

# Uruguay: regime consolidation in a fluid landscape

April 2026



BANCO CENTRAL  
DEL URUGUAY

# Key Themes

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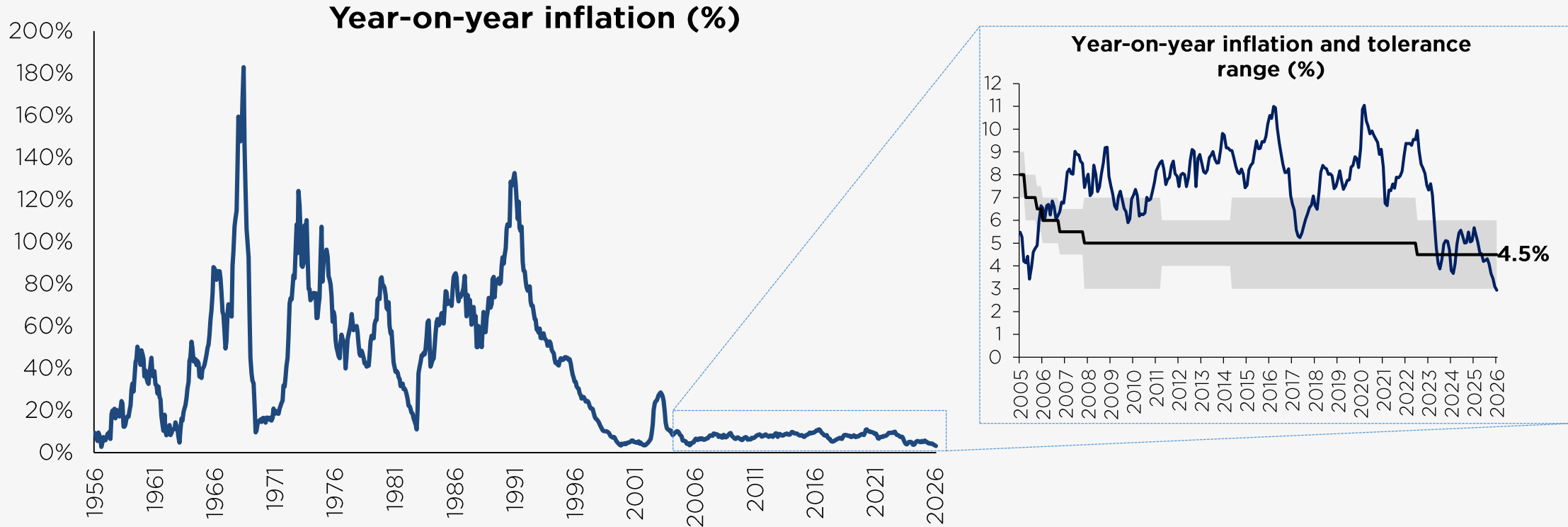
- I. Consolidation of the Monetary Regime
- II. The Macroeconomic Backdrop
- III. Adaptive Policymaking
- IV. Risk Assessment

# I. CONSOLIDATION OF THE MONETARY REGIME

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*Establishing credibility that lasts*

# Lowest inflation in 70 years

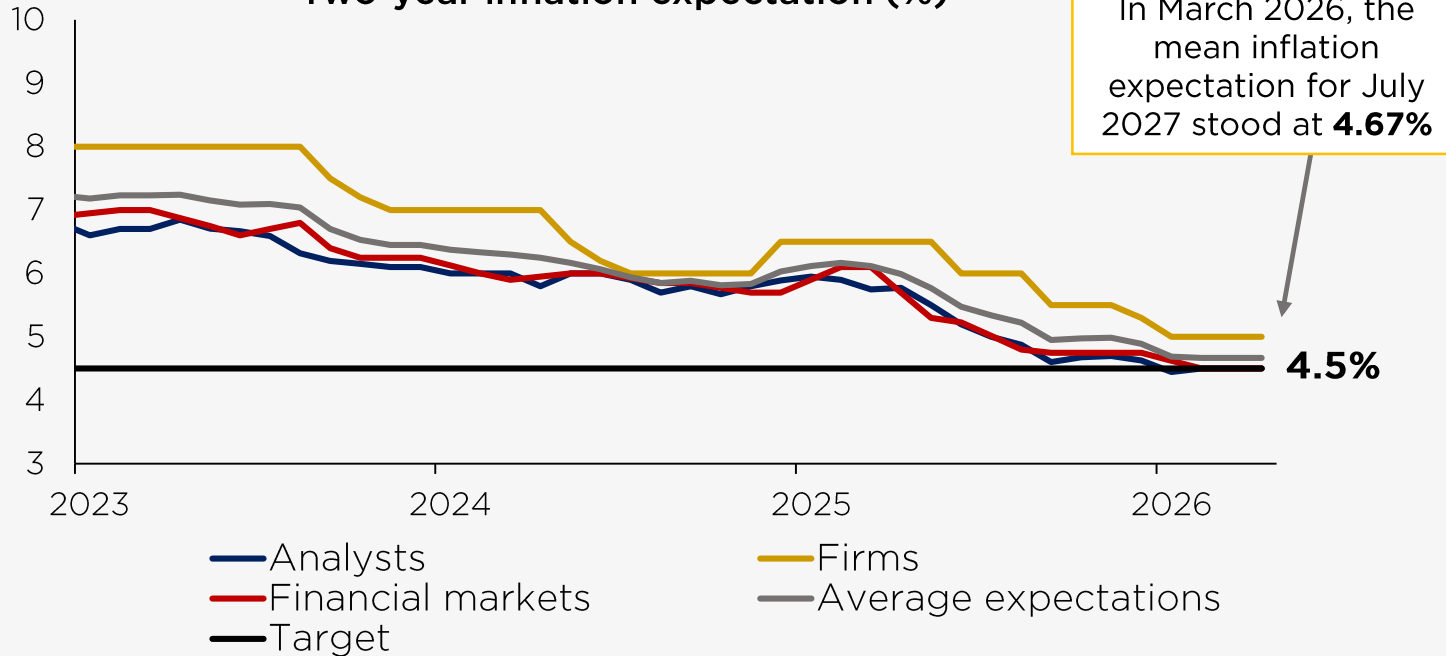


Source: INE

- ▶ Since entering the target range, inflation has average 4.6 percent.
- ▶ Almost 3 years within the tolerance range.

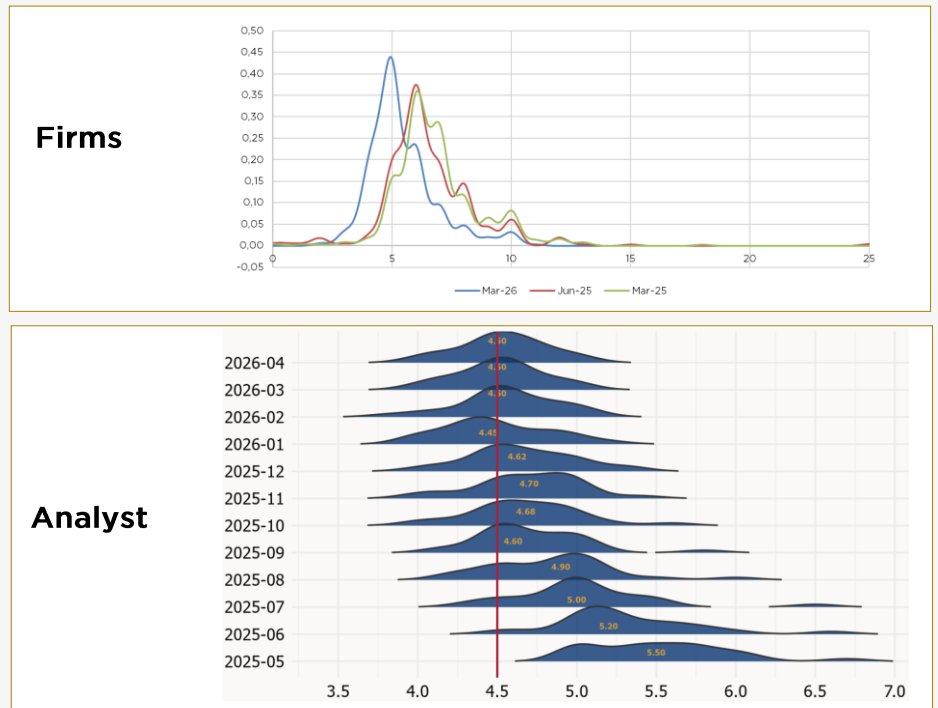
# Anchored Expectations: The Hallmark of a Credible Regime

Two-year inflation expectation (%)



Source: BCU, INE

Distribution of 24-month inflation expectations



- ▶ Analysts and financial markets expectations are aligned with the target — virtually at target.
  - ▶ One-year breakeven inflation (3,82%) suggests market expectations are firmly anchored.
- ▶ Firms' expectations continue to decline, approaching the target.

- ▶ **Expectations appear with a more concentrated distribution and reduced dispersion relative to earlier readings.**

# Regime Credibility: foundations

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1

## Institutional Strength

- Commitment transcending CB Boards
- Strengthened Independence
- Revamped communications

2

## Macro Strength

- Record international reserves provide a substantial external buffer.
- No external imbalances.
- Uruguay's export diversification further insulates the economy from external shocks.

3

## Market attractiveness

- AFP holdings of domestic debt have reached an all-time high, deepening the domestic investor base and reducing external financing dependence.
- Inflation and FX volatility now comparable to peers in the region and approaching A- rated benchmarks (Chile, Mexico).

