IMF Country Report No. 25/287

URUGUAY

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR URUGUAY

October 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Uruguay, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 24, 2025 consideration of the staff report that concluded the Article IV consultation with Uruguay.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 24, 2025, following discussions that ended on September 19, 2025, with the officials of Uruguay on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 6, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Uruguay.

The document listed below have been or will be separately released.

- Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 25/352

Inflation IMF Executive Board Concludes 2025 Article IV Consultation with Uruguay

FOR IMMEDIATE RELEASE

- Real GDP growth is expected to reach 2.5 percent in 2025, driven by domestic demand and exports. Inflation is expected to remain around the central bank target of 4.5 percent.

- Macroeconomic risks are broadly balanced. Uruguay's economy remains sensitive to commodity price movements, global financial conditions, and regional developments, but ample liquidity buffers limit the risks. Upside risks include strong agricultural harvests, favorable commodity prices, or opportunities to access new markets, among others.

- Upgrades of the fiscal and monetary policy frameworks are welcome. Prudent fiscal and monetary policies and structural reforms will be key to ensure macroeconomic stability, boost productivity, competitiveness, and resilience to climate-related shocks.

Washington, DC – October 30, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Uruguay.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Uruguay's economy grew strongly in 2024, at 3.1 percent. Agricultural production, which had been affected by a severe drought the previous year, and growing inbound tourism, also contributed to improving the external position. The output gap nearly closed and the unemployment rate ticked down while inflation fell to 4.2 percent in August 2025, below the central bank target. With inflation expectations also declining, the central bank started easing monetary policy in July. In 2024, the fiscal deficit of the central government, including social security, increased to 3.2 percent of GDP, necessitating the activation of the fiscal rule's escape clause. A new administration took over in March 2025, with an agenda that seeks to balance inclusive growth with macroeconomic stability.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the Uruguay and the IMF page.

Fueled by the post-pandemic recovery of real wages, a reduction in domestic uncertainty, and strong tourism flows earlier in the year, domestic demand and exports are expected to support real GDP growth in 2025, to 2.5 percent. Inflation is projected to converge around the central bank target of 4.5 percent, accompanied by a gradual easing of monetary policy. The current account deficit is expected to widen slightly to 1.7 percent of GDP in the medium term, in line with fundamentals. Macroeconomic risks are broadly balanced. Uruguay's economy remains sensitive to commodity price movements, global financial conditions, and regional developments. Ample liquidity buffers, long debt maturities, favorable borrowing conditions, and an increasing share of domestic debt issuances limit near-term fiscal risks, and systemic risks remain contained. Upside risks include strong agricultural harvests, favorable commodity prices, or opportunities to access new markets, among others.

Executive Board Assessment[3]

Executive Directors highlighted the resilience of Uruguay's economy to external shocks, which has been supported by sound macroeconomic policies. They welcomed the authorities' progress in upgrading the fiscal and monetary policy frameworks, which will further buttress economic stability, and underscored the importance of sustaining the reform momentum to boost sustainable and inclusive growth.

Directors welcomed the authorities' commitment to prudent fiscal policy and their five year budget plan to reduce the deficit and stabilize debt in the medium term. Noting that the fiscal deficit is expected to increase in 2025 due to fiscal inertia, they emphasized the importance of steadfast implementation of the fiscal rule. Directors underscored the need to deliver sustained fiscal consolidation to place debt-to-GDP on a steady downward path, including by considering additional fiscal efforts. They welcomed the proposed enhancements to the fiscal rule and the fiscal council, which are in line with previous IMF recommendations.

Directors concurred that the monetary policy stance has been appropriately tight. They encouraged the authorities to maintain this stance until inflation expectations and inflationary pressures have firmly converged to target. Directors welcomed the improvement in the central bank's monetary policy framework and communication strategy, and encouraged strengthening de jure central bank independence to further bolster credibility. They agreed that the exchange rate should continue to act as a shock absorber with FX interventions limited to respond to disorderly market conditions, and they welcomed the renewed de-dollarization efforts.

Directors noted that the banking sector remains sound, well capitalized, and profitable. They welcomed the authorities' commitment to strengthening regulatory and supervisory frameworks, including through the implementation of the 2022 FSAP recommendations. Further strengthening AML/CFT effectiveness in line with FATF standards would also be important. Directors also encouraged developing the peso capital markets.

Directors recommended structural reforms to revitalize growth and boost productivity. They encouraged enhancing educational outcomes, bolstering human capital, and leveraging

[3] At the conclusion of the discussion, the Deputy Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Uruguay’s AI readiness. Directors also stressed the need to improve competitiveness, including by streamlining business regulations, facilitating trade, and removing regulatory bottlenecks. They welcomed the government’s proposal for wage negotiations, which aims to boost low incomes while contributing to deindexation efforts. Directors also welcomed reforms to encourage labor force participation and facilitate the integration of migrants. Continued efforts to improve climate resilience were also encouraged.

Uruguay: Selected Economic Indicators, 2022–2026

GDP (2024) in trillions of pesos	3.3	Quota	
GDP (2024) in billions USD	81.0	In millions of SDRs	429.1
GDP per capita (2024), U.S. dollars	23,186	In % of total	0.09
Population (2023) in millions	3.5	Poverty rate (2024)	17.3
Main products and exports	Cellulose, beef, soybeans	Gini coefficient (2023)	40.9
Key export markets	China, Brazil, US, EU	Literacy rate (2022)	99.0

				Projections	
	2022	2023	2024	2025	2026
Output, prices, and employment					
Real GDP (percent change)	4.5	0.7	3.1	2.5	2.4
GDP (US$ billions)	70.6	78.0	81.0	85.0	90.6
Unemployment (in percent, pa)	7.9	8.3	8.2	7.9	8.0
Output gap (percent of potential output)	-0.4	-1.3	-1.0	-0.8	-0.5
CPI inflation (in percent, end of period)	8.3	5.1	5.5	4.0	4.5
		(Percent change, unless otherwise indicated)			
Monetary and banking indicators 1/					
Base money	1.7	9.0	3.3	...	...
M2	7.2	11.3	13.3	...	...
Growth of credit to households (in real pesos)	6.4	7.0	4.6	...	...
Growth of credit to firms (in US$)	19.1	11.2	7.3	...	...
Bank assets (in percent of GDP)	67.6	63.2	...	...	...
Private credit (in percent of GDP) 2/	26.6	28.6	31.1	...	...
Monetary policy rate (end of period)	11.3	9.0	8.8	...	...
		(In percent of GDP, unless otherwise indicated)			
Fiscal sector indicators 3/					
Revenue CG-BPS	27.3	27.4	28.2	28.8	28.6
Primary expenditure CG-BPS	28.0	28.4	28.9	29.9	30.2
Primary balance NFPS	-0.5	-1.0	-1.0	-1.0	-1.5
excluding *cincuen/cuarentones* 4/	-0.6	-1.0	-1.0	-1.4	-1.5
Interest NFPS	2.0	2.1	2.3	2.3	-3.8
Overall balance CG-BPS	-3.0	-3.2	-3.2	-3.7	-4.0
Overall balance NFPS	-2.5	-3.1	-3.2	-3.3	-3.8
excluding *cincuen/cuarentones* 4/	-2.7	-3.3	-3.4	-3.8	-3.9
Gross debt NFPS	59.9	64.0	68.7	66.6	68.3
Net debt CG-BPS (authorities' definition) 5/	52.4	54.5	58.0	57.7	60.4
External indicators					
Merchandise exports, fob (US$ billions)	17.7	15.2	16.3	16.9	18.1
Merchandise imports, fob (US$ billions)	13.4	12.9	13.0	13.3	14.0
Terms of trade (percent change)	-1.7	0.1	0.4	2.1	2.3
Current account balance	-3.5	-3.0	-0.8	-1.4	-1.5
Total external debt + non-resident deposits	78.1	64.6	55.8	57.7	57.8
Of which: External public debt	29.4	29.6	31.4	31.6	32.7
External debt service (in percent of exports of g&s)	54.2	53.4	49.0	49.6	33.6
Gross official reserves (US$ billions)	15.1	16.2	17.4	19.5	19.7
In months of imports of goods and services	9.2	10.0	10.9	11.7	11.1

Sources: Banco Central del Uruguay; Ministerio de Economia y Finanzas; Instituto Nacional de Estadistica; and IMF staff calculations.
1/ Percent change of end-of-year data.
2/ Includes bank and non-bank credit.
3/ Non-financial public sector (NFPS) includes the Central Government (CG), Banco de Prevision Social (BPS), Banco de Seguros del Estado (BSE), and Non-Financial Public Enterprises (NFPE).
4/ Temporary proceeds resulting from the pension reform that allowed workers above 50 or 40 years old (and with certain income level) to voluntarily move back to the public pension system.
5/ Incorporates the authorities' August-2025 revision to the debt-ratio calculation—peso debt over peso GDP.

INTERNATIONAL MONETARY FUND

URUGUAY

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

October 6, 2025

KEY ISSUES

Context. After a severe drought in 2023, Uruguay's economy rebounded strongly in 2024 driven by a surge in agricultural exports. A new administration led by president Yamandú Orsi took office in March 2025, marking the return of the *Frente Amplio* coalition to power. The new administration's agenda seeks to balance inclusive growth with macroeconomic stability, boosting private investment and strengthening social protection.

Recent Developments. Growth is expected to moderate at 2.5 percent in 2025, driven by consumption and investment, fueled by the post-pandemic recovery of real wages and reduction in domestic uncertainty. While fiscal inertia explains the projected increase in the fiscal deficit for 2025, the new five-year budget intends to improve the structural primary balance by 1.6 percent of GDP in the next 4 years. After a rise in inflation in the second half of 2024, inflation expectations are falling, reflecting peso appreciation and the BCU's commitment to guide inflation towards the 4.5 percent target.

Outlook and Risks. While staff assesses the direct impact of global trade tensions as modest, Uruguay's economy remains sensitive to commodity price movements, global financial conditions, and regional developments. The financial sector is well-positioned to withstand severe funding pressures and macro-financial shocks.

Policy Issues. The new administration's momentum creates opportunities to strengthen macroeconomic stability and institutions and undertake structural reforms. The five-year budget draft law projects lowering the deficit to stabilize debt in the medium term below a new debt anchor, and the new fiscal framework seeks to strengthen credibility and promote fiscal discipline. However, further efforts are recommended to put debt on a downward path. Monetary policy has been appropriately contractionary, bringing inflation and inflation expectations to the target. After a period of slow growth, ambitious structural reforms would be key to close gaps compared with advanced economies and boost Uruguay's economic potential.

Approved By
Dora Iakova (WHD) and S. Jay Peiris (SPR)

Discussions took place in Montevideo from September 8 to 19, 2025. The staff team comprised Raphael Espinoza (head), María Alexandra Castellanos, Christopher Evans and Hector Pérez-Saiz (all WHD). Roberta Guarnieri, Damaris Garza Escamilla, and Geraldine Cruz (WHD) assisted the team through research assistance and editorial support. Guzman Elola (OED) attended key meetings with the authorities. The team met with Minister of Economy and Finance Oddone, Central Bank President Tolosa, as well as other senior government officials and private sector representatives.

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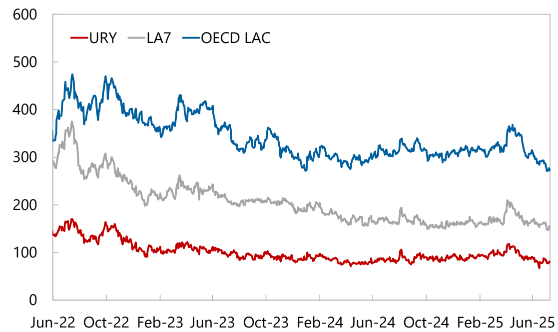
CONTEXT

1. **Despite heightened global uncertainty, Uruguay's economy remains resilient and real GDP growth is around potential.** Following a severe drought in 2023, favorable rainfall supported a rebound in agricultural production while the substantial real appreciation of the Argentinian's currency in 2024 helped improve the external position and fueled inbound tourism in early 2025. Global trade policy uncertainty has had limited direct macroeconomic impact, owing to Uruguay's diversified trade partnerships and strong dependence on commodities, whose prices have broadly held up. Uruguay maintains favorable market access, supported by investment-grade credit ratings and sovereign spreads that are the lowest in the region and at historical lows.

