Macro scenario - Uruguay

July 7, 2026

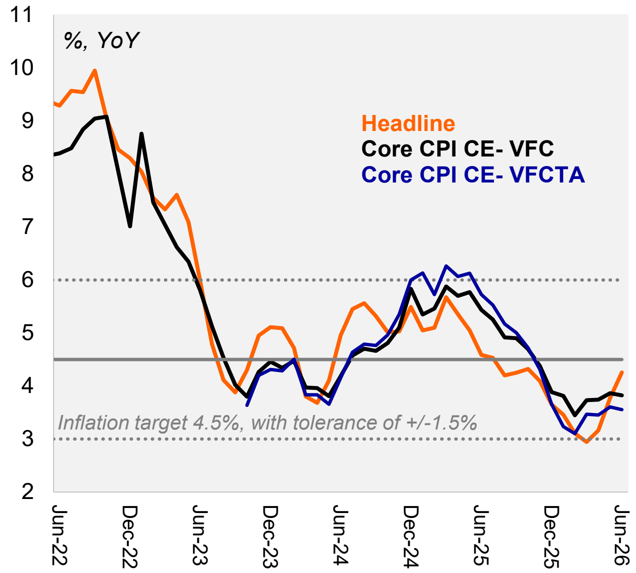
Well-behaved core inflation

- **We maintained our 2026 GDP growth forecast at 1.2%, decelerating from 1.8% in 2025, mainly reflecting the negative effects of this year's drought.**
- **Our YE26 inflation forecast stands unchanged at 4.9% and 4.5% for YE27, with survey-based inflation expectations remaining little changed throughout the swings in international oil prices.**
- **We revised our YE26 exchange rate forecast to UYU/USD 40.5 from 39.5, reflecting increased dollar strength globally**. Looking ahead, we now expect a UYU/USD 41.0 by YE27 (previously 40.0), implying a broadly stable real exchange rate over the forecast horizon.
- **We maintained our monetary policy rate forecast at 5.75%, accommodative in real ex-ante terms, in the context of anchored inflation expectations, well-behaved core inflation, and building slack in economic activity.**

Headline inflation accelerates, core measures continue to ease

June CPI rose 0.37% MoM, slightly below our forecast and market expectations (both at 0.5%), mainly driven by higher transportation prices following the increase in domestic fuel prices. Food prices posted a modest increase, as higher vegetable prices were partly offset by lower fruit prices, while restaurants also contributed positively to the monthly print. In annual terms, headline inflation rose to 4.25% from 3.77% in May. In contrast, annual core inflation fell to 3.83% and CPI CE VFCTA to 3.56%, both measures within the BCU target's tolerance range. At the margin, seasonally adjusted measures point to an acceleration in headline inflation (7.3% three-month annualized), while core measures eased to around 4.1%, suggesting that underlying inflationary pressures remain contained.

Inflation Dynamics

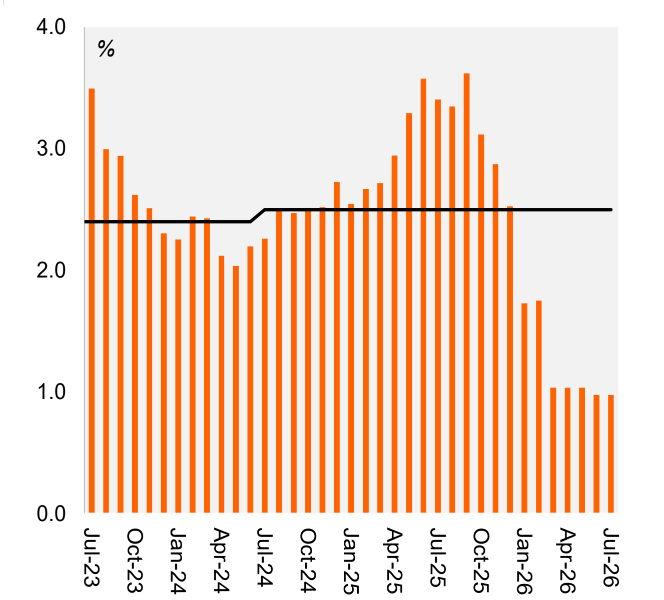


Source: INE

BCU holds rates, signals a more balanced tone

At its July monetary policy meeting, the BCU unanimously left the policy rate unchanged at 5.75% for a third consecutive month, as expected. The statement adopted a less hawkish and more balanced tone, placing greater emphasis on the resilience of inflation expectations and the transitory nature of recent price pressures, while reducing the focus on external inflationary risks. The BCU highlighted that two-year-ahead inflation expectations remained well anchored, with analysts' expectations stable at 4.5%, financial market expectations edged up only marginally to 4.67%, and firms' expectations unchanged at 5.0%. In our view, this reinforces the Board's assessment that temporary supply shocks are unlikely to trigger more persistent inflationary dynamics. We estimate the ex-ante real policy rate at 0.98%, still well below the BCU's neutral real rate estimate of 2.5%, suggesting that the monetary policy stance remains accommodative. Regarding the balance of risks to inflation, the Board pointed to international conflicts and potential El Niño-related weather disruptions as upside risks, while a weaker U.S. dollar and lower commodity prices were identified as key downside risks.