4

## Strong technical infrastructure

- CBU's inflation forecasts have shown no systematic bias — errors are symmetric and shrinking.
- CBU forecast accuracy consistently outperforms private analysts

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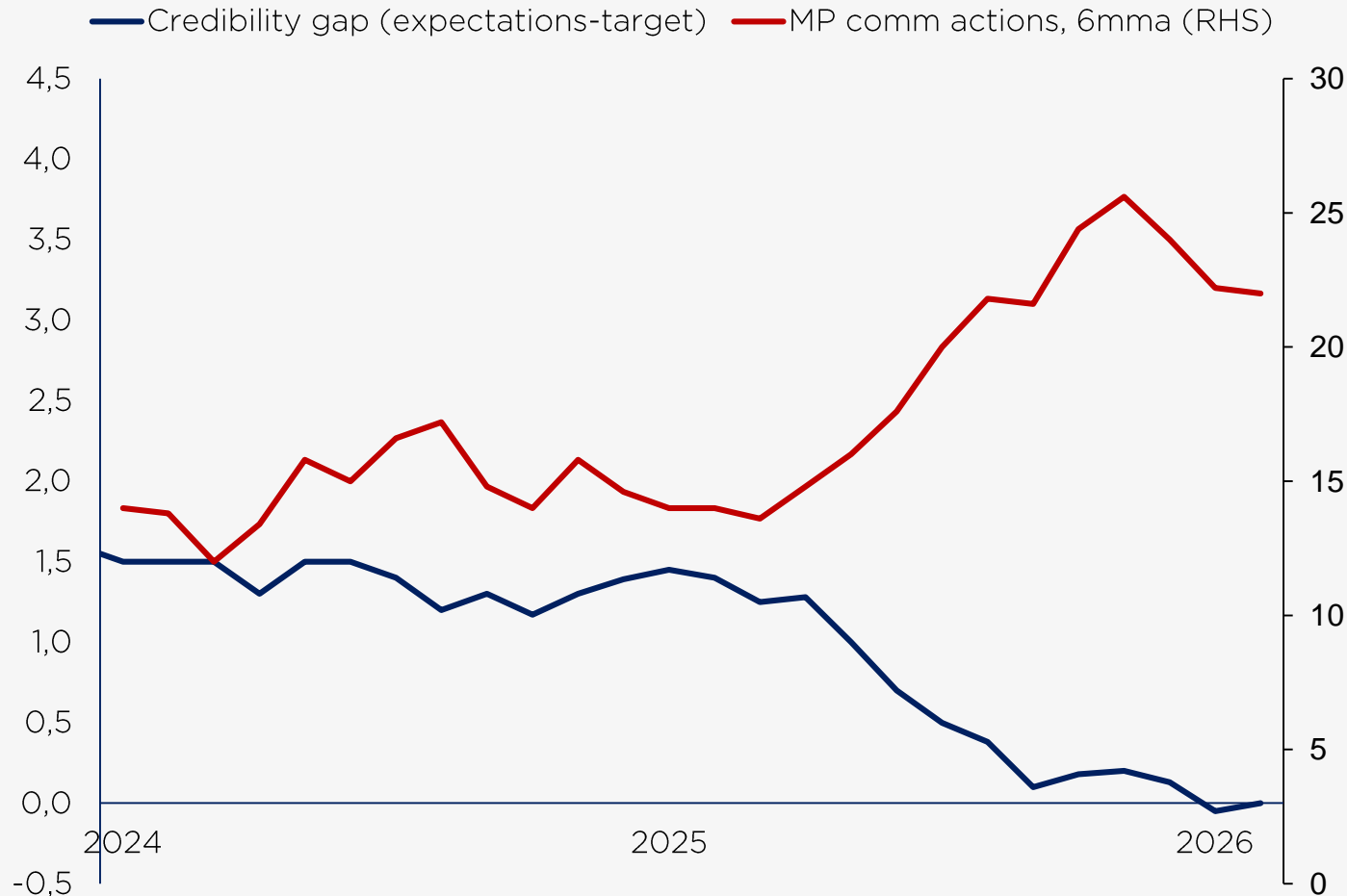
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# Regaining Institutional Strength

## Credibility and monetary policy communication



Source: BCU

- ▶ Commitment transcending CB Boards
- ▶ Strengthened Independence
- ▶ A revamped communication strategy and active coordination of expectations has helped close the credibility gap since April 2025.



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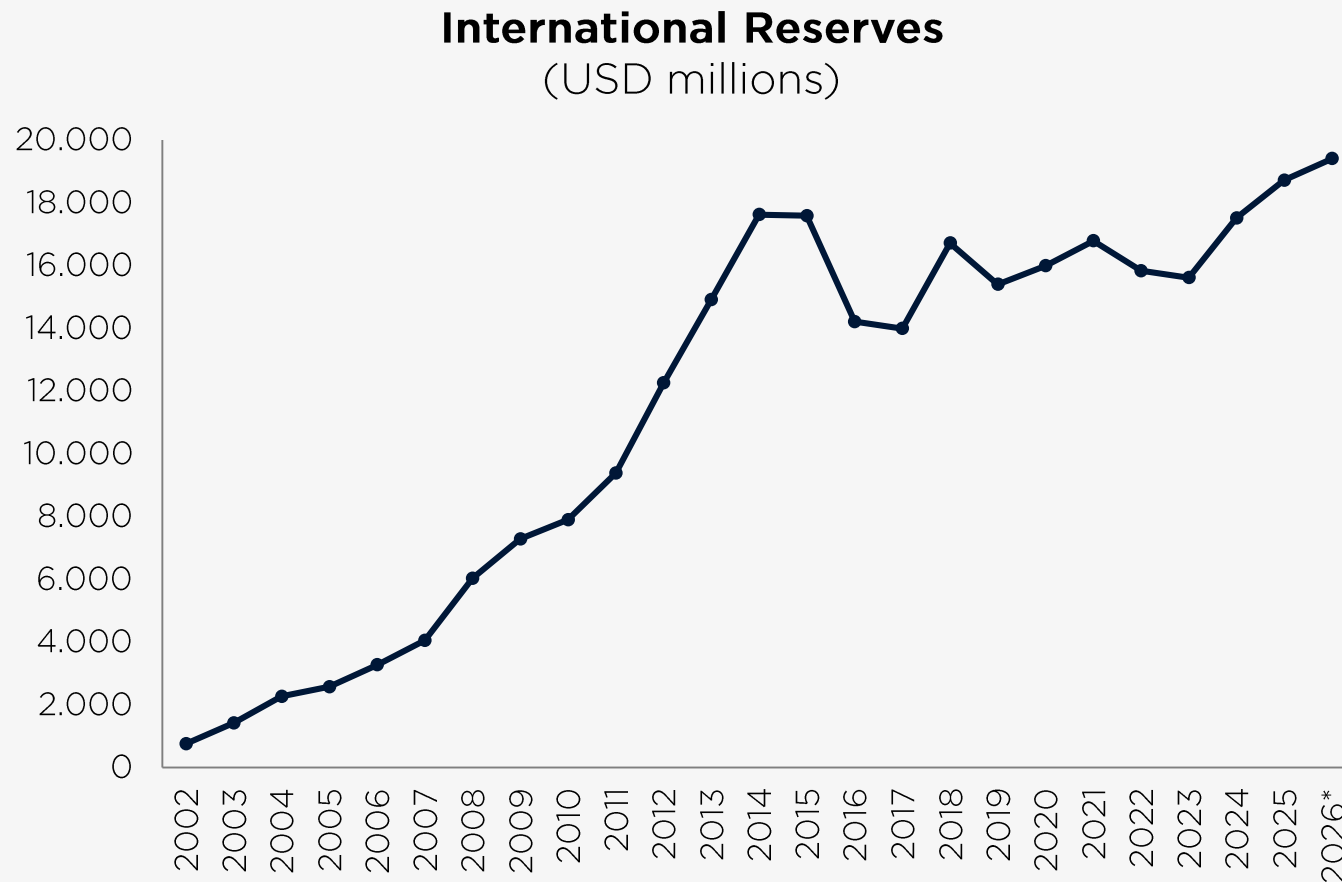
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# Macro Strength: Ample buffers

