

# Uruguay Economic Outlook

June 2026

**BBVA Research**

## The challenge is to accelerate growth

Uruguay's economy continues to benefit from strong macroeconomic fundamentals, controlled inflation, and favorable access to financing. However, it faces the challenge of boosting investment to raise productivity and ignite new drivers of growth.

Uruguay continues to stand out in the region due to the strength of its economic fundamentals, institutional quality, and the credibility of its economic policies. In a global environment marked by heightened geopolitical uncertainty, volatility in energy markets, and a gradual slowdown in global growth, the country maintains a favorable relative position, reflected in low sovereign risk levels and continued access to international financial markets.

Nevertheless, the main challenge facing the Uruguayan economy is no longer macroeconomic stability, but rather its ability to increase potential growth. Over the past two decades, the country benefited from a favorable international environment, high commodity prices, and substantial inflows of foreign direct investment. While these factors remain important strengths, they no longer provide the momentum required to sustain a higher trend growth rate. As a result, Uruguay currently faces what is commonly referred to as the middle-income trap, namely structural constraints associated with low productivity and insufficient investment levels to support stronger economic expansion.

The growth outlook of 1.3% in 2026 and 1.8% in 2027 remains positive, although moderate and below estimated potential growth of 2.1%. Economic activity will continue to be supported primarily by private consumption and exports, while the recovery in investment is expected to remain gradual. Recent indicators point to some improvement in industrial activity, exports, and domestic demand, reducing the risk of a sharper slowdown. However, no new growth drivers have yet emerged that could significantly improve the long-term growth trajectory.

Investment therefore remains Uruguay's main structural challenge. Despite the country's institutional and financial stability, several factors continue to constrain the development of new projects, in addition to low productivity, including the small size of the domestic market, high operating costs, and still-limited international integration. In this context, initiatives related to the energy transition, particularly green hydrogen projects, represent some of the most significant opportunities to stimulate investment, although their development continues to face delays associated with technological, cost, and commercial-scale challenges.

On the external front, Uruguay maintains a solid position. Goods exports remain concentrated in agro-industrial products and a limited number of destination markets, but service exports are becoming increasingly important, particularly those linked to business, technology, and professional services. This diversification has contributed to strengthening foreign exchange generation and partially reducing dependence on traditional commodity cycles. The current account remains at manageable levels and does not constitute a significant source of macroeconomic vulnerability.

Against this backdrop, the Mercosur–European Union agreement takes on strategic importance. For Uruguay, the agreement's main potential benefit lies not only in improved market access, but also in the expansion of economic scale that it could generate for companies and investors. Greater international integration would enhance the attractiveness of export-oriented projects, encourage foreign direct investment, and contribute to higher productivity. Given the relatively

small size of the domestic market, international integration remains one of the key tools for overcoming scale constraints.

From a fiscal perspective, the challenge is to advance toward sustainable public finance consolidation in an environment of slower-than-budgeted growth and significant expenditure rigidities. This fiscal dynamic leads us to expect a deficit of 4.7% of GDP this year and 4.6% in 2027 (excluding the Social Security Fund), assuming a strategy based on gradual expenditure restraint and highly efficient management of public resources, rather than revenue increases or abrupt spending cuts. The recent modification of the fiscal rule introduces an explicit anchor for the public debt trajectory, strengthening the medium-term sustainability framework while providing greater flexibility for managing the economic cycle.

Inflation, meanwhile, has undergone a pronounced deceleration process since the first quarter of 2025, when it stood at 5.7% year-over-year, reaching a low of 2.9% year-over-year in March of this year, largely driven by lower tradable goods inflation. This path not only pushed inflation below the midpoint of the Central Bank of Uruguay's target range but also reached its lower bound, highlighting a significant deviation from the monetary authority's 4.5% objective. This prompted a substantial monetary easing cycle, with a cumulative 175-basis-point reduction in two meetings -the December 23, 2025 meeting and the extraordinary off-schedule meeting held on March 3, 2026- bringing the monetary policy rate to 5.75%.

Prices subsequently moved higher, partly due to expectations of peso depreciation and its impact on tradable goods prices, and later due to the effects of the conflict in the Middle East, particularly through higher fuel and transportation costs. We expect inflation to accelerate to 4.5% by year-end. Under this scenario, the monetary authority is expected to keep the policy rate unchanged for the remainder of the year. Inflation expectations remain well anchored, and convergence across different economic agents has increased the effectiveness of monetary policy, which continues to strengthen, reflecting the Central Bank's commitment and sound policy management.

Regarding the exchange rate, in a context of strong macroeconomic fundamentals, a weaker U.S. dollar, and positive domestic real interest rates, the peso appreciated from early 2025 until the global reversal in the dollar trend and the Central Bank's rate cuts during the first quarter of 2026. These global and domestic developments are moving in the same direction, putting upward pressure on the exchange rate, which we expect to reach UYU 41 per U.S. dollar by December. This adjustment has allowed Uruguay to recover part of its external competitiveness, as evidenced by the 8% improvement in the real exchange rate between April 2026 and December 2025, rising to 14% when measured against the regional index.

## **Risks and outlook**

The balance of risks remains tilted toward developments in the global environment. Persistent geopolitical tensions in the Middle East could generate renewed pressure on oil prices and global logistics costs, affecting both inflation and economic activity. Another key risk to monitor, given its relatively high probability of materialization, is a severe climate event associated with the El Niño phenomenon, which could negatively affect sectors that are particularly important for the Uruguayan economy, especially agriculture, logistics, and related commercial activities.

In summary, Uruguay maintains a solid and stable macroeconomic position, characterized by controlled inflation, balanced external accounts, and favorable access to financing. However, the central challenge for the coming years will be to transform this stability into a platform for

stronger and more sustained growth. Achieving this objective will require higher investment, stronger productivity growth, deeper international integration, and conditions that allow the economy to expand its scale and strengthen its long-term growth capacity.

## Macroeconomic Forecast

Variation YOY	2024	2025	2026 (f)	2027 (f)
GDP (% yoy)	3.3	1.8	1.3	1.8
Inflation (% yoy, eop)	5.5	3.7	4.5	4.5
Inflation (% yoy, ave)	4.8	4.7	3.9	4.1
Exchange Rate (vs. USD, eop)	43.9	39.2	41.0	42.7
Exchange Rate (vs. USD, ave)	40.2	41.1	40.1	41.9
Policy Monetary Rate (% eop)	8.8	7.5	5.8	6.0
Policy Monetary Rate (% ave)	8.6	8.7	5.8	6.0
Private Consumption (% yoy)	1.7	2.1	1.5	1.6
Public Consumption (% yoy)	2.0	1.8	1.8	1.1
Investment (% yoy)	-6.7	4.3	-4.6	1.4
Unemployment Rate (% eop)	7.4	7.2	7.5	7.9
Global Fiscal Balance (% GDP) *	-4.5	-4.8	-4.7	-4.6
Current Account (% GDP)	-0.8	-0.4	-1.1	-1.4

\* Consolidate exc Social Security Fund

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