Ex-ante real interest rate



Source: BCU, INE, Bevsa

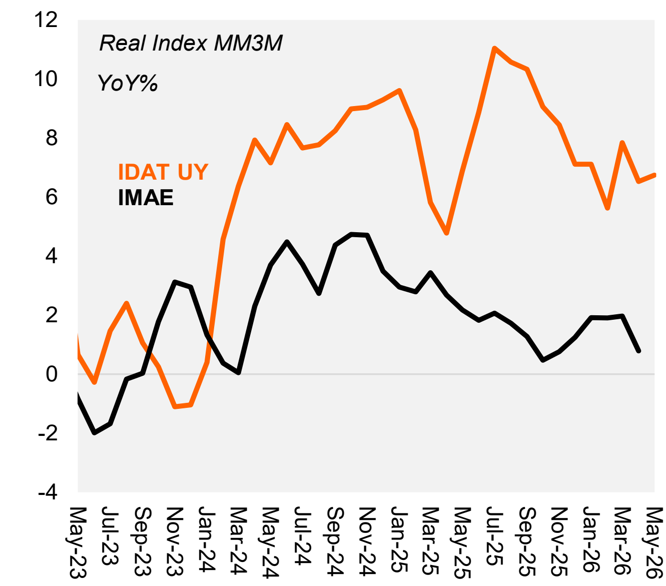
Gradual loss of momentum across activity indicators

The central bank's monthly GDP proxy (IMAE) declined 1.6% MoM/SA in April, leading to a 0.5% QoQ/sa growth in the quarter ending in April (down from 0.8% in 1Q26). On an annual basis, the IMAE fell by 1.3% in April and rose by 0.2% in the quarter ending in that month (down from 0.9% yoy in 1Q26). The statistical carry-over for 2026 stood at 0.1%. Our forecast for 2026 stands at 1.2%, down from 1.8% in 2025, mostly due to this year's drought effects on the primary sector.

However, the CERES Leading Index (ILC) for economic activity rose sequentially by 0.3% MoM in May, increasing for the second consecutive month for the first time this year.

Finally, our activity indicator (IDAT-UY) reveals a moderation in consumption dynamics following the strong momentum observed at the beginning of the year. The indicator rose by 6.7% YoY (3MMA) in the three months ended in May, down from 7.8% in 1Q26 and slightly below the 7.1% pace recorded in 4Q25. The deceleration was largely driven by goods-related spending, with the goods component easing to 5.2% YoY from 7.2% in 1Q26 and 7.5% in 4Q25, reflecting softer growth across several durable and semi-durable categories. Services grew by 6.9% YoY, down from 7.5% in 1Q26, although remaining above the 6.2% growth rate registered in 4Q25.