Sovereign Spreads
(EMBIG basis points as of July 10, 2025)



Sources: Bloomberg Finance LP; and IMF staff calculations.

2. **A new administration took office in March 2025 following elections in the fall of 2024.** The election of president Yamandú Orsi marks the return of the *Frente Amplio* coalition to power. It also ended a period of domestic uncertainty, amplified by a referendum to reverse earlier pension reforms,[1] which had contributed, along with a strong dollar globally, to peso depreciation and inflation. The economic cabinet includes a former academic economist as Minister of Economy and Finance, and a former IMF economist without political affiliation as central bank President, who both signaled strong commitment to macroeconomic stability.

3. **The administration's agenda emphasizes growth and social inclusion, balancing macroeconomic stability with policies aimed at boosting productivity and employment.** The agenda prioritizes sustained economic growth driven by investment and improved competitiveness while expanding social protection and committing to macroeconomic stability. The new five-year budget to be approved by the end of 2025 includes an adjustment path aimed at stabilizing public debt to levels consistent with a new debt anchor. A reform of fiscal institutions was also proposed to improve the fiscal rule and strengthen the independent fiscal council.

RECENT DEVELOPMENTS

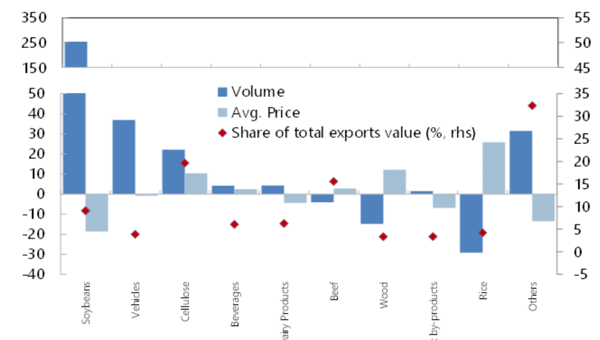
4. **After a severe drought in 2023, Uruguay's economy rebounded strongly in 2024 with growth accelerating at 3.1 percent.** Rainfall in late 2023 and early 2024 led to a boost in soybean production, and cellulose production grew significantly due to increased capacity from a new UPM

[1] The referendum, held concurrently with the first round of the general elections, proposed reducing the retirement age from 65 to 60 years, increasing the minimum pension and eliminating the system of private pension funds (AFAPs). It was not approved, receiving 38.8 percent of the votes.

pulp mill. In addition, electricity—in particular hydroelectric generation—and commerce, accommodation and food services drove the strong performance (Figure 1). Exports constituted the main driver on the demand side (with a contribution of 2.6 percent). This reflected the recovery of agricultural production, while substantial real appreciation of the Argentinian's currency contributed to a reduction of Uruguayan tourism expenditure in Argentina in late 2024 and fueled inbound tourism in early 2025. As a result, the current account deficit remained small, at -0.8 percent of GDP. Economic activity has shown a steady upward trend since the second quarter of 2023, with growth at 2.8 percent y/y in H1:2025, mainly supported by the manufacturing sector.

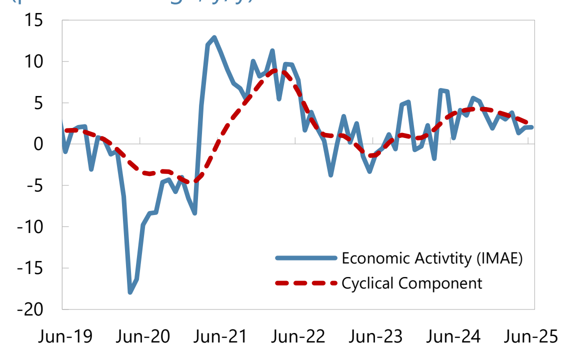
5. Unemployment rates have hovered around 7–8 percent. With the output gap nearly closed, the unemployment rate ticked down to 7.0 percent as of August 2025, and real wages are growing in line with productivity. Youth unemployment remains very high at 23.2 percent as of August 2025, reflecting structural challenges in the labor market.[2]

Main Exported Products 2024
(percent change, y/y)



Sources: Uruguay XXI, and IMF staff calculations.

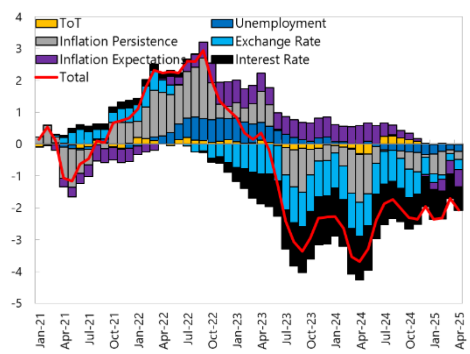
Monthly Economic Activity
(percent change, y/y)



Sources: Banco Central del Uruguay and IMF staff calculations

6. Inflation has remained within the tolerance range for more than two years, and inflation expectations are falling, reflecting improved BCU credibility. A contractionary monetary stance, the appreciation of the Uruguayan peso, and falling import prices led CPI inflation to fall from 8.3 percent y/y in December 2022 to a low of 3.7 percent y/y in April 2024. The global strengthening of the dollar and uncertainty surrounding the referendum on pension reform contributed to a depreciation of the peso at the end of 2024, which led to an increase in inflation. In response, the BCU restarted in December 2024 its

Inflation Decomposition
(Percentage point change since January 2021)



Source: BCU, INE, Haver and IMF staff calculations
Note: Historical Decomposition estimated using 6 variable monthly SVAR

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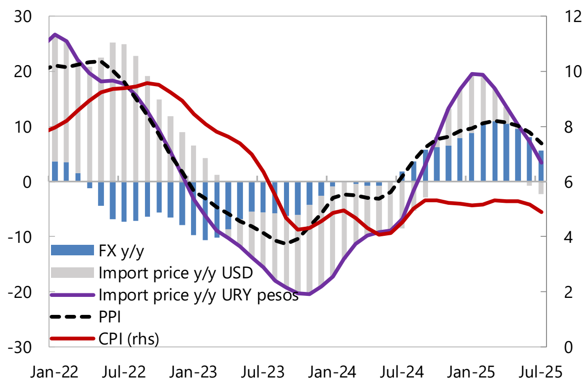
[2] Mismatches between labor demand and skills, large dropout rates and longstanding issues in education quality are potentially key factors (See ¶26). Torres and McKenzie (2020) attribute the youth unemployment gap to structural issues.

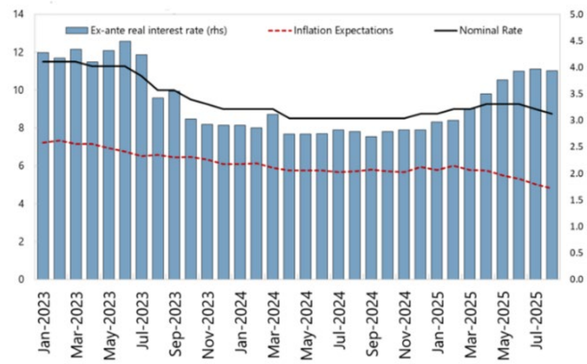
tightening cycle, raising the monetary policy rate 25 basis points in three consecutive meetings. With declining inflation expectations, the real interest rate reached its highest level since July 2023, and inflation started to converge to the mid-point of the tolerance range. This motivated a pause in the cycle of interest rate increases in May and two consecutive rate cuts of 25 bps in July and August. CPI inflation reached 4.2 percent in September 2025, while non-tradables and core inflation—currently at 4.9 percent—have proved stickier.

Imported Inflation
(4-m MA, yoy percent change as of July 2025)



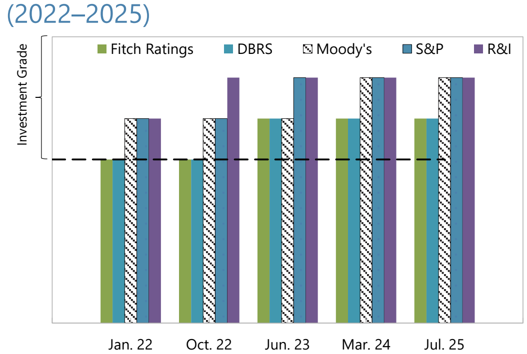
Sources: BCU; and IMF staff calculations.

Monetary Policy Rate
(Percent as of August 2025)



7. The banking system is well capitalized, highly liquid and profitable. Uruguayan banks maintain capital ratios that are almost twice the minimum regulatory requirement. Profitability remains strong, increasing to about 3.7 percent of assets (Table 6). Despite the scarring from the drought in 2023, non-performing loans remain low (1.5 percent of total loans) with adequate loan loss provisions (NPL coverage ratio of 234 percent). Financial intermediation remains low with private credit at 31 percent of GDP, although it has increased by 10 percent of GDP since 2010 (Box 4). A relatively shallow residential housing market and contained prices help keep housing-related financial stability risks low. Dollarization remains high, at 70 percent for liabilities and around 53 percent for loans.

Credit Rating Evolution
(2022–2025)



Source: Bloomberg.

8. The fiscal deficit increased slightly in 2024, necessitating the activation of the fiscal rule's escape clause. The deficit of the Central Government including social security (*Banco de Previsión Social*) was 3.2 percent of GDP, a 0.2 ppt increase compared to targets.[3] Stronger-than-anticipated disinflation in 2023–2024 reduced tax revenues by 0.9 percentage points compared to 2023 projections, and raised

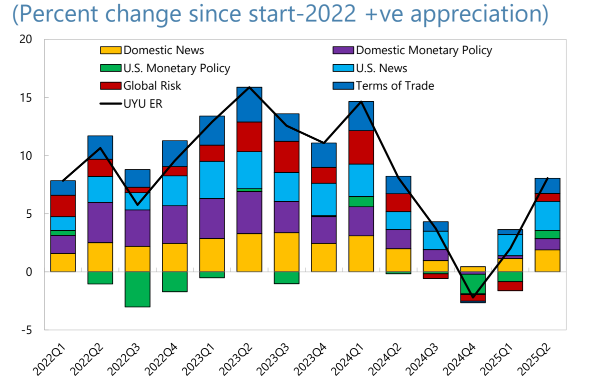
[3] The deficit for the non-financial public sector (NFPS), including *cincuentones* (temporary proceeds from the pension reform that allowed certain workers to voluntarily move back to the public pension system) was 3.2 percent of GDP in 2024, 0.1 ppt larger than in 2023.

real spending by 4.7 percent, driven by pension and wage increases of 5.4 and 4.2 percent in real terms respectively. Increased contributions from SOEs—led by record earnings from BROU, the largest state-owned bank—partially offset the shortfall.[4] The escape clause of the fiscal rule's net indebtedness ceiling, the only legally binding pillar, was activated in December 2024 to accommodate a deviation of 0.4 ppt of GDP.[5] While 2024 marked the first time that the first two pillars of the fiscal rule were not met and the escape clause had to be activated (Box 3), the rule has contributed to fiscal credibility as indicated by historically low spreads—the lowest in Latin America—and improved credit ratings.

9. Gross NFPS debt rose by 4.7 percent of GDP in 2024, to 68.7 percent of GDP. This mainly reflected valuation effects from a weakening peso in 2024. In international markets, Uruguay issued global bonds in local currency (UYU) and inflation-linked units (UI), launched a long-term USD bond maturing in 2060, and successfully accessed the Japanese market with a multi-tranche Samurai bond totaling US$308 million.[6] Additionally, Uruguay complemented market financing and supported development objectives by securing over US$844 million in loan disbursements from multilateral institutions including the World Bank and CAF.