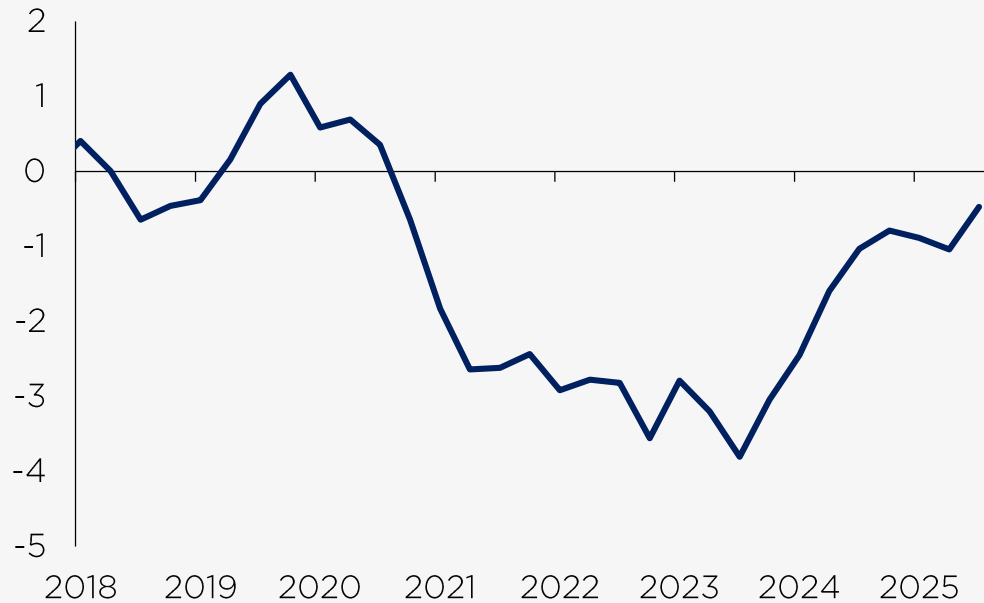


Source: BCU

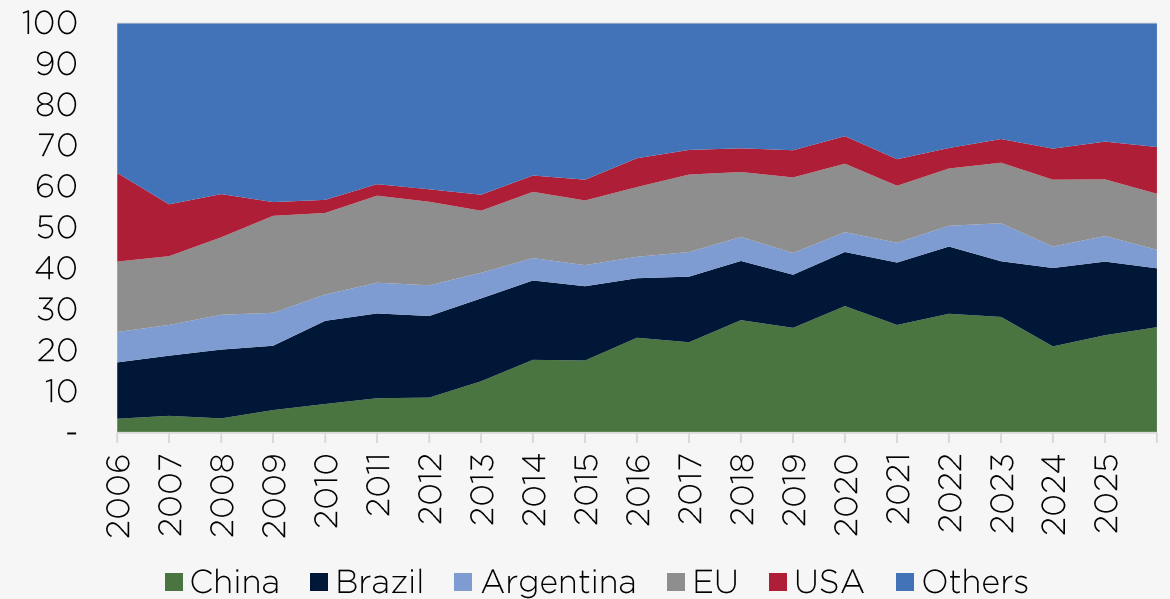
- ▶ International reserves at an all-time high domestically, and among the highest in the region.

# Macro Strength: No External Imbalances in Sight

Current Account Balance (% PBI)



Uruguayan export destinations  
(% of total)



Source: BCU, Uruguay XXI

- ▶ No external imbalances — current account deficit of just 0.5% of GDP.
- ▶ Resilient economy in the face of trade shocks

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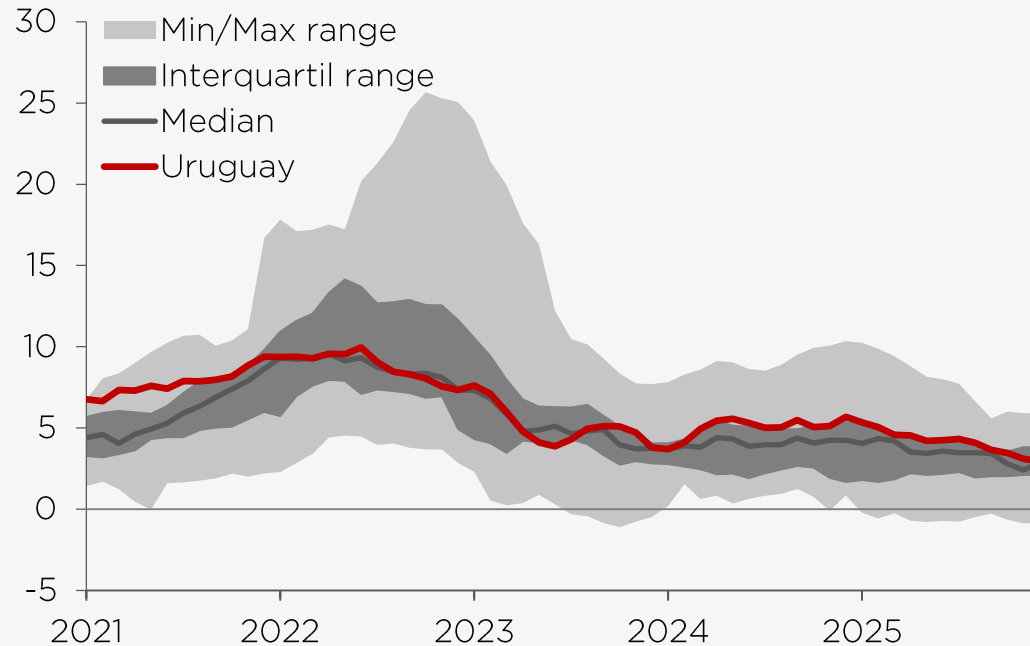
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# Inflation and FX volatility are low compared to peers

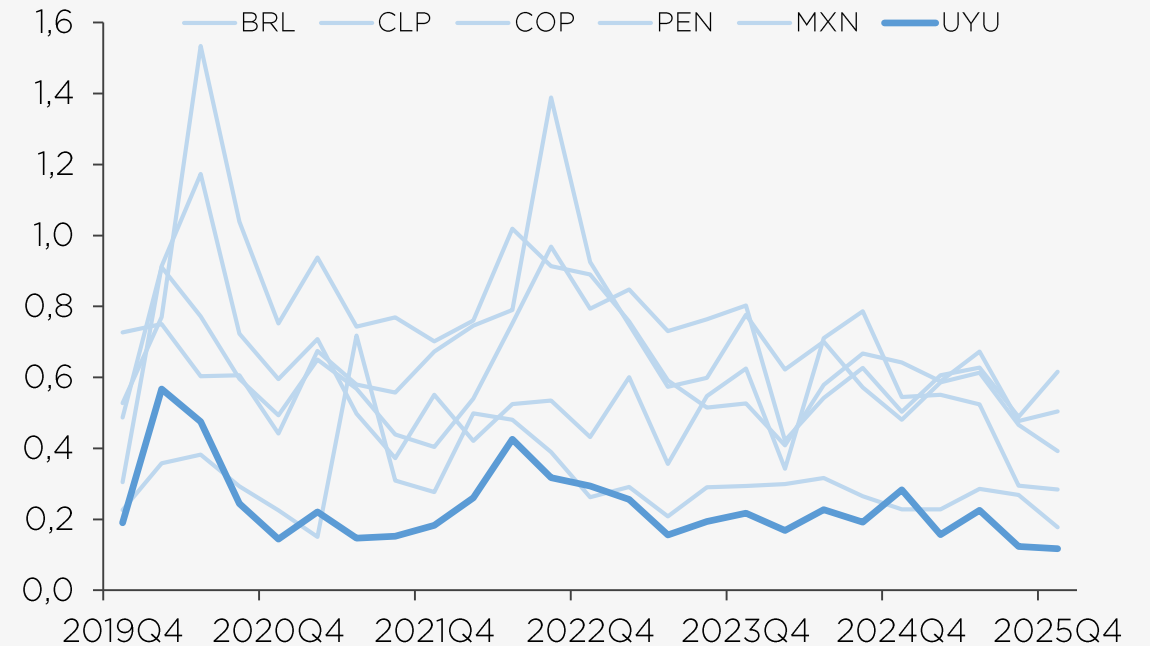
**Uruguay: inflation compared with EMs (%)**



Source: Oxford Economics

**Nominal exchange rate volatility**

Quarterly average of the absolute daily percent change

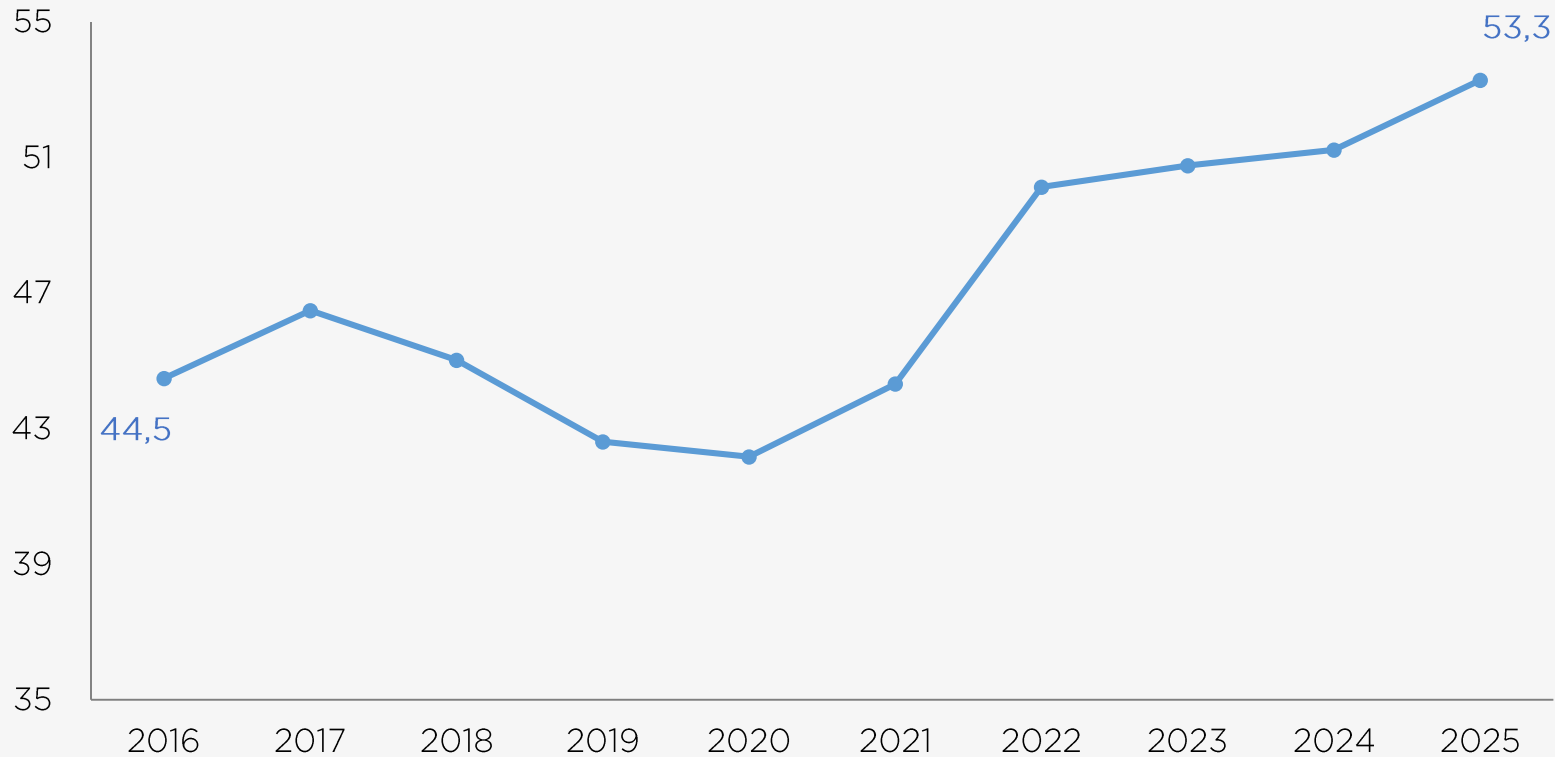


Source: Debt Management Unit

- ▶ Inflation levels and volatility have been among the lowest in the region in 2022-2025.
- ▶ FX vol is the lowest in the region, without intervention from the central bank.