IDAT UY vs. IMAE

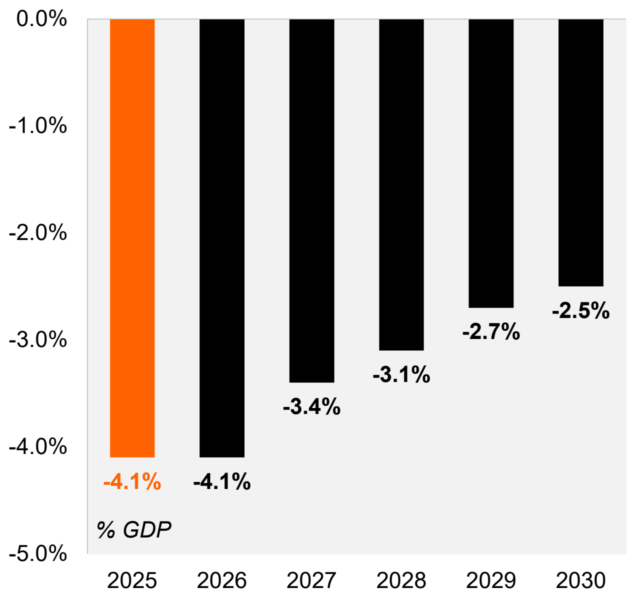


Source: Itaú, BCU

Accountability Bill: Softer Growth Outlook, Fiscal Anchors Preserved

The Accountability Bill updates official macroeconomic projections, revising the 2026 GDP growth forecast down to 1.6% (from 2.2%) amid weaker domestic demand, while raising the YE26 inflation forecast to 4.8% (from 4.4%), before converging to 4.5% from 2027 onwards. Household consumption growth was also lowered, reflecting a softer activity outlook. On the fiscal side, the government maintains a gradual consolidation path, with the central government deficit narrowing from 4.1% of GDP in 2025-26 to 2.5% by 2030, although at a slightly slower pace than previously envisaged. The bill includes targeted increases in social spending—mainly focused on early childhood and vulnerable households—but these are expected to be fully financed through reallocations and efficiency gains, preserving fiscal targets and the existing debt strategy, with no changes to fiscal anchors or measures related to the pension system and AFAPs.

Fiscal Balance (Central Government - BPS)



Source: Budget bill

BCU still on hold

We maintained our 2026 GDP growth forecast at 1.2%, down from 1.8% in 2025, mainly reflecting the negative supply shock caused by this year's drought. Beyond weather-related effects, the external backdrop has become somewhat less supportive, with a stronger U.S. dollar and tighter global financial conditions adding headwinds to domestic demand.

We kept our YE26 inflation forecast at 4.9%, with inflation converging to 4.5% by YE27. While recent declines in fuel prices have eased some external cost pressures, risks related to the El Niño phenomenon have become more relevant. Adverse weather conditions could affect agricultural production and food prices, potentially generating second-round effects and delaying inflation convergence.

We maintained our monetary policy rate forecast at 5.75%, accommodative in real ex-ante terms, in the context of anchored inflation expectations, well-behaved core inflation, and building slack in economic activity.

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Uruguay | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	4.6	0.8	3.3	1.8	**1.2**	1.2	**1.5**	1.5
Nominal GDP - USD bn	70.7	78.0	81.3	85.0	**92.3**	92.4	**96.3**	96.5
Population (millions)	3.5	3.5	3.5	3.5	**3.5**	3.5	**3.5**	3.5
Per Capita GDP - USD	20,253	22,276	23,174	24,192	**26,201**	26,220	**27,338**	27,382
Unemployment Rate - year avg	7.9	8.3	8.2	7.4	**7.6**	7.6	**7.6**	7.6
Inflation								
CPI - %	8.3	5.1	5.5	3.6	**4.9**	4.9	**4.5**	4.5
Interest Rate								
Reference rate - eop - %	11.50	9.00	8.75	7.50	**5.75**	5.75	**6.50**	6.50
Balance of Payments								
UYU / USD - eop	39.9	38.9	44.1	39.0	**40.5**	39.5	**41.0**	40.0
Trade Balance - USD bn	-0.8	-2.5	-1.5	-0.9	**-2.0**	-2.0	**-1.3**	-1.3
Current Account - % GDP	-3.6	-3.0	-0.8	-0.4	**-1.2**	-1.2	**-0.5**	-0.5
Foreign Direct Investment - % GDP	4.1	4.0	-3.2	0.5	**1.5**	1.5	**1.5**	1.5
International Reserves - USD bn	15.1	16.2	17.4	19.0	**19.5**	19.5	**19.5**	19.5
Public Finance								
Nominal Balance Central Gov. (*) - % GDP	-3.0	-3.3	-3.4	-4.1	**-4.1**	-4.0	**-3.4**	-3.5
Gross Public Debt Central Gov. - % GDP	56.7	58.3	62.3	60.5	**61.2**	61.2	**61.4**	61.4

Source: FMI, Haver, Bloomberg, BCU, Itaú.
(*) Excludes extraordinary inflows to the Social Security Trust Fund.

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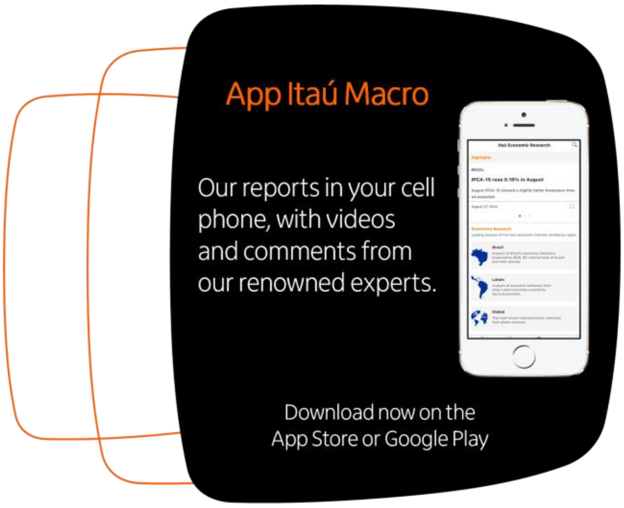

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