10. Uruguay's 2024 external position was broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex V). The current account (CA) deficit narrowed to -0.8 percent of GDP in 2024, reflecting a recovery of the balance of trade and moderation of the primary income deficit. From the savings-investment balance perspective, private sector investment fell by 1.9 percent of GDP in 2024, compared to 2023, while national savings rose (0.5 percent of GDP), causing an improvement in the current account by 2.4 percent of GDP. The financial account registered net FDI outflows of 3.2 percent of GDP, a reversal from the 3.9 percent of GDP of net FDI inflows seen in 2023, owing to a write-off of FDI loans related to funds in transit which was partially offset by an increase in portfolio investment (reinvestment of profits and capital contributions). The peso

Uruguayan Peso/USD Exchange Rate Decomposition
(Percent change since start-2022 +ve appreciation)



Sources IMF staff calculations; BCU; Bloomberg.

[4] The national electricity company (UTE) also had high earnings due to high electricity production. However, the balance of the state-owned oil company (ANCAP) remained under strain due to the impact of the 2023-24 *La Teja* refinery shutdown.

[5] The ceiling was increased by US$690 million. The perimeter includes the *Banco de Previsión Social*. The fiscal tables and SRDSF use the larger perimeter of the non-financial public sector (NFPS).

[6] The Third Annual Report on the performance of the Uruguay's Sovereign Sustainability-Linked Bond (SSLB) was published in May 2025.

depreciation seen throughout the second half of 2024 has partially reversed in 2025, driven by tighter domestic monetary policy, positive domestic news, and a global weakening of the US dollar.

OUTLOOK AND RISKS

11. Real GDP growth is expected at 2.5 percent in 2025. Fueled by the post-pandemic recovery of real wages, a reduction in domestic uncertainty, and strong tourism flows from Argentina earlier in the year, domestic demand and exports are expected to support growth at 2.5 percent in 2025 and 2.4 percent in 2026. From 2027 onwards, growth is expected to converge to the potential growth rate of 2.2 percent. Inflation is projected to decline towards the BCU target of 4.5 percent, accompanied by a gradual easing of monetary policy. The current account deficit is expected to widen slightly to 1.4 percent of GDP in 2025, as exports remain strong and the primary income deficit increases, before gradually reaching its estimated norm of 1.7 percent of GDP.

12. Macroeconomic risks are broadly balanced.

- Downside risks originate from the international environment, which is subject to trade policy and commodity price shocks, and regional uncertainty, which could weigh on exports and private consumption (Box 1), while weather-related shocks pose additional risks to agricultural output.
- Risks due to the fiscal and external positions are low (Annexes V and VI). Near-term fiscal risks are limited due to several mitigating factors, including an increasing share of domestic debt issuances, ample liquidity buffers, long debt maturities, and favorable borrowing conditions. Domestic policy uncertainty has also declined. Risks to capital flow reversals are limited as about two thirds of the country's external liabilities are comprised of FDI.[7]
- Systemic risks remain contained, owing to the low credit-to-GDP ratio, liquid and well-capitalized banks, and a limited sovereign-banking nexus. While dollarization heightens FX credit and liquidity risks, these are mitigated by low household indebtedness, moderate and mostly hedged corporate debt, and ample FX reserves, limiting potential feedback and amplification effects.
- Upside risks include strong agricultural harvests, favorable commodity prices, new trade agreements, opportunities to access new markets and attract investments, and stronger-than-expected effects of structural reforms. The EU-Mercosur trade agreement represents a medium-term upside risk (Box 2).

Authorities' Views

13. The authorities largely agreed with the outlook and the balance of risks. They also expect growth to moderate compared to 2024, and inflation to consolidate at the target. There was

[7] The stock of inward FDI for non-financial corporates in Uruguay was estimated at 44.5 percent of GDP in 2024.

agreement on the downside risks, but the authorities also see additional upside risks from their structural reform agenda, new trade agreements and opportunities for trade and investment diversion. They remain vigilant to the latest global and regional developments to assess potential impacts on the economy.

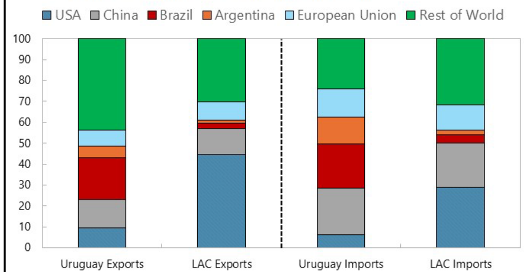
Box 1. Uruguay's Exposure to Global Trade Policy Shocks

Uruguay's direct trade exposure to the U.S. is limited. The U.S. typically registers a goods trade surplus with Uruguay, with U.S. exports of oil, fertilizers and technology outweighing Uruguay's exports of meat and wood products. A 10 percent tariff would have a limited impact on Uruguay exports due to their composition—agricultural goods that can be rerouted. In addition, the share of exports that go to the U.S. is one of the lowest in the region. First-round effects from trade policy shocks—calculated using an elasticity estimated for a typical emerging market and taking into account Uruguay's export shares to the U.S. — are expected to reduce growth in 2025 by about 0.1 ppt. A larger-than-expected slowdown of trade partners and worsening global financial conditions would further weigh on output.

Export volumes have remained resilient through July. Goods exports have increased by 11 percent y/y from January to March and 4 percent from April to July, potentially showing signs of front loading. Additionally, exports to the U.S. have been particularly strong, rising 40 percent in nominal terms from January to July (y/y), helped by higher meat prices.

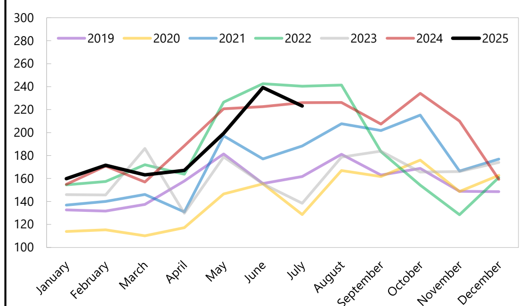
However, if trade tensions escalate, Uruguay could suffer a slowdown in growth. In a short-term global downside scenario, growth in Uruguay could slow to around 1.2 percent in 2025 if the shocks assumed in the Scenario A in Box 1.1 of the April 2025 World Economic Outlook (trade war escalation, global uncertainty rising by three standard deviations; financial conditions tightening) were to materialize. This impact, estimated using a conditional forecast from a SVAR model, is driven by lower global growth (1.3 pp below baseline) and a slowdown in growth of Uruguay's main trading partners.

Main Trading Partners
(Percent of total goods exports and imports, 2024)



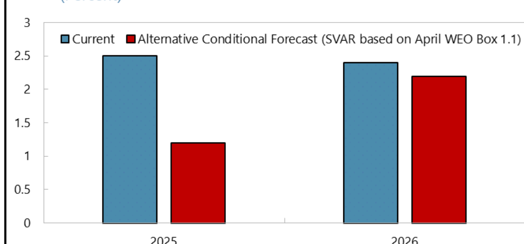
Source: IMF staff calculations and International Trade in Goods (IMTS)

Export Volume Index
(NSA, 2005=100)



Sources: IMF staff calculations and BCU

Uruguay GDP Growth Forecast with Global Downside Scenario
(Percent)



Source: IMF staff calculations
Note: Alternative conditional forecast is constructed using a 4 country SVAR (USA, Brazil, Argentina, Uruguay) using the growth forecasts outlined in April WEO Box 1.1

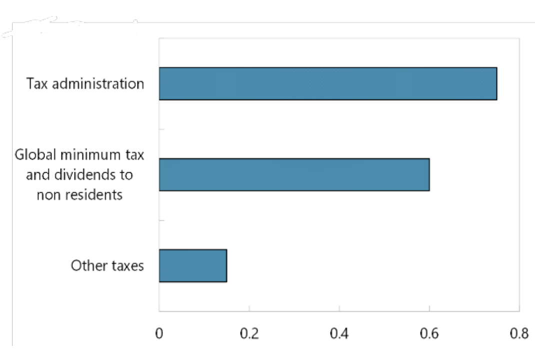
POLICY DISCUSSIONS

A. Fiscal Policy

14. The fiscal deficit is expected to increase in 2025 due to fiscal inertia. With policy options constrained by the political transition's calendar, the central government-BPS deficit for 2025, excluding *cuarentones*, is projected to increase to 4.1 percent of GDP, 0.9 ppt above the 2024 deficit. The new authorities have reported that the expected increase in the deficit is due to postponement of expenditures and unpaid obligations from 2024 (0.4 ppt of GDP), advance tax payments by SOEs in 2024 that should have been received in 2025 (0.1 ppt of GDP), and additional spending commitments from the previous government (0.7 ppt of GDP). Expenditure rigidities in the budget due to indexing, together with a 6 percent rise in public wages decided in January 2025, and the additional spending priorities of the new government also limit the margin of maneuver of the new administration for 2025. In the context of an output gap nearly closed, an increase in the deficit is expected to be mildly pro-cyclical.

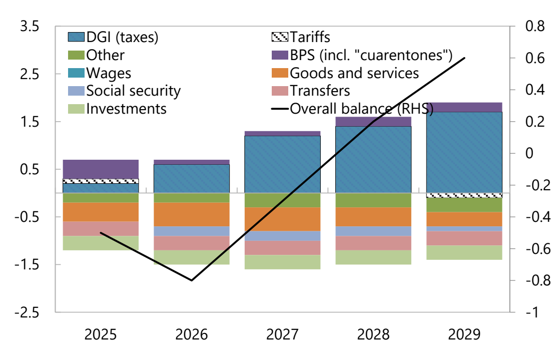
15. The new five-year budget law is expected to reduce the deficit and stabilize debt in the medium term. The five-year budget submitted to parliament envisages a permanent rise in social spending and investment, to be financed through a gradual increase in revenues by modernizing and making more efficient tax administration, curbing tax fraud, implementing the global minimum tax, and rationalizing certain taxes (Selected Issues Paper). There are also plans to better align tax regimes between international online retailers and traditional retail and between international and domestic capital income gains by Uruguayan residents. All these efforts would contribute to improving the structural primary balance of the central government-BPS from -1.5 percent of GDP in 2026 (equal to that in 2025) to 0.1 percent of GDP in 2029. Under this baseline, the NFPS primary balance is expected to reach 0.4 percent of GDP in 2029 and the NFPS debt-to-GDP ratio is projected to remain stable in the medium term.

Expected Gains of Planned Measures
(2026–29) (percent of GDP)



Source: Authorities' estimates.

Projections for 5-Year Budget for the GC-BPS
(PPC changes compared to 2024)

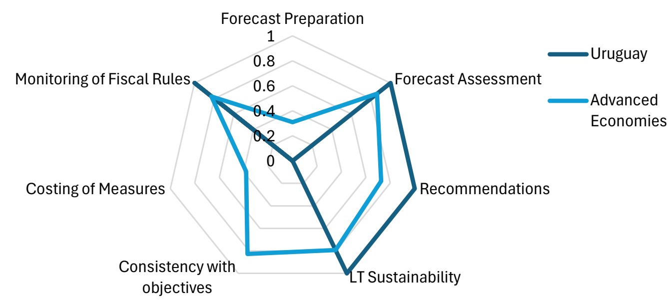


Sources: Authorities estimates; and IMF staff calculations.

16. There are risks to the planned fiscal adjustment and further efforts are recommended to reduce debt. While financing needs are manageable, and market access remains at favorable terms(see Annex VII), there are risks to the planned adjustment, stemming from the macroeconomic and international tax environment, implementation delays, and spending pressures down the line. Further efforts are recommended to bring the debt-to-GDP ratio on a steady downward path in the medium term. This could be achieved by raising the CG-BPS primary balance progressively to around ½ percent of GDP by 2029. Options include reducing tax incentives, moderating the wage bill, and improving the efficiency of spending.

17. The proposed reform of the fiscal framework will help consolidate recent credibility gains. Enhancements include binding fiscal rule targets anchored to a prudential anchor for net debt (see Annex I), corrective mechanisms for slippages, greater autonomy, and expanded mandate for the Fiscal Council, and improved estimates of potential output and debt targets, among other refinements (see Box 3). Widening the range of ex-ante analyses performed by the Fiscal Council would strengthen its role and better align it with best international standards. Adequate operationalization of this reform and meeting fiscal rule targets will be important to reap the expected reputational benefits. The ongoing social dialogue on social protection and social security is expected to lead to proposals by April 2026, and it will be important that any reform proposal is consistent with the objective of ensuring the sustainability of social spending.