# A Stable Macro Environment Translated in Market Attractiveness

Central government debt held by residents  
(% of total)



Source: BCU

- ▶ Resident holdings increased steadily by around 1 p.p. per year, reaching a historical high

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*Uruguay's regime is not a one-off — it is backed by institutional strength, unbiased forecasts, a deepening domestic investor base, record reserves. The framework has infrastructure that makes it durable.*

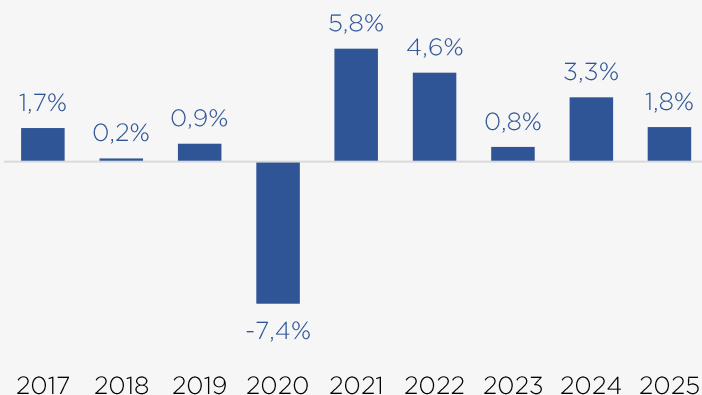
## II. MACROECONOMIC BACKDROP

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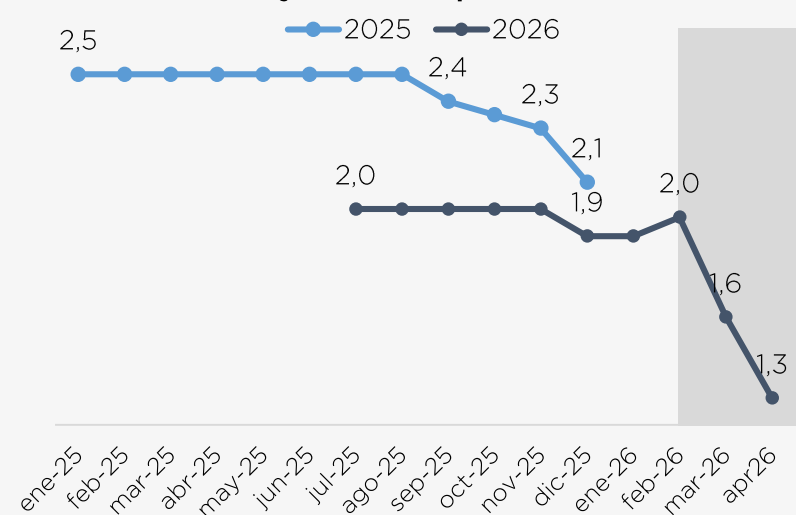
*A decelerating economy in a volatile global context*

# Softer activity

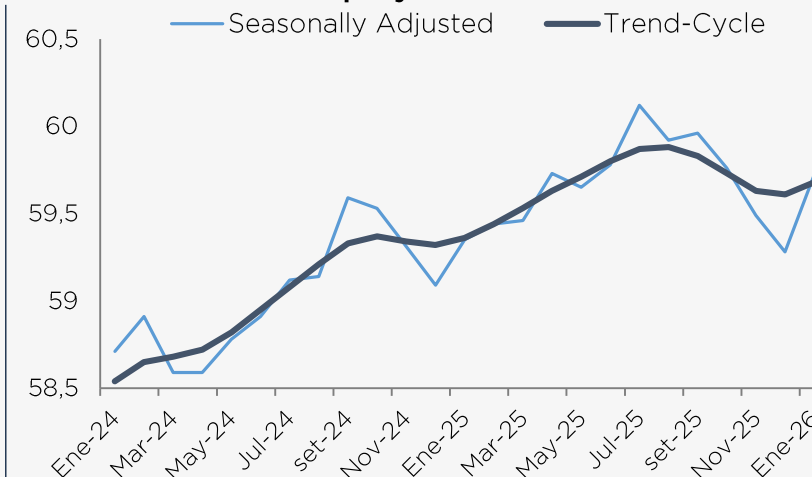
Real GDP growth



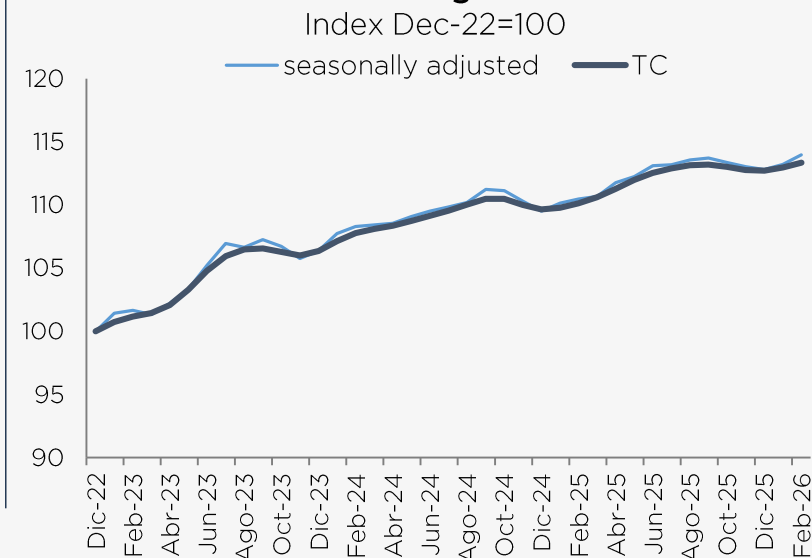
Analyst GDP Expectations



Employment Rate

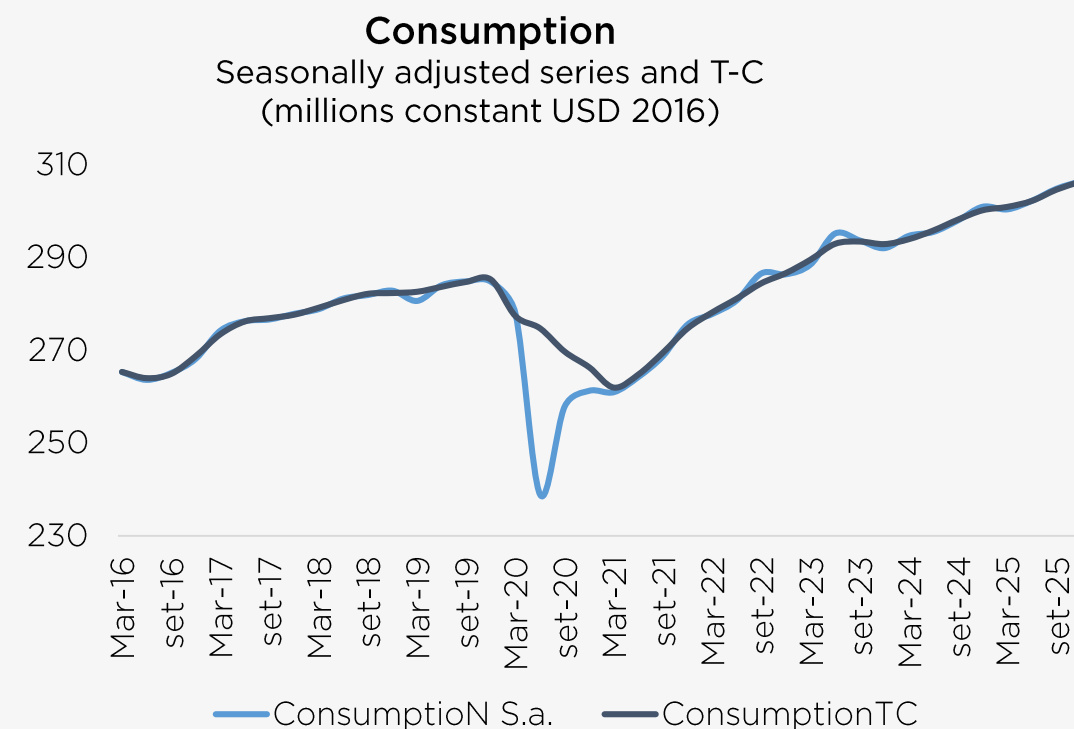
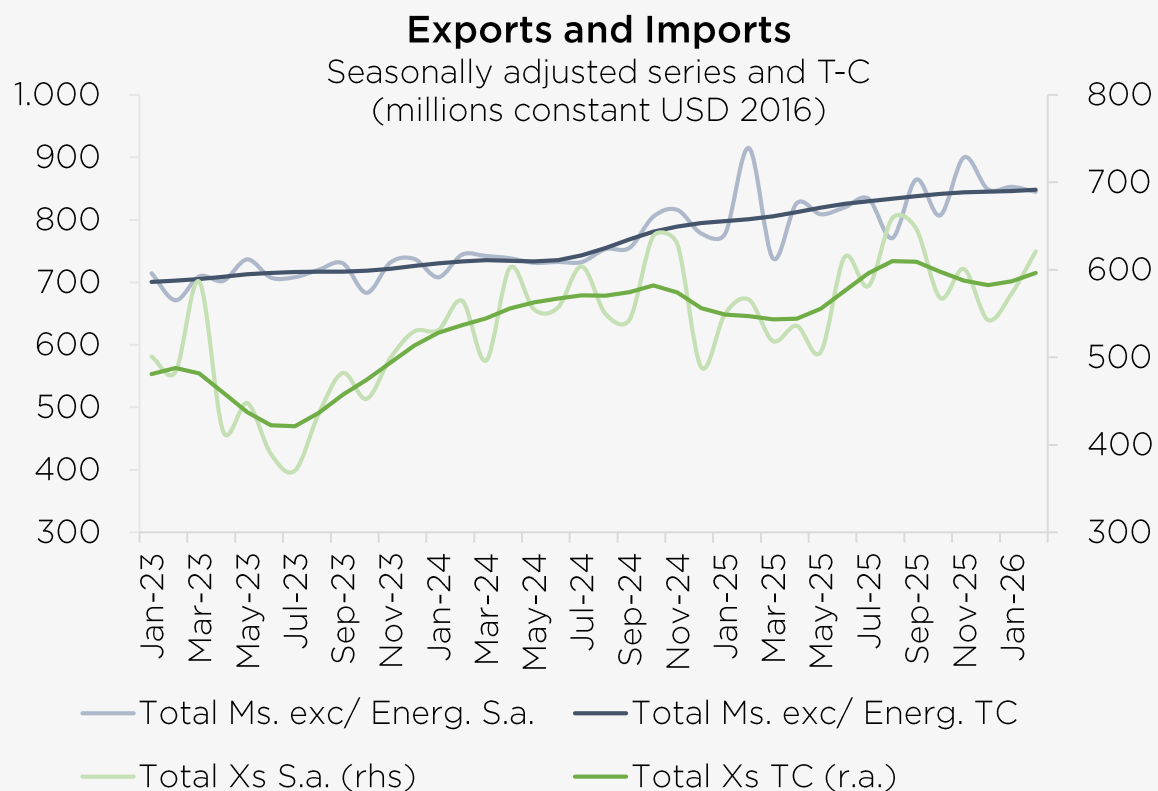


