

Uruguay

Moderate recovery amid investment constraints

Uruguay's economy should regain some momentum in 2027, although growth will remain moderate. We forecast gross domestic product (GDP) growth of 1.5%, up from 1.0% in 2026. Private consumption should continue to support activity, while recovering exports and softer import growth improve the external contribution. Inflation should ease to 4.6% by year-end. However, weak investment and persistent competitiveness challenges will limit a stronger acceleration.

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Economic activity should recover gradually after a weak and uneven 2026. Indicators point to a loss of momentum after a strong start, particularly in tradable sectors. Drought conditions weighed on agriculture, freight transport and grain-related activities, while manufacturing also weakened. By contrast, private consumption remained resilient, supported by rising real wages, broadly stable employment and credit growth. The 2027 improvement therefore represents a recovery rather than a significant change in Uruguay's underlying growth pace.

Private consumption will continue to be supportive, although its contribution is likely to moderate. We expect consumption to expand by around 1.5% in 2027, after an estimated 2.1% in 2026. Real wages should continue to rise, though more slowly than in recent years, while unemployment is projected to edge up from 7.9% to 8.1%. Credit should continue to support domestic demand, with total lending expected to grow by around 6% in US-dollar terms, and local-currency credit expanding more strongly.

Investment will be one of the main constraints on stronger growth. Beyond a few large-scale projects, capital formation has been relatively low for much of the past decade. The issue appears to be less about sovereign risk — which has fallen significantly — and more about expected returns that are insufficient to trigger a sustained cycle of private investment. High international financing costs, domestic challenges related to energy costs, competitiveness and labour relations will also maintain relevance. With fiscal constraints limiting public investment, stronger medium-term growth will depend largely on measures that improve expected private-sector returns.

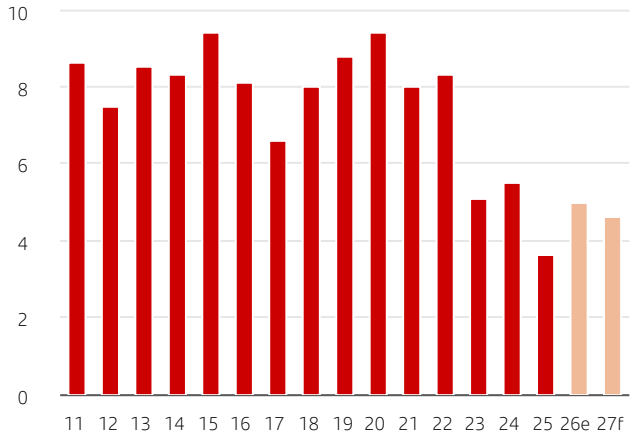
The external sector should contribute more favourably in 2027. After falling around 0.7% in 2026, exports are projected to rise 1.8%, reaching nearly 24 billion US dollars, while import growth will slow below 1%. The current account deficit should narrow from 2.1% of GDP in 2026 to 1.7% in 2027. Weather remains a key risk given potential impacts on agriculture, energy and tourism.

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Inflation should resume a downward trend. After rising to around 5.0% at year-end 2026, partly due to higher international oil prices, we expect inflation to ease to 4.6% by year-end 2027, close to the Central Bank's 4.5% target. Our scenario assumes an orderly depreciation of the peso, from 41 Uruguayan pesos per US dollar at year-end 2026 to around 43 Uruguayan pesos in 2027, while nominal wages will rise by approximately 5.0–5.5%, allowing for a further, though more modest, increase in real wages. With inflation expectations anchored, monetary policy will increasingly depend on the cyclical position of the economy and the Uruguayan Central Bank's estimate of the neutral interest rate. We expect the policy rate to remain at 5.75% at year-end 2027.

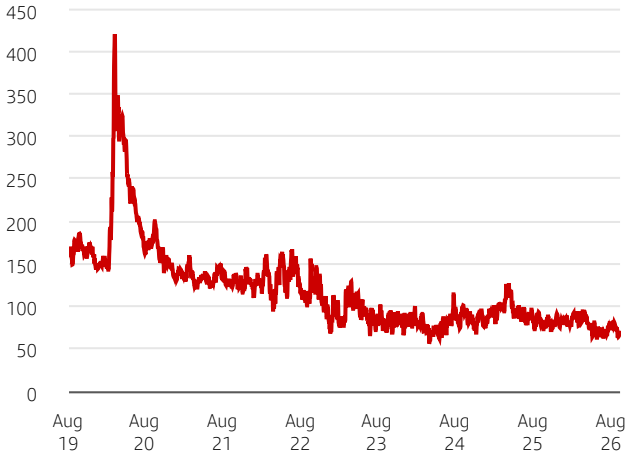
Overall, 2027 should be a year of moderate recovery rather than strong growth. Improving external conditions, continued consumption growth and inflation closer to target should support macroeconomic stability. However, slower real wage gains, limited employment creation and, above all, subdued investment will continue to constrain the pace of expansion. Downside risks are concentrated in adverse weather conditions and a weaker-than-expected recovery in tradable sectors, while improvements in the business environment and investment conditions could support stronger growth.

Uruguay: Inflation is expected to stay close to target
(%, y/y)



Sources: National Institute of Statistics of Uruguay and Santander Research.

Uruguay: Country risk premium remains at low levels
(bps)



Note: Credit risk spread represents the average excess yield demanded by the market on Uruguay's US dollar-denominated sovereign debt over US Treasuries.
Source: BEVSA.

Macroeconomic forecasts

	2026e	2027e	2028e
GDP growth (%)	1.0	1.5	2.0
Unemployment rate	7.9	8.1	8.2
CPI inflation	4.1	4.8	4.3

Source: Santander Research. Annual average.