Fiscal Councils by Type of Ex-Ante Analysis (2024)



Note: A value of 1 is given if the Fiscal Council performs each task. For advanced economies, we show the share of countries performing each task.
Source: IMF Fiscal Council Dataset.

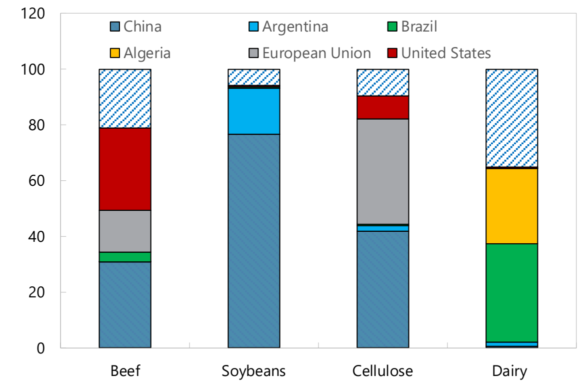
Authorities' Views

18. The authorities emphasized that the proposed fiscal framework and the new five-year budget adequately balance the government priorities with deficit reduction. They concurred on the value of a strong fiscal framework and highlighted their commitment to advancing with the operationalization of their reform proposal. While appreciating staff's recommendations for the fiscal path, the authorities stressed the need to advance on their agenda to boost growth and improve human capital and conditions for the most vulnerable. They also recognized uncertainties around the baseline of their five-year budget proposal but stressed that these risks are mitigated by the fiscal discipline promoted by the stronger fiscal framework and continuous efforts to improve spending efficiency. The authorities place great value on the discussion with Fund staff on fiscal issues and potential technical assistance.

Box 2. EU-MERCOSUR Free Trade Agreement (FTA)

The European Union is a key trading partner and is a main source of FDI into Uruguay. The EU is consistently a top export destination for Uruguay. Uruguay primarily exports cellulose and beef to the EU (totaling about 2/3rd of goods exports to the EU). The EU is also an important investor in Uruguay, representing roughly 40 percent of FDI stock, with Spain (energy, services investments) and Finland (agricultural investments), making up 18 and 13 percent of total FDI stock in 2023 respectively. The average tariff rate with the EU was 3 percent in 2023, lower than the average rate for exports to China (7 percent). In September, Mercosur and the European Free Trade Association (Iceland, Liechtenstein, Norway, Switzerland) signed an FTA, which will improve market access for Uruguay's exports.

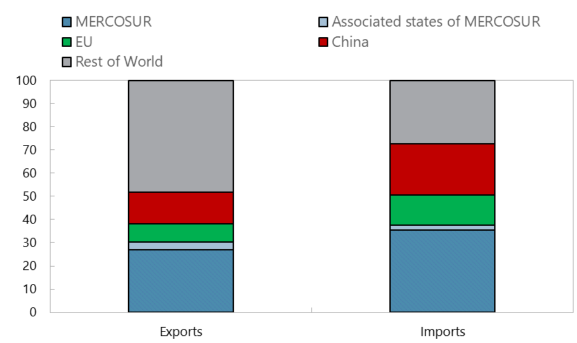
Main Goods Exports by Key Trading Partners
(Percent of total, 2024)



Sources: Uruguay XX1; and IMF staff calculations.

The FTA between Mercosur and the EU, if ratified, is likely to boost exports and fuel an expansion in the agricultural sector. In September 2025, the European Commission started the ratification process, splitting the agreement into two separate texts – the Interim Trade Agreement (iTA) and the EU-Mercosur Partnership Agreement (EMPA). The iTA is commercial in nature and would be applied provisionally, if approved, until the EMPA is fully ratified and enters into force. The agreement would increase trade and investment between the blocs, fostering greater integration of production chains, boosting innovation, and promoting sustainable development. For Mercosur, the FTA could eliminate 93 percent of tariffs to the EU, with the remaining 7 percent receiving a reduced rate (preferential treatment). The increased access for Uruguay will notably be felt in the reduction of barriers for agricultural exports. Besides tariffs, the agreement would bring regulatory and institutional upgrades, such as commitments to high labor standards, reinforcing the adherence to the Paris Climate Agreement, providing the EU access to Mercosur's public procurement markets, and a simplification of customs procedures. The World Bank estimates that, if ratified, the FTA could raise Uruguay's real GDP by roughly 0.7 percent and real exports by 1.4 percent by 2040.[1]

Evolution of Uruguay's Exports and Imports
(Share of total goods, exported and imported, 2024)



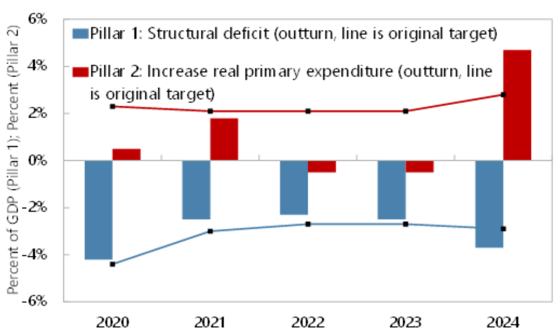
Sources: IMF staff calculations; and International Trade in Goods (IMTS).

[1] See World Bank (2024): http://documents.worldbank.org/curated/en/099000103042235003

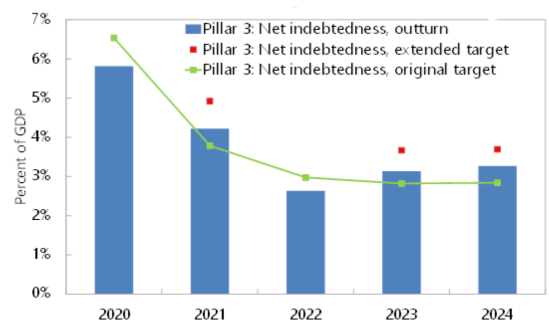
Box 3. The Fiscal Rule and the New Enhanced Fiscal Framework

Uruguay's fiscal rule has supported greater discipline since 2020, despite some scope for improvement. Adherence to the rule contributed to stabilizing debt dynamics, although the escape clause was used three times in five years and 2024 marked the first year in which the first two pillars (indicative targets) of the rule were not met. The third pillar on net indebtedness was legally met following the activation of the escape clause, which raised the ceiling by US$690 million. Final net indebtedness reached US$2,644 million—staying within the revised limit but exceeding the original target by approximately 0.4 percent of GDP.

Pillar 1 and 2: Outturn and Original Target



Pillar 3: Outturn and Original Target



Sources: Authorities; and IMF staff calculations.

In response to identified shortcomings, the new administration proposed a reform in the new five-year budget presented in August. The reform follows recommendations from the IDB and is aligned with Fund's past recommendations. Its goals are to (i) better anchor the fiscal rule on a debt objective; (ii) improve the measurement of structural fiscal results; and (iii) strengthen the Fiscal Council and Council of Experts.

Enhancements to the fiscal rule fall under the dual fiscal rule approach. This approach anchors fiscal policy to a debt sustainability analysis, using a prudential net debt level for the central-government-BPS equal to 65 percent of GDP as a fiscal anchor. A prudential level of debt is defined as one that minimizes the probability of debt breaching a threshold (debt limit) beyond which the sustainability of public finances would be severely compromised (Annex I). Within this framework, targets for the structural fiscal result and the net borrowing ceiling will be designed consistently with the projected path toward prudential debt levels. The enhanced framework will also include additional limits to safeguards and escape mechanisms, requiring the Fiscal Council's non-binding opinion for their activation. New corrective mechanisms to address potential deviations are also included, which depend on both the level and expected direction (e.g. increasing or decreasing) of the gap with the debt anchor.

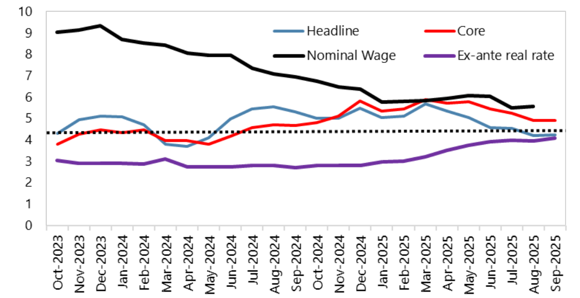
Methodological improvements ensure a more precise calculation of structural fiscal outcomes. These include updated and rigorous procedures for estimating indicators such as the structural balance, potential output and the output gap. All methodologies will be documented and made publicly available to enhance transparency and credibility. Additionally, clear criteria will be established to identify extraordinary revenues and expenditures, facilitating public monitoring.

Other reforms focus on strengthening external fiscal councils. The independence and mandate of the Fiscal Council (currently an advisory body to the Minister of Economy and Finance) will be improved, increasing also its ability to influence fiscal policy and to serve as an effective counterbalance. Engagement with the Committee of Experts will deepen, increasing the frequency and depth of technical interactions.

B. Monetary and Exchange Rate Policies

19. The appointment of the first BCU president without political affiliation marks a step forward in central bank *de facto* independence. The new BCU president has announced a commitment to take inflation towards the target (4.5 percent). Enhanced central bank communication and coordination with the new five-year budget and the government's guidelines for collective bargaining (see ¶29) are also key elements in the disinflation strategy.

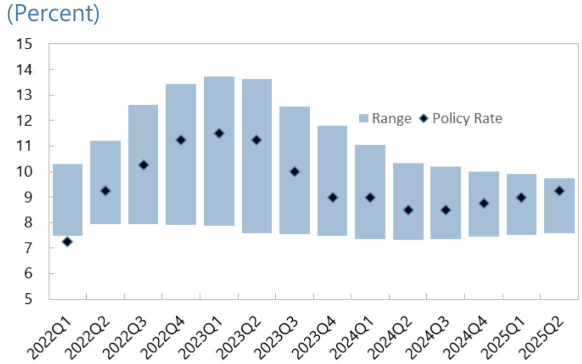
Headline, Core and Real Interest Rate
(Year-over-year percent change)



Sources: IMF staff calculations, INE and BCU. Core inflation (IPC sin verduras, frutas y combustibles IPC-CE VFC) from INE.

20. The monetary policy stance has been appropriately contractionary. With the policy rate at 8.75 percent and one-year ahead expectations at 4.7 percent, the real interest rate is around 4 percent – above the real neutral rate (estimated at 2.5 percent). This has made the monetary policy stance appropriately contractionary, with recent declines in policy rates justified by lower inflation and inflation expectations. Policy rate decisions have been consistent with what estimated Taylor rules would have indicated, providing predictability and credibility to monetary policy decisions. Further emphasizing in public communications that the inflation target is 4.5 percent with a tolerance range should continue to help anchor expectations. The reactions of inflation expectations and of the exchange rate to changes in the policy rate represent the primary monetary policy transmission channels in Uruguay, as the banking channel is relatively weak due to the low credit-to-GDP ratio (Box 4).

Historical Taylor Rule Fitting[1]
(Percent)

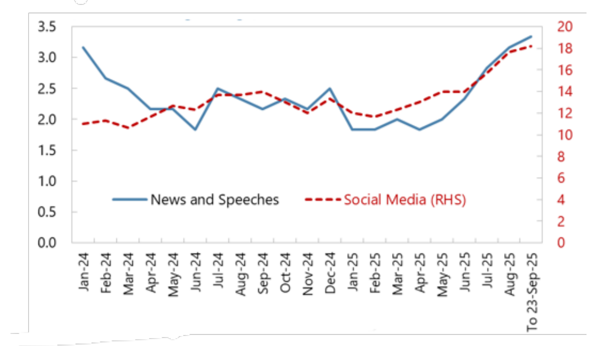


Sources: IMF staff calculations; BCU.
[1] Taylor Rule fitted using a range of parameters.

21. The BCU has significantly improved its monetary framework and communication, but additional steps can contribute to strengthening credibility. In the last few years, the BCU has stopped intervening in the FX market, introduced the monetary policy rate (overnight interbank rate) as its primary operational objective, reduced the tolerance range from 3-7 percent to 3-6 percent, emphasized the mid-point as the primary target, doubled the number of monetary policy committee meetings (COPOM), published the minutes of meetings, and held press conferences and posted on social media to communicate monetary policy decisions.