Real Wage Bill



- ▶ After outperforming in 2024, the economy surprised to the downside through 2025. Uruguayan economy grew 1.8% in 2025, with two distinct speeds: a stronger H1 followed by a notable slowdown in H2.
- ▶ Growth projections for 2026 have since been revised down sharply, reflecting a weaker-than-expected recovery path since the outbreak of the war.
- ▶ Labor market showed resilience overall, though the seasonally adjusted employment rate softened from its July peak through December before partially recovering in early 2026.
- ▶ These dynamics are fully consistent with inflation undershooting – that was also see

# Behind the H2 Slowdown

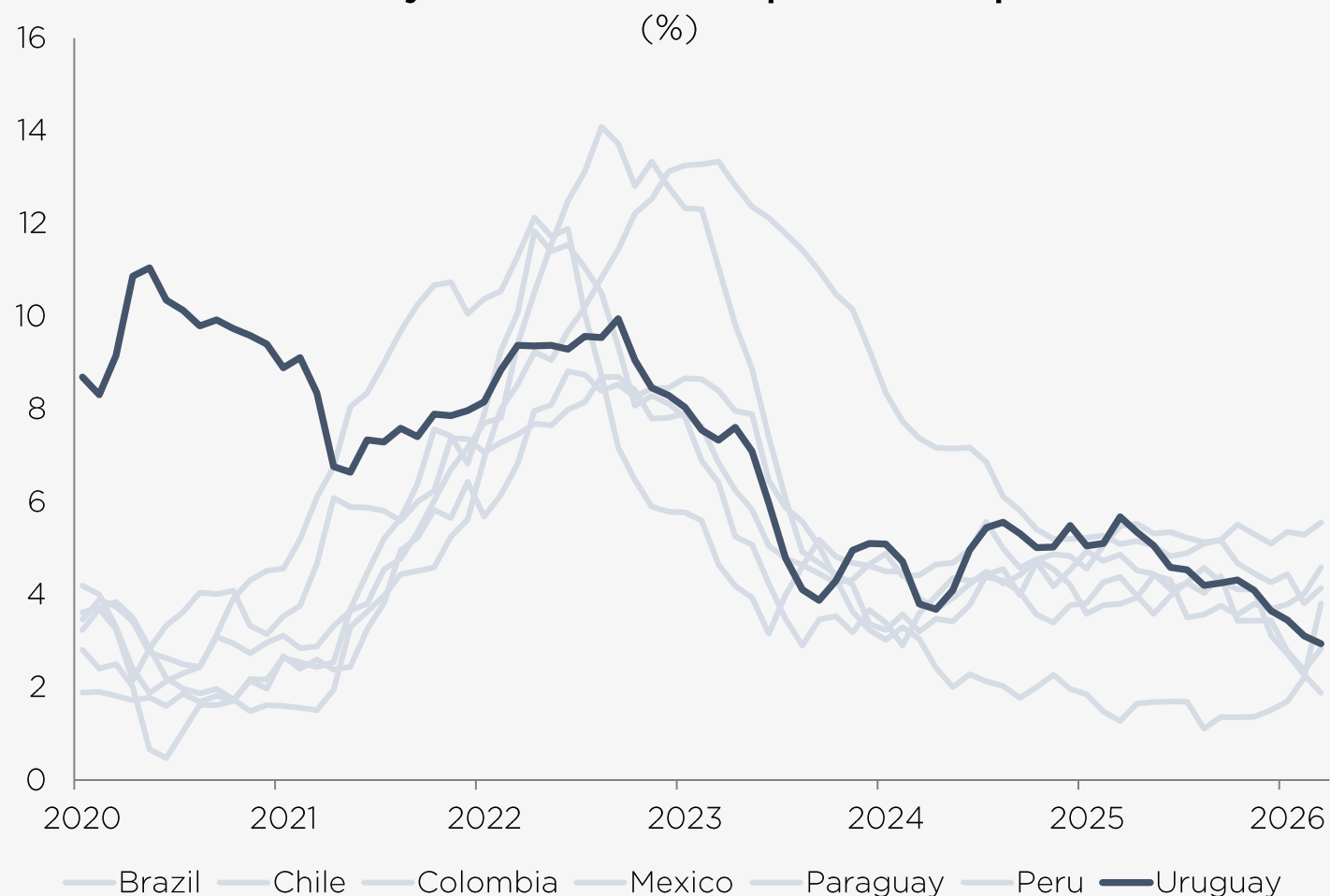


Source: BCU, ASCOMA

- ▶ **Agricultural base effect** — The most recent summer harvest came in below the previous season's record levels, creating an unfavorable base effect that weighed on agricultural exports and GDP.
- ▶ **Compression of net exports** — The trade balance remained positive but narrowed, as import growth outpaced export growth — consistent with the appreciated peso making imported goods relatively cheaper.
- ▶ **Consumption growth moderated**

# Inflation declining faster than peers

Year-on-year inflation compared with peers



Source: INE, Haver

► **Inflation has been falling fast:**

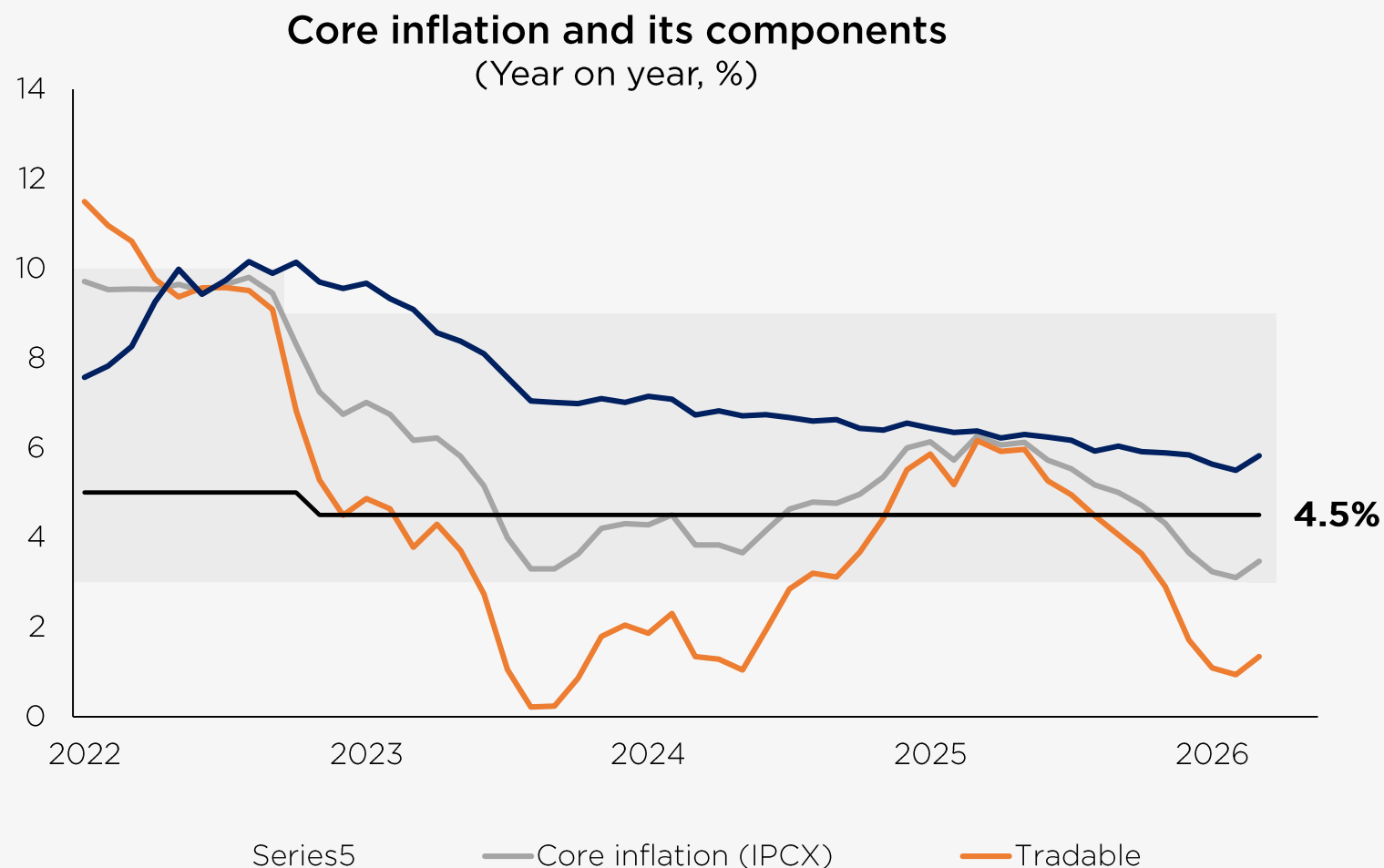
- Increased credibility
- Falling exchange rate amid dollarized prices
- Weakening economy

► **Among the sharpest inflation declines in the region** — while peers were still navigating elevated price pressures, Uruguay had already converged to target. The policy risk was no longer overshooting — it was undershooting

► **However, renewed conflict in the Middle East introduces upside inflationary risks** — though Uruguay's parametric fuel pricing and transport electrification structurally limit the pass-through to CPI in the short run.



