Uruguay Economic Outlook

While significant challenges lie ahead, the country possesses the necessary tools to address them effectively

BBVA Research Argentina
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Low Growth in a Challenging Global Scenario

Protectionism and global uncertainty will impact the economy

Global GDP grew by 3.4% in 2024, and is expected to slow to 3.0% in 2025 due to weaker growth in the United States, driven by increased uncertainty. This will be partially offset by China's expansion—underpinned by lower-than-expected tariffs and stimulus measures—and by Europe, where fiscal spending, lower inflation, and reduced interest rates will support growth.

Inflation is expected to rise in the U.S. following tariff increases, but will remain contained in the Eurozone and China. As a result, the Federal Reserve is expected to cut rates only once in Q4. The easing cycle would likely continue in 2026—provided the tariff-driven pressures are temporary. In the Eurozone, rates are expected to remain at 2%, although subdued growth and low inflation may prompt additional cuts.

Uruguay will face two years of below-potential growth

Uruguay's economy grew 3.1% in 2024, mainly driven by recovery from the 2023 drought, reduced cross-border consumption to Argentina (due to a relative price increase), and the reopening of ANCAP's refinery, which had been closed for maintenance.

Early indicators for 2025 show moderate growth. The Q1 Monthly Economic Activity Index (IMAE[1]) posted a year-over-year expansion of 2.2% and a 0.3% increase from the previous quarter. Industrial activity expanded by 9.3% y/y in Q1 2025, aligned with a 19.5% y/y increase in capital goods imports and an 8.8% y/y rise in tax revenues.

We project 2025 growth to decelerate to 2.1%, mainly due to sluggish private consumption—which represents two-thirds of GDP—amid a weak 0.4% recovery in real wages and a labor market expected to remain stagnant.

Thus, 2025 continues the trend of structurally weak growth that has characterized Uruguay's economy in recent decades. Growth episodes over the past 20 years have largely stemmed from cyclical recoveries—such as the rebound from the 2023 drought—or extraordinary investment projects like pulp mills, rather than from broad-based and sustained expansion across all economic components.

[1] The Monthly Index of Economic Activity (IMAE) is compiled by the National Institute of Statistics. It measures the evolution of economic activity on a monthly basis and serves as a very reliable approximation of the Gross Domestic Product (GDP)

For 2026, we do not anticipate significant trend shifts and project 1.9% GDP growth.

Rigid expenditures limit progress toward fiscal consolidation

Five years after the implementation of the fiscal rule in 2020, public accounts have shown slight improvement. However, in 2024, two out of the three pillars of the fiscal rule were not met.

The Central Government’s structural fiscal result reached -3.7% of GDP, exceeding the revised target of -2.9%. Additionally, primary spending of the Central Administration, in real terms, grew 4.8% y/y—surpassing the 2.8% ceiling set for 2024.

The debt ceiling was met only due to the activation of the safeguard clause, which allows a 30% increase under exceptional circumstances. In December 2024, the Ministry of Economy and Finance (MEF) informed Parliament of its decision to invoke the clause, raising the net borrowing limit from USD 2.3 billion to USD 2.99 billion; final borrowing stood at USD 2.64 billion.

According to authorities, the deviation was due to lower-than-expected inflation, weaker tax revenues, and the rigidity of public expenditures, partially driven by the electoral cycle, which traditionally increases government outlays.

Despite institutional advances in fiscal governance, 2024 exposed significant challenges in meeting targets—particularly due to the inflexibility of pension spending. The fiscal deterioration was moderated by deferring payments (including Central Railway Project debts, ASSE, and social programs) and bringing forward non-recurrent revenues originally planned for 2025.

The outlook for 2025 is complex. As of April, the Central Government posted a 12-month rolling deficit of 3.1% of GDP, and the consolidated public sector showed a 3.7% deficit. The new administration inherits a challenging fiscal scenario, with imbalances similar to those of 2019. Official growth projections (3.4%) appear optimistic compared to market consensus (2.4%, per the Central Bank survey) and our estimate of 2.1%, potentially impacting tax collection.

The revenue outlook for 2025 is constrained by moderate growth, low inflation, absence of tax reforms, and continued weakness in formal employment. Consequently, revenue-based fiscal adjustments are limited, highlighting the need for sustained efforts and structural reforms to ensure medium- and long-term fiscal sustainability.