To improve monetary policy transmission and strengthen the financial sector, the BCU started to revamp its de-dollarization strategy, focusing first on increasing competition in the deposit market in local currency (see also Box 4 and Annex VIII). To sustain monetary policy credibility as the highest priority, the exchange rate should continue being a shock absorber, with foreign exchange interventions only used to respond to disorderly market conditions. To align *de jure* central bank independence with that of other countries in the region and further improve credibility, the appointment of BCU Board members should follow best international practices, including appointments for fixed terms not overlapping with the electoral cycle.

Number of Communications on Monetary Policy by the Central Bank of Uruguay
(6-month moving average)



Source: BCU statistics; and IMF staff calculations.
Note: Social media includes posts on X, LinkedIn, Instagram, and Facebook.

Authorities' Views

22. The authorities broadly agreed with staff views. They highlighted that low and stable inflation was achieved even though the exchange rate was volatile and growth sustained, a testament to the improved credibility achieved by strengthening BCU independence and improving communication. The BCU continues enhancing its communication and intends to allow the exchange rate to act as a shock absorber. FX interventions would be limited to periods of disorderly market conditions. Active management of expectations is enabling record-low nontradable inflation— a break from the country's history that is making the achievement of the headline inflation target more sustainable. The authorities emphasized the importance of developing an ambitious de-dollarization agenda to break with habits. They concurred with the staff's external sector assessment.

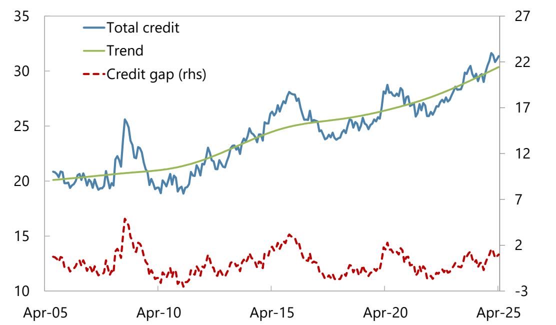
Box 4. Credit to Private Sector and the Credit Channel of Monetary Policy

Bank credit in Uruguay has increased by approximately 10 percent of GDP since 2010. The expansion has been primarily driven by an increase in credit denominated in pesos and by greater lending to corporations. Although credit exceeds its estimated long-term trend, the credit gap remains moderate, below 2 percent of GDP. Despite this progress, credit penetration remains relatively low compared to peers, with access to credit limited for some households and smaller firms.

The effectiveness of the bank lending channel in Uruguay appears relatively weak. Empirical estimates[1] suggest that a 1 ppt reduction in the policy rate would increase bank credit in pesos by only about 0.15 pct or less than 0.05 pct of total credit, highlighting a modest transmission of monetary policy to credit conditions. Lower regulatory capital requirements are also associated with higher credit growth, but the effect is much smaller. On the liability side, increases in the policy rate do not have a statistically significant effect on peso-denominated deposits, whereas dollar-denominated deposits decline in response to a higher Fed Funds Rate, suggesting the presence of alternative profit opportunities outside the financial sector when returns on dollar rates increase.

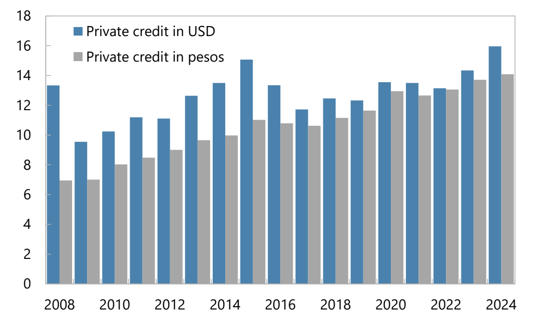
Total Credit: Non-Financial Sector, with Trend

(Percent of GDP, Monthly)



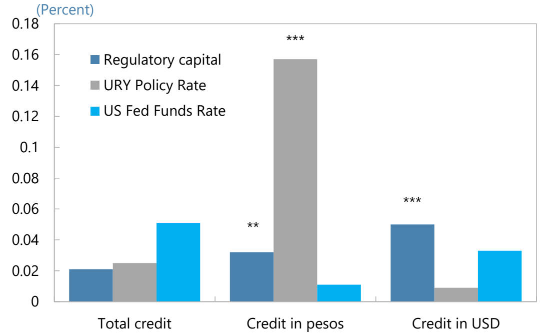
Bank Credit in Uruguay (2008-2024), by Currency

(Percent of GDP)



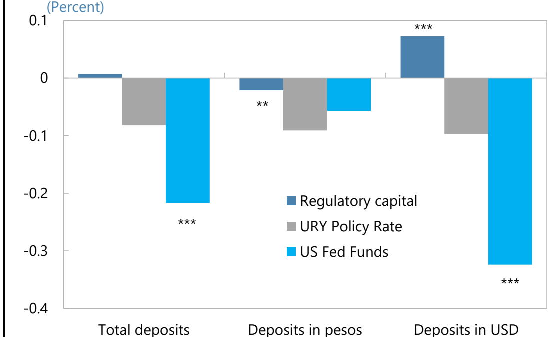
Effect of a 1% Reduction in the Policy Rate and Capital Requirements on Credit Growth

(Percent)



Effect of a 1% Increase in the Policy Rate and Capital Requirements on Deposits Growth

(Percent)



[1] Empirical estimates use Dynamic panel GMM regression (Arellano-Bond estimator) using bank-level monthly data from January 2013 to April 2025, using lagged variables as instruments. The 1-month URY government bonds rate and the Wu-Xia Shadow Federal Funds Rate are used for periods when the Uruguay policy rate is not defined, or the US Fed Funds rate is near zero, respectively. Robust standard errors used with *** and ** indicating statistical significance levels at the 1% and 5%, respectively.

C. Financial Sector Policies

23. The authorities remain committed to strengthening the regulatory and supervisory framework, including the implementation of recent FSAP recommendations (Annex VIII). The Superintendency of Financial Services (SSF) should continue strengthening its risk-based supervisory framework, particularly by advancing its stress-testing capabilities. Ongoing reforms to expand the regulatory perimeter and the regulation of virtual asset service providers will contribute to more efficient regulation and supervision. The new Macroprudential Policy Committee created in October 2024 will play a crucial role in reinforcing the macroprudential framework, which already includes tools such as the Countercyclical Capital Buffer (CCyB),[8] and provide support to other ongoing reforms. Other planned initiatives in 2025 aimed at improving data management and reporting within the financial supervision system will help address existing data gaps. Additionally, the first phase of the Basel III Pillar II roadmap, set to be operationalized through a regulatory proposal in 2025, will contribute to a more resilient banking sector.

24. The authorities should continue strengthening AML/CFT effectiveness in alignment with FATF standards. The Central Bank of Uruguay (BCU) has recently enhanced its AML/CFT framework by approving the new National Strategy for Combating Money Laundering in July, 2025. Additionally, the BCU has launched public consultations to gather feedback on proposed crowdfunding regulations, with additional regulations expected in late 2025. Furthermore, the National Secretariat for the Fight Against AML/CFT (SENACLAFT), the technical branch of the Commission, published the latest update of the Politically Exposed Persons (PEP) List in February 2025, while new BCU regulations for virtual asset service providers are expected to be finalized this year. Despite Uruguay's progress in implementing GAFILAT's 2019 Mutual Evaluation Report's recommendations—including the 2023 update of the National Risk Assessment (NRA)[9] and the creation of a Special Prosecutor's Office for ML/TF—continued efforts are important to further strengthen the country's AML/CFT framework.

Authorities' Views

25. The authorities concurred with staff views on the strength of the financial system and reaffirmed their commitment to enhancing supervision and regulation. The SSF is strengthening its stress-testing capabilities and progressing on its Basel III roadmap. The BCU stressed the importance of its reform agenda to expand the regulatory perimeter, develop the peso capital markets, and support the expansion of bank credit in pesos, which will also help reduce dollarization. The BCU is planning to reorganize its internal structure to support the implementation of these reforms more effectively. The authorities noted they are advancing with the

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[8] Implemented by the BCU in June 2020, the CCyB has been set at 0.75 percent since January 2025, with a planned increase to 1 percent in July 2026.

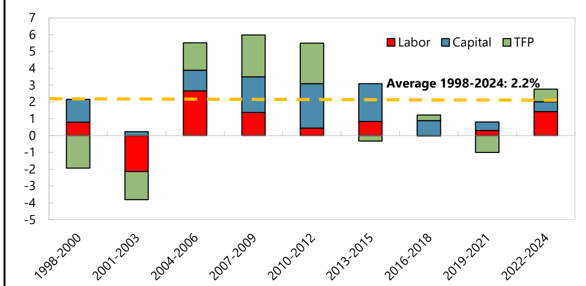
[9] The 2023 NRA provides recommendations to the authorities, including: i) strengthening mechanisms for timely information sharing across agencies, ii) increasing operational coordination, iii) deepening collaboration for the identification of typologies as well as sectoral risk assessments, and iv) granting adequate resources for effective risk-based supervision.

recommendations from the 2023 National Risk Assessment and the new National Strategy and are improving coordination and information sharing between agencies, strengthening the institutions involved in AML/CFT, and deepening their studies of sectors at risk outside the financial system.

D. Structural Reforms

26. After a period of high growth, convergence with advanced economies stalled a decade ago, underscoring the need to intensify Uruguay's reform agenda (see Selected Issues Paper). Building on its strong digital infrastructure and collaborative public-private ecosystem, Uruguay is gaining regional recognition in education, innovation, and Artificial Intelligence (AI). Sustaining this reform momentum would help close the remaining gaps:

Growth Decomposition
(Percent, 3-year average)



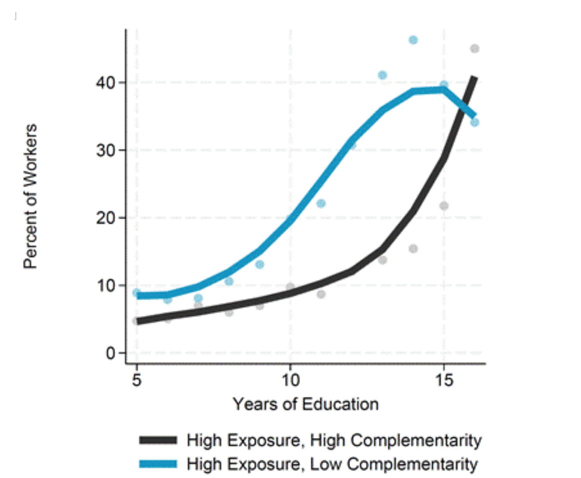
Sources IMF staff calculations; and Penn World Tables.

- ***Education:*** Firms have identified an inadequately educated workforce as the third biggest obstacle to growth (World Bank Enterprise Survey, 2024). The secondary school's dropout rate is 40 percent, and reading, mathematics, and science skills are low for a high proportion of students. Boosting education quality by modernizing curricula, adapting technical careers to labor market demand, strengthening teacher training, along with the new administration's plans to extend pedagogical time and encourage secondary school completion, would help build human capital.

- ***Innovation:*** Uruguay is emerging as a regional innovation hub, with the tech sector seeing rapid growth, leveraging strong digital infrastructure, public-private partnerships, and a thriving startup ecosystem. The Uruguay Innovation Hub, launched in 2023, supports science, technology, and entrepreneurship. To enhance innovation-led growth, Uruguay should continue investing in STEM education, global tech integration, and R&D collaboration.