# Non-Tradables: More Resilient to Exchange Rate and Within the Target range

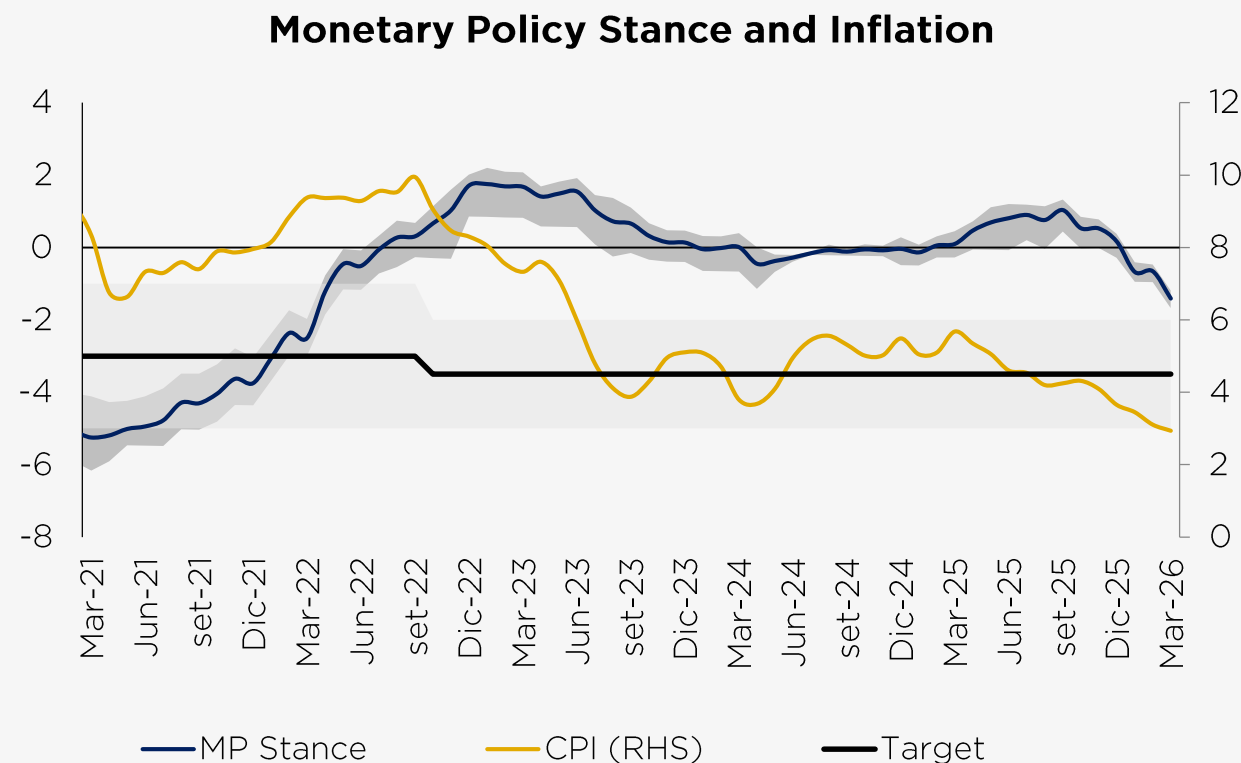
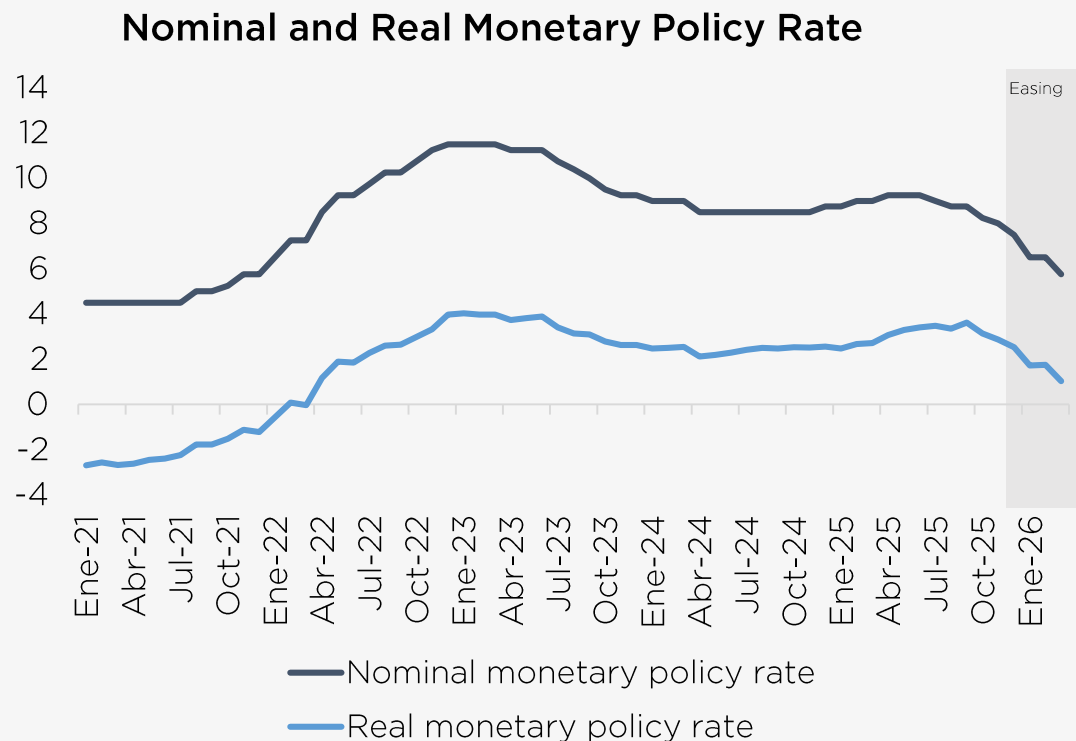


- ▶ Typically the stickier component, non-tradable inflation responds to expectations and wages — not to exchange rate movements
- ▶ **For the first time in decades**, it got inside the tolerance range — a direct reflection of anchored expectations and the wage guideline framework
- ▶ Historically, persistent services inflation was **the Achilles heel of Uruguay's disinflationary efforts** — driving relative price distortions and external imbalances for 80 years. **Its convergence signals a qualitative shift in the regime.**
- ▶ **March data shows a slight uptick**, but this reflects transitory effects — the underlying trend remains intact

# III. ADAPTIVE POLICYMAKING

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# CBU responds with conviction on both sides of the band



Source: BCU

- Policymaking amid strengthening credibility: rate cuts (350bps) steeper than actual easing of the stance (230 bps)
- The 100bps cut is the orthodox response to sub-target inflation and below-potential output



# CBU responds with conviction on both sides of the band

## Data Driven Decision

Inflation and its forecast consistently below target, the output gap turned negative as activity consistently underperformed. The full set of macro indicators pointed unambiguously toward easing.

## Dollarized Economy, Weaker Credit Transmission Channel

~70% of resident deposits and ~50% of loans are USD-denominated. Peso rate transmission is structurally weaker.

## Short Track Record Requires a Clearer Signal

Central banks with deeper credibility can rely on incremental moves alone. For a regime front-loading a more decisive action sends a clearer signal and reduces the risk of an extended period below target.

## Asymmetric Risk Management

Cutting too little carries a higher cost: inflation falling below the 3% floor would undermine the symmetry of the target. Responding with conviction on both sides of the band is what a credible framework demands.

# CBU's Own Words — March 2026 COPOM Statement

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*"The Committee viewed positively the alignment of inflation expectations with the target.*

*(...) Historical episodes suggest the inflationary effects of the Middle East conflict would not persist significantly over time. (...) The Committee assigned greater weight to disinflationary factors given their higher likelihood of persistence.*

*(...) In this dynamic and volatile context, the COPOM will continuously monitor the evolution of these developments and their implications for inflation and expectations, in order to inform future monetary policy decisions."*

Note: this statement was issued on March 2, just five days after the conflict's escalation — at a moment when information was still scarce and rapidly evolving. The decision reflects a framework capable of making sound judgments even under high uncertainty.

## IV. OUTLOOK AND RISKS

# Oil Price Impact: Why Uruguay Is Structurally Insulated

## 1 Electrification of Transport

Structural decline in fuel consumption.  
~50% of vehicle sales is electric.

## 2 Falling Fuel Import Dependency

Uruguay's 98%+ renewable electricity generation reduces petroleum exposure in power.

## 3 Parametric Fuel Pricing Rule

- ANCAP follows a parametric pricing formula rather than direct pass-through, smoothing international price swings and preventing oil spikes from feeding into CPI immediately.
- An additional buffer: domestic fuel prices were already trading well above international levels prior to the shock, limiting near-term upward pass-through.

