current	Previous	Current	Previous	Current	Previous
<b>Economic Activity</b>										
Real GDP growth - %	-7.4	5.6	4.8	0.7	3.1	-	<b>2.3</b>	2.3	<b>2.5</b>	2.5
Nominal GDP - USD bn	53.6	60.7	70.7	78.0	81.0	-	<b>82.9</b>	77.9	<b>85.0</b>	76.9
Population (millions)	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	15,426	17,424	20,253	22,282	23,099	-	<b>23,575</b>	22,158	<b>24,109</b>	21,813
Unemployment Rate - year avg	10.4	9.3	7.9	8.3	8.2	-	<b>7.8</b>	7.8	<b>7.6</b>	7.6
<b>Inflation</b>										
CPI - %	9.4	8.0	8.3	5.1	5.5	-	<b>5.5</b>	5.5	<b>5.2</b>	5.2
<b>Interest Rate</b>										
Reference rate - eop - %	4.50	5.75	11.50	9.00	8.75	-	<b>9.50</b>	9.50	<b>9.50</b>	9.50
<b>Balance of Payments</b>										
UYU / USD - eop	42.35	44.69	39.9	38.9	44.1	-	<b>45.3</b>	45.3	<b>46.8</b>	46.8
Trade Balance - USD bn	-0.2	0.0	-0.8	-2.5	-1.4	-	<b>-1.0</b>	-1.0	<b>-1.0</b>	-1.0
Current Account - % GDP	-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	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	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. (*) - % GD	-5.8	-4.2	-3.0	-3.3	-3.4	-	<b>-2.9</b>	-2.9	<b>-2.5</b>	-2.5
Gross Public Debt Central Gov. - % GDP	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.

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