- ***Artificial intelligence:*** Uruguay is a regional leader in AI preparedness (Selected Issues Paper), a positive development since around 40 percent of workers are exposed to AI. Whereas the young and those working in administrative occupations could face negative consequences from wide AI adoption, other demographics (40–60-year-olds and those working

AI Exposure and Complementarity by Years of Education

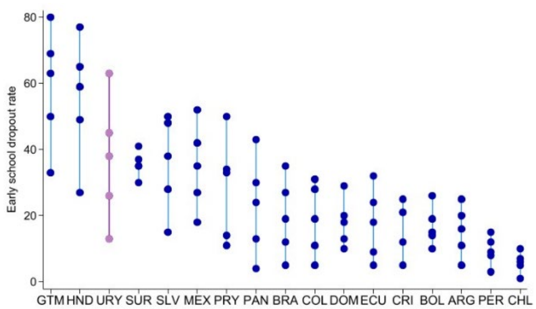


Sources: ECH 2023; and IMF staff calculations.
Note: We see that the share of Uruguayan workers with high exposure to AI increases with years of education. Those workers with the most years of education are more likely to also have high complementarity to AI.

in managerial and some professional occupations) could benefit as their skills are complementary to AI. Uruguay excels in regulation, ethics, and digital infrastructure, though urban-rural disparities in internet access persist. Policies should focus on closing digital gaps and integrating AI-driven innovation into education and industry in an equitable and ethical way. AI-driven structural change could expand opportunities for career progression for highly educated workers but may disrupt labor market entry for young workers by removing stepping-stone jobs.[10] In the longer term, training the next generation of workers and supporting workers at risk will be paramount to maximize gains from AI and reduce inequality.

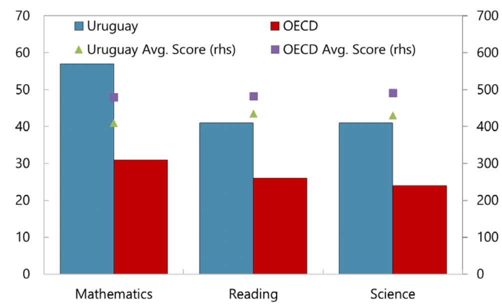
Education and Exposure to Artificial Intelligence

Dropout Rates by Income Quintile
(Percent)



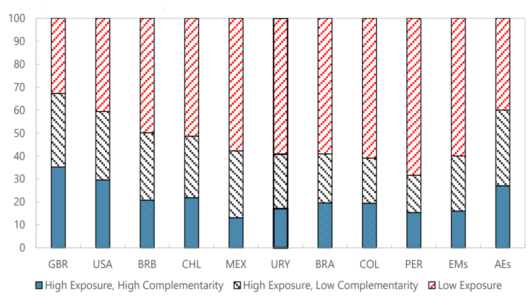
Note: Percentage of people aged 18–24 who have not completed secondary education and are not involved in further education or training.
Sources: IDB; and IMF staff calculations.

Students Scoring Below Level 2
(Percent)



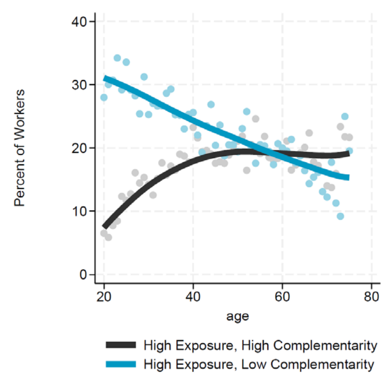
Sources: OECD, PISA 2022; IMF staff calculations.

AI Exposure and Complementarity
(Share of workforce)



Sources: Bakker et al. (2024); ECH 2023; INE for URY; IMF staff calculations.

Uruguay's AI Exposure and Complementarity by Age



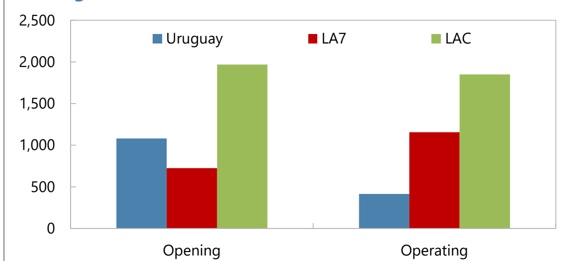
Source: ECH 2023 and IMF staff calculations

[10] Cazzaniga, M., Pizzinelli, C., Rockall, E. J., & Tavares, M. M. M. (2024) "Exposure to Artificial Intelligence and Occupational Mobility: A Cross-Country Analysis", IMF Working Papers, 24/116 conduct a cross-country analysis of occupational mobility and AI exposure.

27. Uruguay can boost growth by implementing reforms to stimulate trade and lower production costs.

- ***Trade policy and competitiveness*:** If enacted, the Mercosur–European Union agreement would present new opportunities to increase exports and attract investment (Box 2). In addition, trade facilitation, the reduction of non-tariff barriers, red tape, and logistics costs, provide other avenues to improve competitiveness and trade integration. The announced measures to simplify trade procedures, together with the redesign of the framework of incentives for investment and the institutions overseeing them are important first steps to attract more FDI and boost trade. All these measures will be central to advancing the broader competitiveness agenda and promoting growth.

Average Number of Hours for Bureaucratic Procedures



Sources: 2023 Index of Bureaucracy and IMF staff calculations. The 2024 Index of Bureaucracy, produced by the Adam Smith Center for Economic Freedom , quantifies the regulatory "time-tax" imposed on small and micro-enterprises. It measures the annual hours required for launching or operatong a business. The methodology includes five structured phases: first, identifying the most representative small-business activity by sector; second, listing all required bureaucratic procedures, including employment management, general operations, and activity-specific regulations; third, validating these procedures through surveys and interviews with small-business owners and professionals; fourth, quantifying the time required per procedure and aggregating into annual totals; and fifth, analyzing results via weighted averages, sectoral comparisons, and cluster analysis.

- ***Enhancing Competition and Business Regulation:*** Substantial entry barriers and regulatory bottlenecks continue to hinder business dynamism (Selected Issues Paper). The government is responding by streamlining procedures through greater digitalization and simplified requirements for registration, licensing, and taxation (Text Table 1). Enhancing competition policy by strengthening the capacity of competition authorities to address market concentration in key sectors would also contribute to dynamism.[11]

Text Table 1. Reforms Announced to Improve Competitiveness

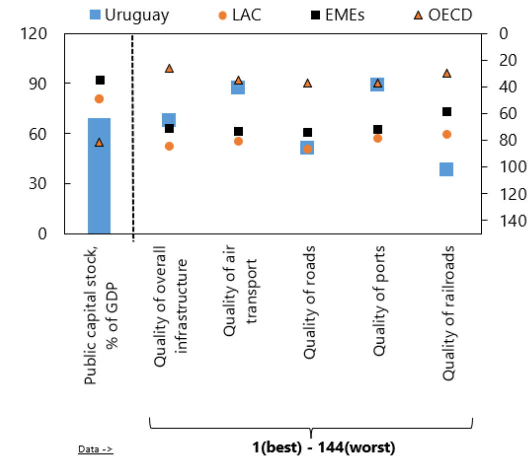
Objective	Measures
Reduction of fees and charges	Reduce the LATU fee on exports by 20% Eliminate the ANSE fee on maritime imports Eliminate differentiated advance payments of IRAE and VAT on raw material sales
Trade document simplification	Eliminate negative certificates Implement self-certification of origin Eliminate the double request for the non-competitive national declaration in investment projects
Streamline licensing procedures	For food products from Argentina
Digitalization	Digitalize phytosanitary certificates and land freight documents
Optimization of other procedures	Simplify the procedure for Temporary Admission extensions Effective implementation of the Drawback system Improve registration processes for products under health supervision Empower the Executive Branch to make customs broker participation non-mandatory in foreign trade operations.

Source: Presentation by the Minister of Economy and Finance, July 2025.

[11] See World Bank, 2022. Uruguay. Systematic Country Diagnosis Update. Washington, DC: World Bank. March 2022.

- ***State-owned enterprises (SOEs)***: *SOEs* are key providers of essential inputs to the private sector, as well as major contributors to public investment, which is lagging compared to advanced economies. The new administration is reforming incentives to better align wages with productivity. In addition, to make the most out of SOEs' potential, efficient allocation of resources and cost-reflective pricing are important.

Capital Stock and Infrastructure Quality, Latest Value Available
(Percent of GDP and rank)



Sources: IMF Investment and Capital Stock Dataset; and World Economic Forum.

- ***Enhancing access to credit and capital markets:*** Limited access to credit in local currency and modestly developed capital markets hinder the financial sector's contribution to growth and limit the effectiveness of monetary policy. Improving creditworthy firms' access to credit—particularly for underserved segments like SMEs—while maintaining prudent lending standards, combined with regulatory reforms to facilitate a level playing field could contribute to financial development. The BCU is undertaking various reforms to develop local capital markets, which will also support financial de-dollarization and contribute to increasing the resilience of the financial system.

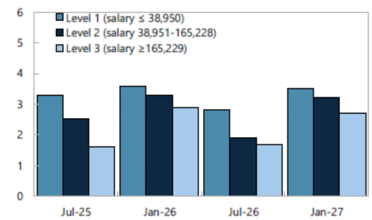
28. Uruguay's labor market faces key challenges, including limited flexibility and an aging population. Labor market institutions have contributed to relatively low inequality and stability and have allowed coordinated mechanisms to navigate crises. However, firms perceive hiring and wage-setting practices as restrictive (Annex II). Introducing measures that help account for firm heterogeneity, such as facilitated opt-outs ('*descuelgue*'), would strengthen competitiveness, contribute to a more efficient labor allocation and potentially dynamize employment opportunities.

29. Aiming to boost low incomes whilst contributing to deindexation, the government's guidelines for the new round of wage negotiations introduce differentiated salary bands adjustments. While previous rounds prioritized the recovery of real wages following the pandemic, two key innovations characterize the 2025-2026 government's guidelines (Text Table 2): (i) wage indexation based on expected inflation, with income level differentiation to protect lower wages, and (ii) correction clauses that are based on core inflation, to stabilize inflation dynamics. Three salary bands have been defined, the first one – for wages below $U 38,950– covers nearly 30 percent of workers, who would receive the most significant increases. Given high unemployment rates for vulnerable populations, it is recommended to monitor potential employment effects for the young and low-skilled. While the proposed biennial adjustments are based on expected inflation, the two annual correction clauses (*correctivos*) would be based on past core and headline inflation. The clauses' thresholds remain above last years' average core inflation, and under current disinflationary trends, they are less likely to be activated. To bolster disinflation, downward adjustments could also be considered if core inflation prints below the tolerance range.

Text Table 2. Wage Negotiations Guidelines: XI Round

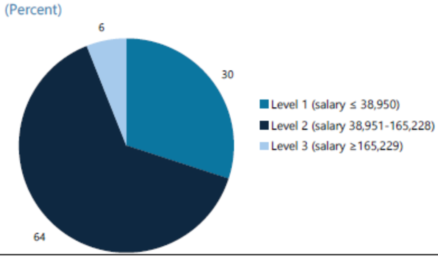
Wage adjustments, by level of salary

Semi-Annual Adjustment Schedule by Salary Level
(Percent)



Note: Income in Uruguayan pesos.

Share of Employment at Different Salary Levels
(Percent)

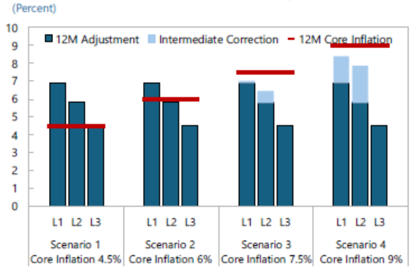


Corrective Clauses, for low and medium-salary bands (levels 1 and 2)

First year intermediate correction: Applies if core inflation exceeds 12-month adjustments plus a tolerance margin (0.5 – 1 percent).

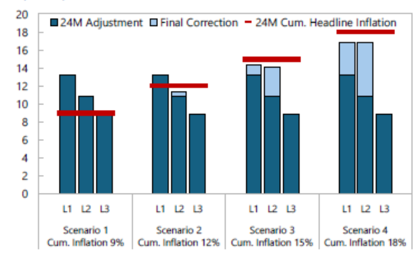
Second year final correction: Based on headline inflation, 24-month adjustments and intermediate correction.

Intermediate Correction (12 months) by Income Band
(Percent)



Sources: IMF staff calculations

Final Correction (24 month) by Income Band
(Percent)

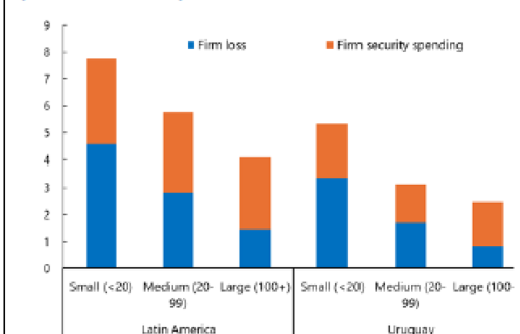


Assumption of 0.5 percent intermediate correction. Source: IMF staff calculations.