## 4 Muted CPI Impact

Transportation = 10% of CPI basket. Fuel is a subset.  
Combined with parametric smoothing and electrification, even a 20% oil spike would translate to <0.5pp of CPI within the policy horizon.

*Uruguay's renewable energy base, parametric pricing and transport electrification structurally decouple oil prices from domestic CPI*

# Balanced Risks

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## **Downside risks:**

- Persistent peso appreciation — global dollar weakness extending, pushing inflation further below target
- Weak agricultural season — drought-affected summer harvest weighing on exports and activity
- Deeper-than-expected economic slowdown amid souring global sentiment.

## **Upside risks:**

- Middle East conflict escalation — potential pass-through via oil prices, fertilizer costs and supply chains. Structurally mitigated by ANCAP's parametric pricing rule and rapid transport electrification
- FX reversal — a global dollar rebound could push tradable prices higher. Non-tradable inflation already anchored provides a partial offset

We continue to monitor both sides of the distribution. Developments subsequent to the March decision — particularly geopolitical tensions — are being closely assessed. Uruguay's structural features limit their direct pass-through to domestic CPI, but their evolution remains a key input for future policy deliberations.

# Key Takeaways

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- A regime rebuilt from scratch: inflation at a 70-year low, expectations anchored at target, ratings at an all-time high
- The slowdown was a confluence of domestic deceleration, a drought-affected harvest, and global dollar weakness. None of it structural
- When inflation threatened to undershoot, the CBU responded with conviction on both sides of the band — as a credible, symmetric framework demands
- The easing cycle is not a departure from the framework — it is the proof that the framework is real

# THANKS

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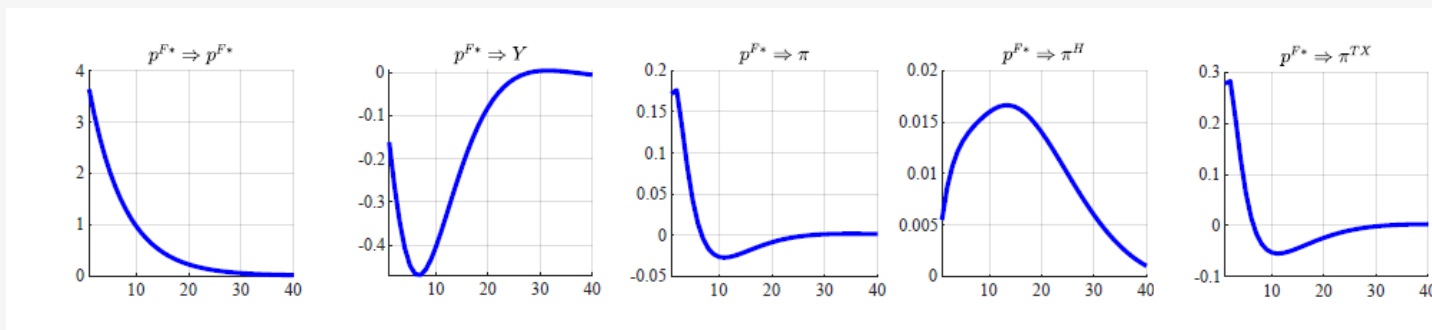
# ANNEX

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# Impulse-Response Analysis of a Supply-Side Shock (DGSE Model)

## IRF: Import Price Shock (~8.6% Oil Price Increase)



## Cumulative Elasticities: Impact of a 1% Increase in $p^*F$

	Inflación	NTX	TX	PIB
0	0.05%	0.00%	0.08%	-0.04%
1	0.05%	0.00%	0.08%	-0.06%
2	0.05%	0.00%	0.08%	-0.08%
3	0.05%	0.00%	0.08%	-0.10%
4	0.04%	0.00%	0.07%	-0.11%

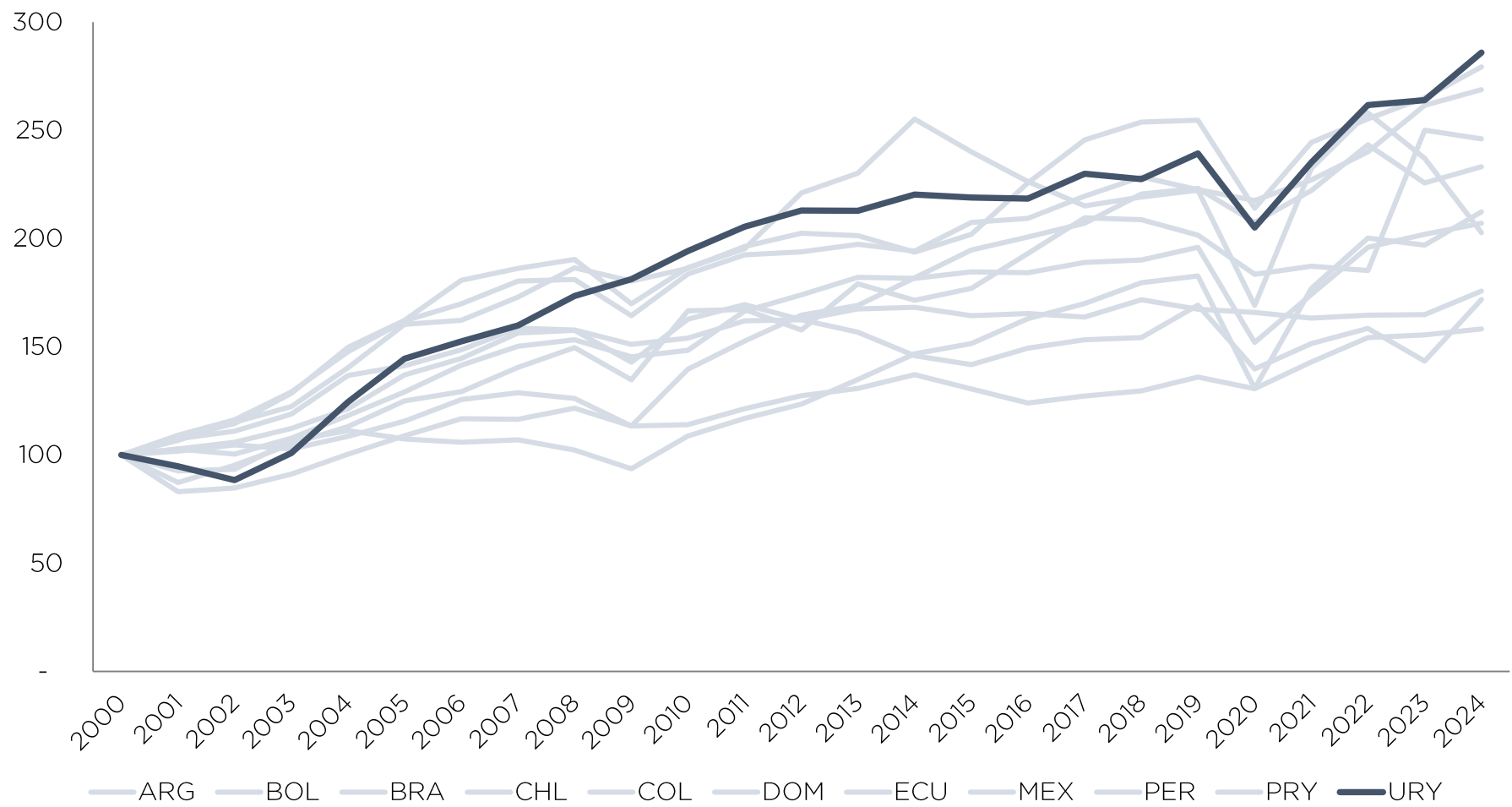
*Uruguay's parametric fuel pricing rule and rapid transport electrification further attenuate this transmission, limiting the pass-through relative to the model's baseline estimate.*

## Challenge

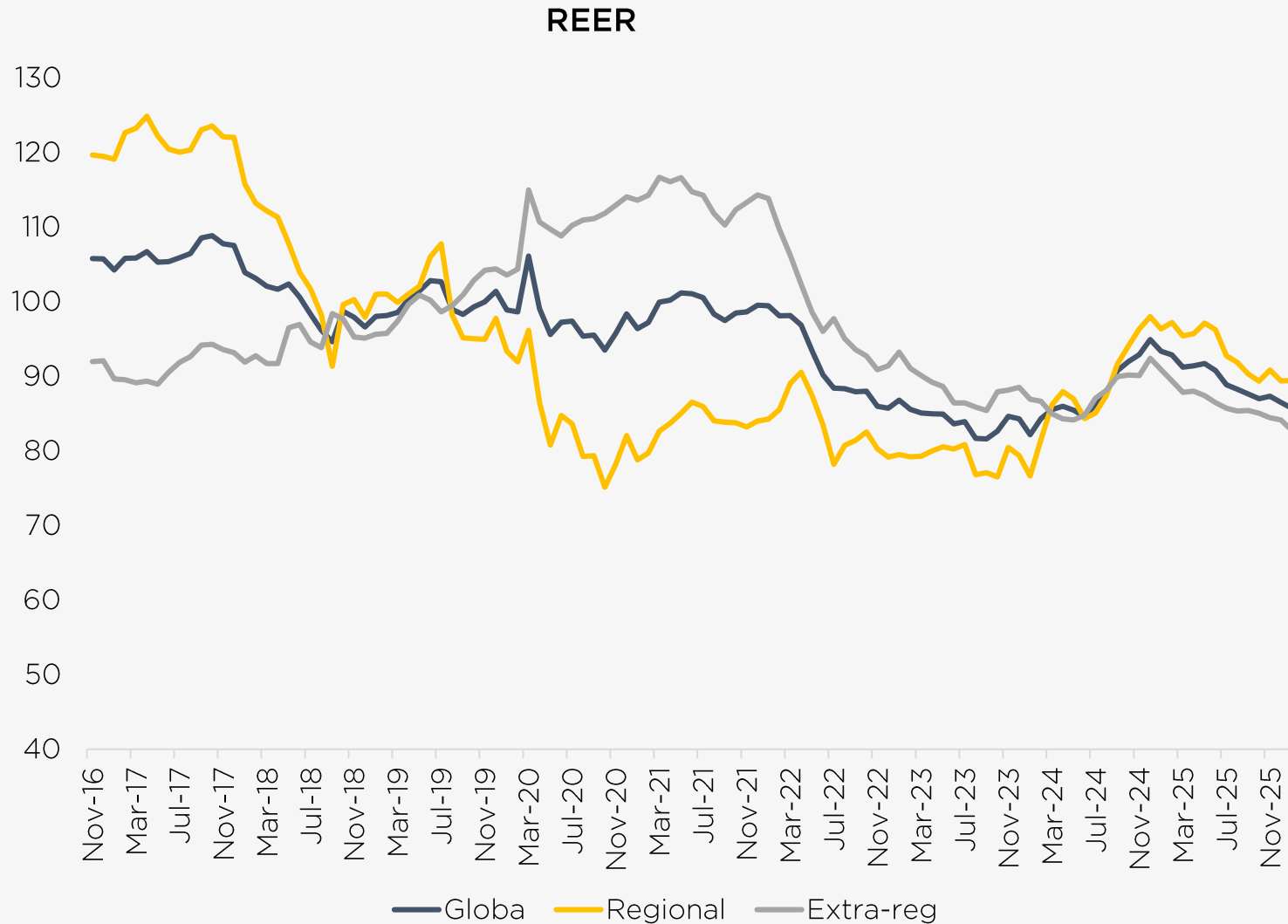
- ▶ The exercise models a shock of 1% to import prices equivalent to an approximately 8.6% increase in oil prices — the transmission channel through which global energy shocks enter the BCU's DSGE model.
- ▶ The shock raises tradable inflation and headline CPI in the short run, while compressing consumption and investment as imported inputs become more expensive. The effect on activity is negative but transitory — the impulse dissipates within the policy horizon.