We project a slight improvement in the overall public sector balance in 2025, with a deficit of 3.8% of GDP (3.9% excluding the Social Security Stabilization Fund).

External sector remains stable amid global turbulence

In 2024, the current account deficit narrowed to -1% of GDP, improving by 2.6 pp from the previous year, driven by a better trade balance in goods and, to a lesser extent, in services—especially tourism.

This improvement occurred despite a 6.8% decline in terms of trade. The commissioning of UPM2 and a sharp rise in pulp exports were key drivers, with exports from Free Trade Zones rising 35% in 2024 alone. Imports, by contrast, remained broadly flat (+0.3%), albeit at high levels.

Among exports, pulp took the lead due to UPM2, while traditional commodities like soybeans and beef maintained solid performance.

For 2025, despite global headwinds, we expect the current account deficit to remain at 1% of GDP. Terms of trade are not expected to change significantly, while output increases will stem from UPM2 reaching full capacity.

Tourism could moderately improve in 2025 with more visitors—mainly from Argentina due to favorable exchange rate dynamics—although spending per visitor is likely to remain stable given typically frugal Argentine tourist behavior.

Inflation and monetary policy: new authorities, same commitment

The new Central Bank authorities began their term with a 25 bp hike in the policy rate (TPM), signaling commitment to the 4.5% inflation target and a long-term goal of convergence toward developed-country levels.

Since 2023, inflation has stabilized between 5.1% and 5.5%, reflecting the success of the monetary policy launched in 2020, which brought inflation down from the 2013–2022 average of 8.3%. However, inflation appears stuck above 5%, likely until 2027, tempering the perceived success.

Recent core inflation trends show deceleration in price inertia, but expectations remain stubborn. We forecast inflation at 5.4% in 2025 and 5.2% in 2026.

Despite easing pressures, the Central Bank will maintain a contractionary stance. The policy rate is expected to remain stable—or slightly increase—through mid-2026. This implies a positive real interest rate, well above the neutral rate[2], reflecting the Central Bank's intent to anchor expectations, especially ahead of the July start of the 11th round of wage bargaining.

[2] Also referred to as r^*, this is an unobservable rate at which the economy can grow at its potential without generating inflationary pressures. When the real Monetary Policy Rate (TPM) is higher than $r*$, monetary policy is in a contractionary phase, as is the case at the time of publication of this report. For Uruguay, the estimated r^* is 2.5%. See Methodological Box 20, BCU

Peso strength reflects structural factors beyond the global cycle

The Uruguayan peso benefited from global dollar weakness, appreciating nearly 5% in the first five months of the year—mirroring trends across the region. For the remainder of 2025, we expect a gradual depreciation toward UYU/USD 42.1.

Stripping away short-term volatility, the peso's sustained strength reflects sound fundamentals, including Uruguay's investment-grade status and a productive economy increasingly driven by high-productivity export sectors. This is evident in the External Balance Index (IEBU[3]), which remains near its multi-year average despite real exchange rate appreciation.

In conclusion, altough there are the challenges ahead, the country has the tools to overcome them.

While Uruguay faces considerable challenges in terms of growth and fiscal consolidation, it maintains solid economic and institutional fundamentals. External stability, supported by productive and export diversification, combined with the new authorities' commitment to sound policy, provide the tools needed to tackle fiscal imbalances and promote sustainable growth in a highly uncertain global environment.

[3] The Unit Gross Surplus Indicator (IEBU), calculated by the Central Bank of Uruguay (BCU), measures the evolution of profit margins relative to a reference year.

Macroeconomic Forecast

% yoy	2023	2024	2025 (e)	2026 (e)
GDP	0,7	3,1	2,1	1,9
Inflation (% yoy, eop)	5,1	5,5	5,4	5,2
Inflation (% yoy, average)	5,9	4,8	5,4	5,1
Exchange Rateo (vs. USD, eop)	39,3	43,9	42,1	44,3
Exchange Rate (vs. USD, average)	38,8	40,2	42,2	43,3
MPR (% eop)	9,0	8,8	9,3	8,8
MPR (% average)	10,6	8,6	9,2	9,1
Unemployment rate (% eop)	7,8	7,4	8.1	8,0
Overall Fiscal Balance (% GDP)	-3,9	-4,1	-3,8	-3,7
Current Account (%GDP)	-3.6	-1.0	-1.1	-1.1

Fuente: BBVA Research

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