Note: Charts show the corrections proposed by the government in case inflation exceeds stipulated adjustments. Four scenarios are shown based on different assumptions (red line) of core inflation for the first year (LHS) and cumulated headline inflation for the second year (RHS). For each scenario three bars show the wage increase that would apply for different income levels (L1, L2, and L3).

30. Population aging poses risks to growth and sustainability, highlighting the value of policies that encourage labor force participation and facilitate the integration of migrants. Closing the labor force participation gender gap to match that of the top 10 percent countries over the next 30 years would result in an additional annual growth of 0.2 percentage points.[12] Immigration is also a natural option to counterbalance the slowdown of native workforce growth. Building on Uruguay's flexible immigration policies and regularization efforts, alleviating bottlenecks in the accreditation system of professional qualifications and skills validation could mitigate skill mismatches, better address labor market shortages and enhance productivity, allowing the country to further benefit from immigrants' arrival and successful labor market integration.

Security Spending and Losses due to Crime
(Percent of sales)



Sources: Bisca and others (2024).

31. Tackling insecurity is a priority of the new administration. Although Uruguay is one of the safest countries in Latin America, recent trends show that crime and organized crime can affect countries even with strong state capacity and robust institutions. With significant

[12] Staff estimates based on the toolkit of Ostry, J.D., J. Alvarez, R. Espinoza, and C. Papageorgiou (2018).

public, private and human capital costs, crime undermines the capacity of the economy. International cooperation and initiatives that identify local vulnerabilities and the competitive advantages attractive to illegal markets will be key to curb organized crime (Annex IV).

Authorities' Views

32. The authorities broadly agreed with staff views and stressed that the measures recently announced are expected to boost competitiveness and growth. They highlighted the new measures to cut red tape, their innovation and digital transformation agenda, and their plans to address school dropout rates by increasing the number of secondary school scholarships from 14,000 to 70,000, along with extending pedagogical time to enhance education quality through additional teaching hours, workshops, and meals. The authorities emphasized that the process of modifying price and wage formation to reduce inflation inertia is being carried out gradually and cautiously, to avoid altering relative prices and to preserve workers' purchasing power. They agreed that accounting for productivity and firm heterogeneity in labor market practices would support flexibility but noted the implementation challenges in the context of imperfect information and complex negotiation dynamics. The authorities have made addressing insecurity a priority, as reflected in the substantial increase in resources and plans to improve information sharing to fight organized crime. The customs administration is strengthening its ability to tackle trafficking, updating its technology, improving access to information and coordination with police, and this has already resulted in a higher number of seizures.

PAST FUND ADVICE

33. Past Fund advice. The authorities' sound and prudent economic policies are consistent with key principles advocated by the Fund. The proposed improvements to the fiscal rule and Fiscal Council are in line with previous Fund advice. The new wage negotiation guidelines will contribute to wage deindexation, in line with previous Fund advice. The appointment of the first BCU president without political affiliation and the absence of FX interventions reinforce the credibility of the BCU. While the five-year budget draft law proposes a medium-term reduction of the deficit, staff and the authorities agree with the need to continue maintaining fiscal prudence, which is key to preserving favorable market access, low sovereign spreads, and safeguarding social cohesion.

STAFF APPRAISAL

34. In 2024, Uruguay's economy rebounded strongly, mainly driven by agricultural exports. With the output gap nearly closed, the unemployment rate has ticked down while inflation has stayed within the tolerance range for more than two years. The fiscal deficit increased in 2024, necessitating the activation of the fiscal rule's escape clause.

35. As the new government embarks on its economic agenda, Uruguay's economy remains resilient despite heightened global uncertainty. The new administration's agenda aims to balance inclusive growth with macroeconomic stability. Global trade policy uncertainty has had limited direct macroeconomic impact, owing to Uruguay's diversified trade partnerships and stable commodity prices, and Uruguay maintains favorable market access, supported by investment-grade credit ratings and sovereign spreads among the lowest in the region.

36. The proposed five-year budget intends to reduce the deficit and stabilize debt in the medium term. The new budget envisages a permanent rise in social spending and investment, to be financed through a gradual increase in revenues. The debt level is expected to increase and converge below a new prudential debt anchor, but further efforts would be recommended to put the debt-to-GDP ratio on a steady downward path. The proposed reform of the fiscal rule and Fiscal Council, with enhancements in line with previous IMF recommendations, will help consolidate recent credibility gains and support fiscal discipline.

37. The appointment of the first BCU president without political affiliation marks a step forward in central bank *de facto* independence. Further emphasizing that the inflation target is at the mid-point of the tolerance range should continue to help anchor expectations. To improve monetary policy transmission and strengthen the financial sector, the BCU started to revamp its de-dollarization strategy. Enhancing *de jure* central bank independence would further improve credibility and support policy continuity.

38. The banking system is well capitalized, highly liquid and profitable with FX risks contained. The authorities remain committed to strengthening the regulatory, supervisory and macroprudential frameworks. Greater access to credit and de-dollarization will reinforce transmission channels while supporting economic growth. Expansion of the regulatory perimeter, the regulation of virtual asset service providers, and further improvements to the AML/CFT framework will help reduce financial vulnerabilities.

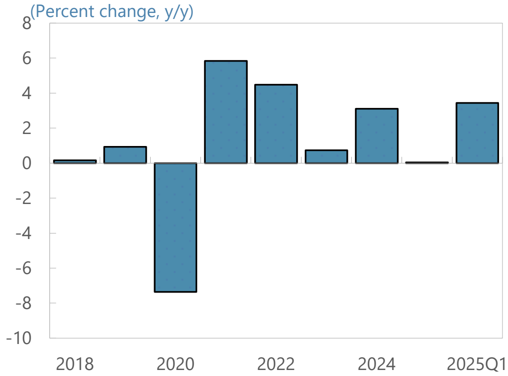
39. Structural reforms are key to boosting Uruguay's potential. Ambitious reforms could pay off as Uruguay lags advanced economies in terms of infrastructure, trade facilitation, entry barriers and regulatory bottlenecks, market concentration, human capital, and access to credit. Closing digital gaps, strengthening innovation and promoting an equitable and ethical integration of AI-driven innovation into education and industry, could also help boosting growth. The recent guidelines for wage negotiation proposed by the government are aligned with inflation objectives and contribute to de-indexation whilst supporting lower-income workers.

40. Staff recommends that the next Article IV consultation take place on the standard 12-months cycle.

Figure 1. Uruguay: Real Activity

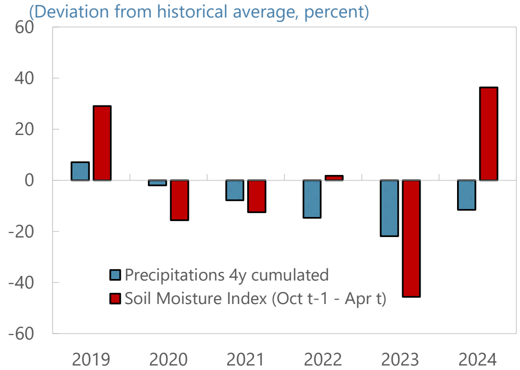
In 2024, the economy recovered from one of the worst droughts in the last hundred years....

Real GDP Growth
(Percent change, y/y)



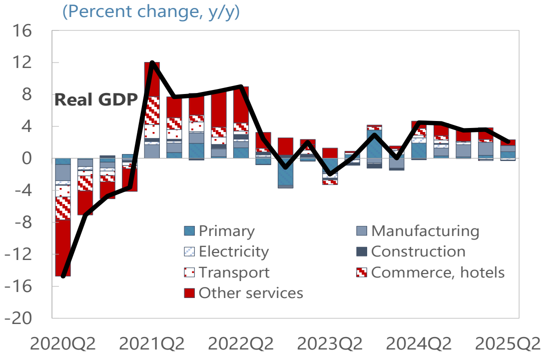
...aided by rainfall that restored crop production.

Precipitation and Soil Moisture Anomalies
(Deviation from historical average, percent)



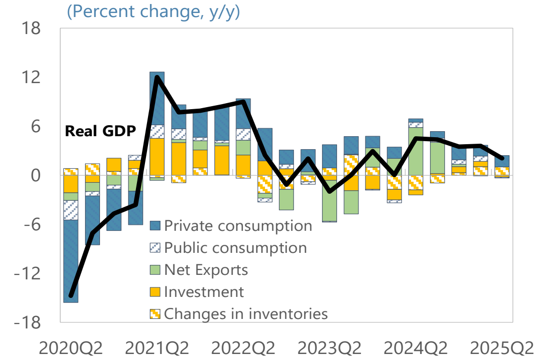
Strong soybean and cellulose production dynamized the agricultural and manufacturing sectors....

Contributions to Real GDP Growth, Production Components
(Percent change, y/y)



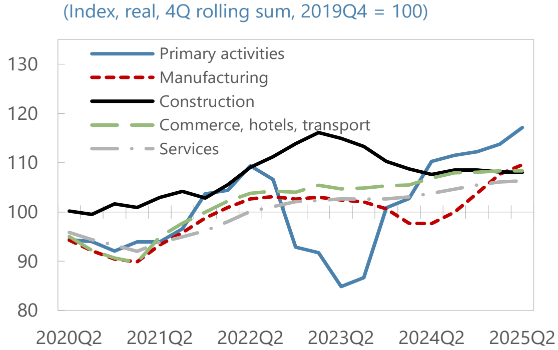
... resulting in a boost of net exports.

Contributions to Real GDP Growth, Demand Components
(Percent change, y/y)



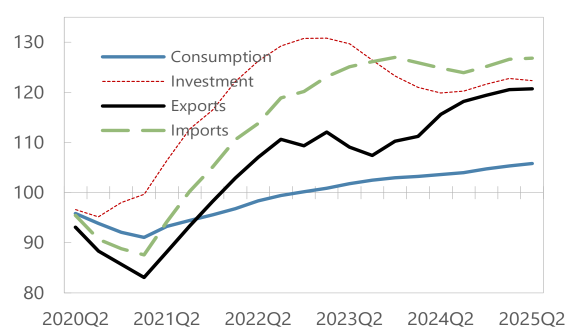
Agricultural production rebounded strongly...

Economic Activity
(Index, real, 4Q rolling sum, 2019Q4 = 100)



...supporting export volumes.

GDP Demand Components
(Index, real, 4Q rolling sum, 2019Q4 = 100)

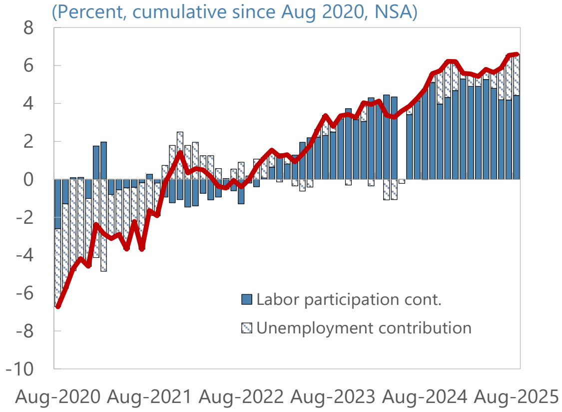


Sources: INE, INUMET, INIAT, Haver Analytics, Banco Central del Uruguay (BCU), Instituto Nacional de Estadistica, Bloomberg L.P., and IMF staff calculations.

Figure 2. Uruguay: Labor Market

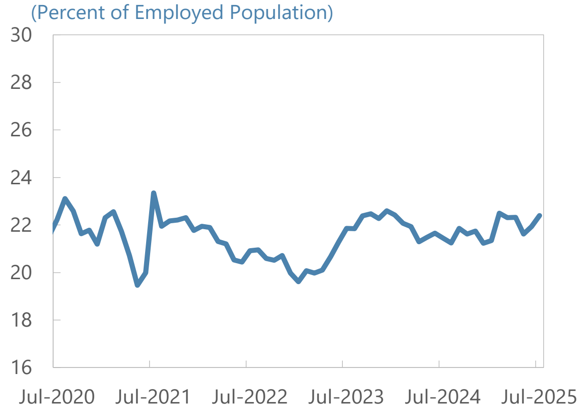
Recovering from the economic slowdown, the labor market has been dynamic….