# Uruguay leads Latam's export growth

Exports of good and services  
Constant USD. Index (2000 = 100)

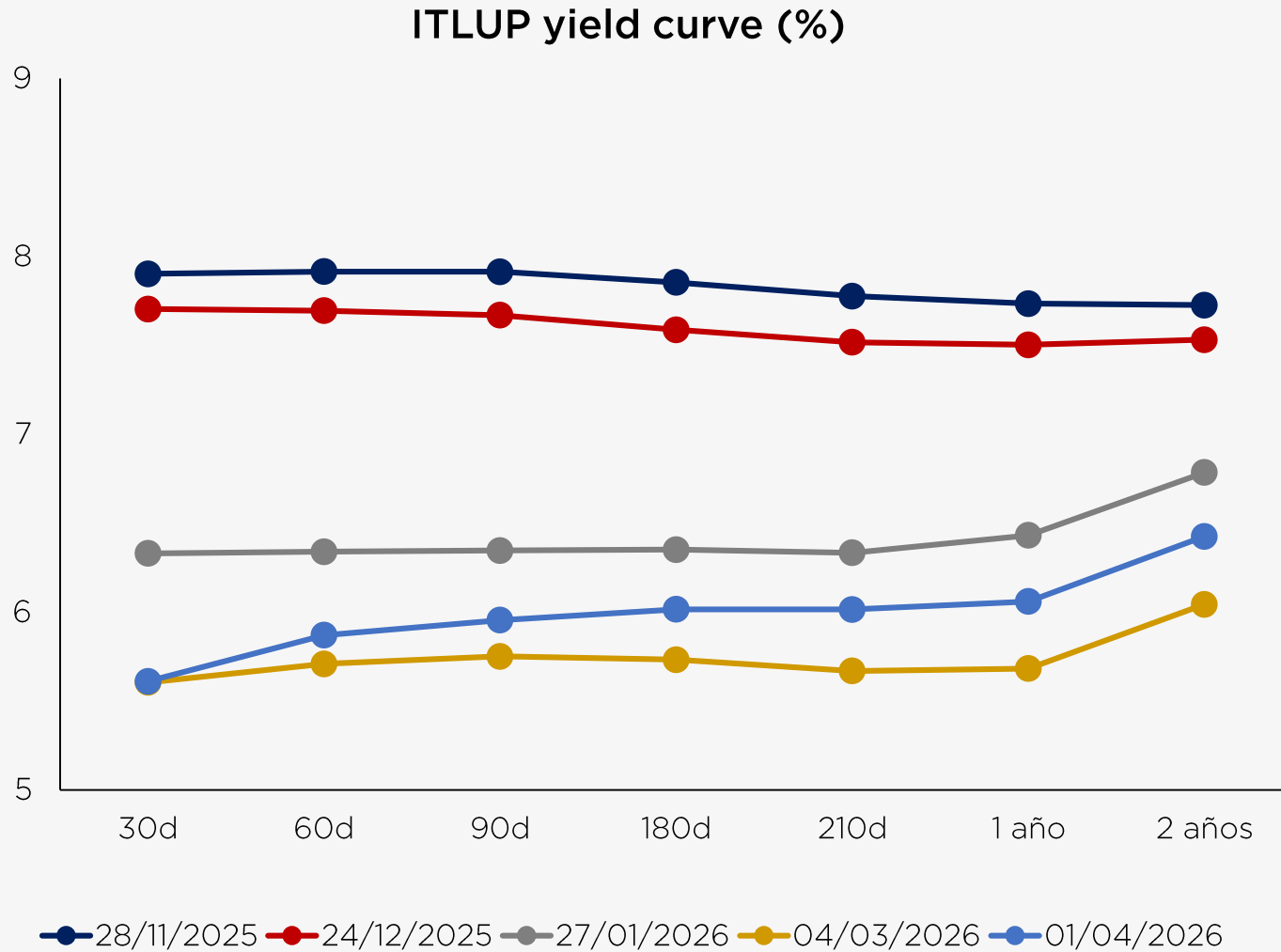


# An appreciated real exchange rate



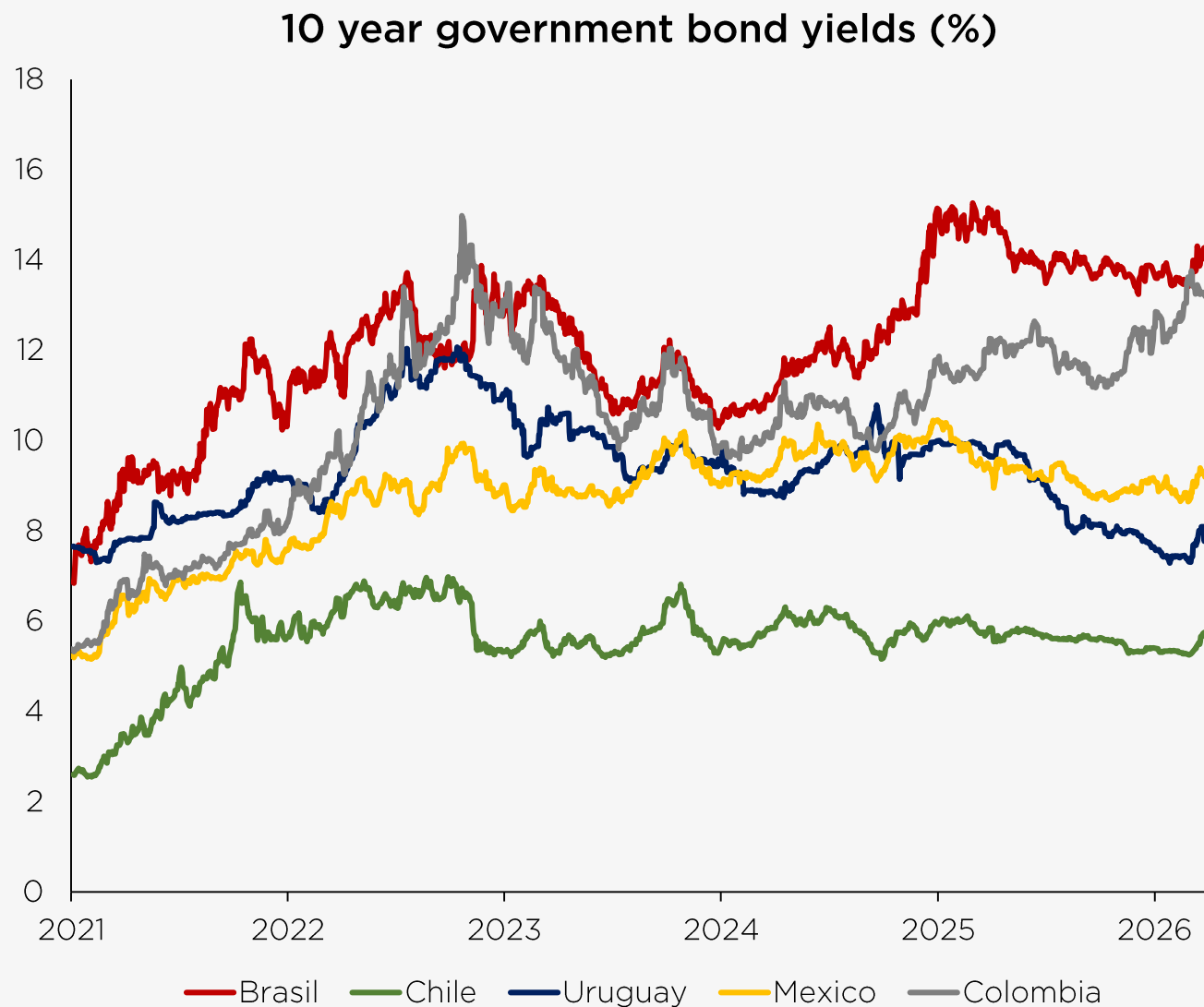
Challenge

# Declining financing costs



- Rapid shift in market expectations since year-end.

# Improving position relative top peers



- ▶ Uruguay was the country with the highest bond yields just a few years ago.
- ▶ Our yields have fallen steadily decoupling from the region.
- ▶ Lower rates are also being transmitted to corporate credit.