Employment Change
(Percent, cumulative since Aug 2020, NSA)



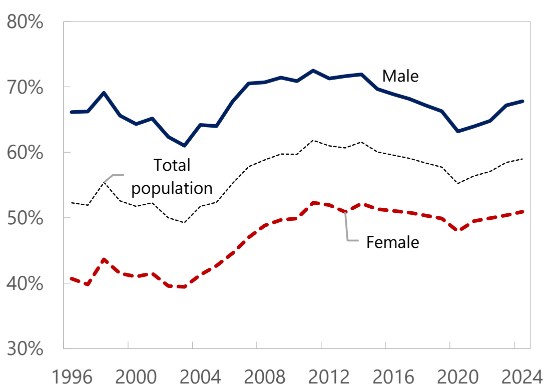
…with informality stabilizing and above pre-drought levels.

Labor Informality
(Percent of Employed Population)



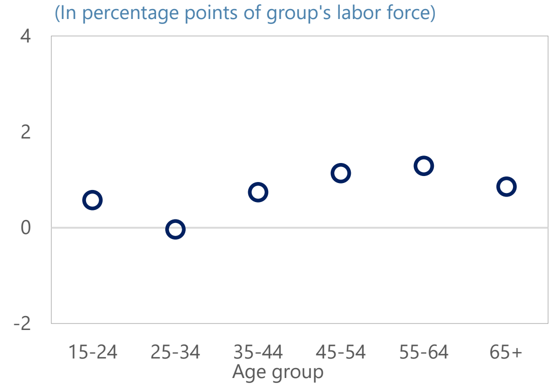
Employment rates improved for men and women….

Employment Rate



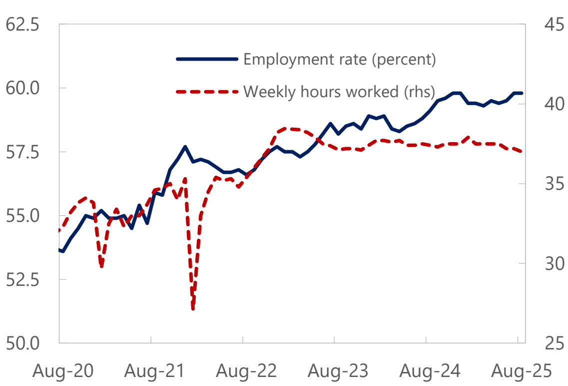
… and youth employment has slightly recovered.

Change in Employment by Age, 2019-24
(In percentage points of group's labor force)



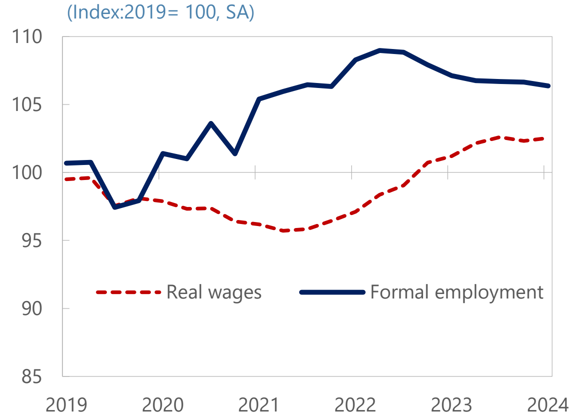
Hours worked have stabilized…

Employment and Hours Worked



…while real wages have recovered to pre-pandemic levels and benefited from lower inflation.

Real Wages and Formal Employment
(Index:2019= 100, SA)

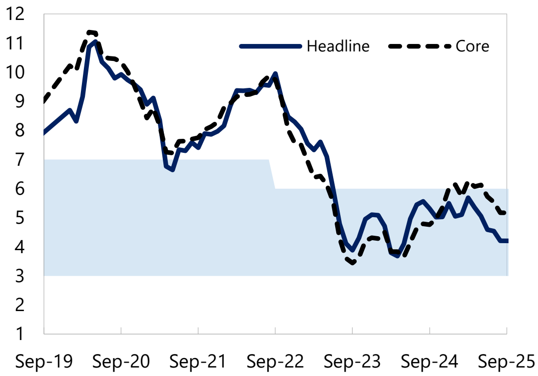


Sources: Haver, ILOSTAT, INE, and IMF staff calculations

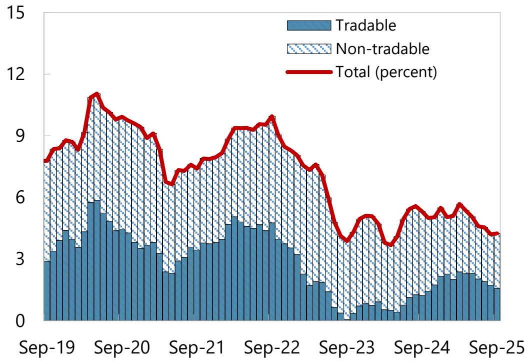
Figure 3. Uruguay: Inflation

In 2025, inflation is converging around the BCU target…. *…however non-tradable inflation has proved stickier.*

Consumer Prices
(y-o-y percent change)



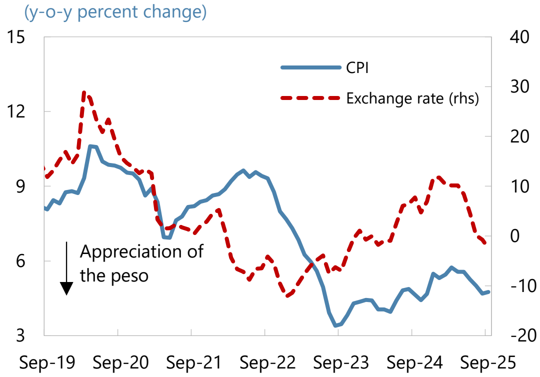
Contributions to Inflation
(In percentage points)



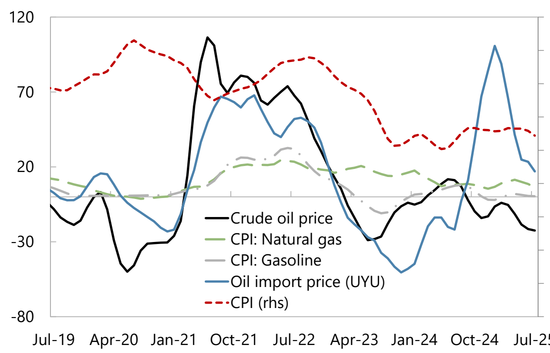
The global weakening of the dollar and consequent peso appreciation contributed to disinflation….

… in a context of lower fuel prices.

CPI and Exchange Rate
(y-o-y percent change)



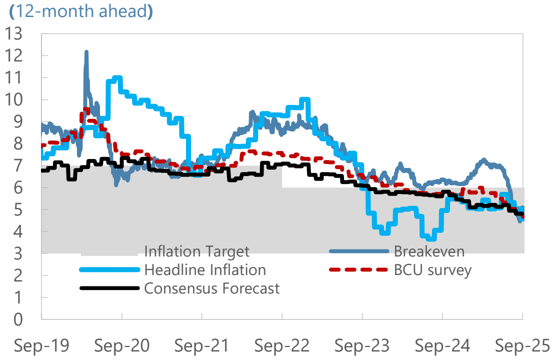
Imported Inflation: Crude Oil
(4-month MA, y-o-y percent change)



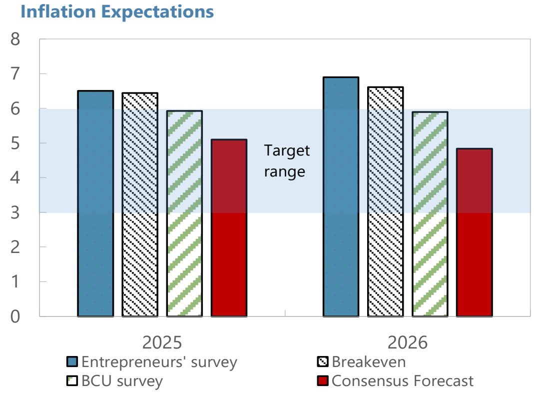
Inflation expectations have eased further…

…gradually converging to the BCU's tolerance range.

Inflation Expectations
(12-month ahead)



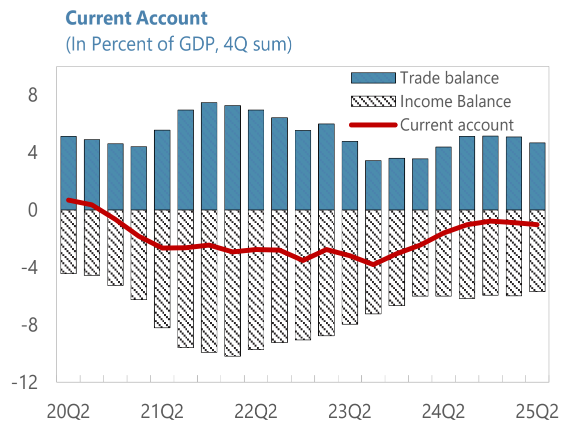
Inflation Expectations



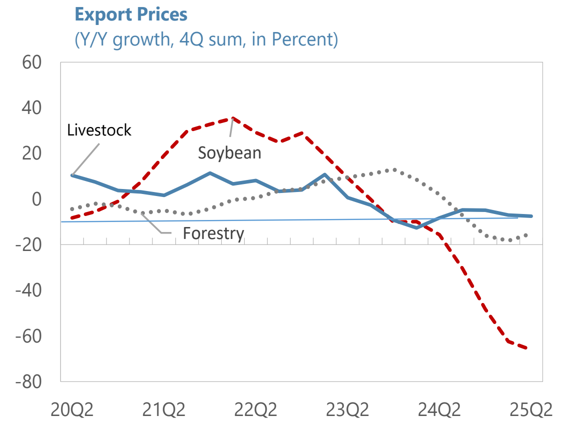
Sources: World Economic Outlook, Haver Analytics, Banco Central del Uruguay (BCU), Instituto Nacional de Estadistica, Bloomberg L.P., and IMF staff calculations.

Figure 4. Uruguay: External Accounts

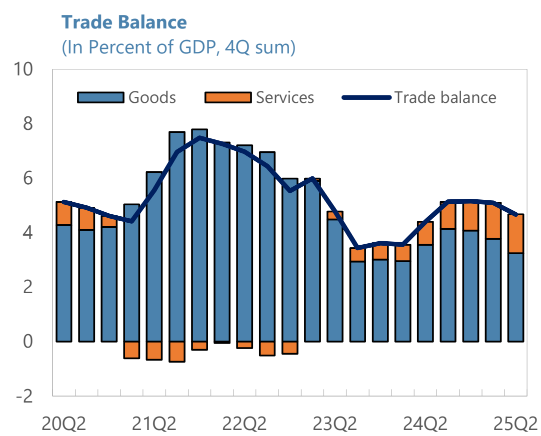
The current account narrowed in 2024 ….



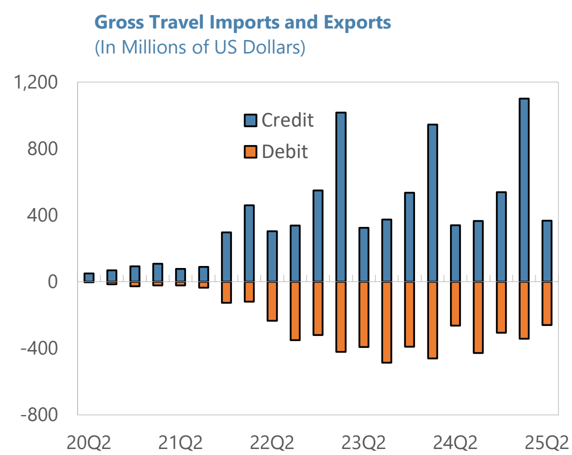
… despite lower soybean prices.



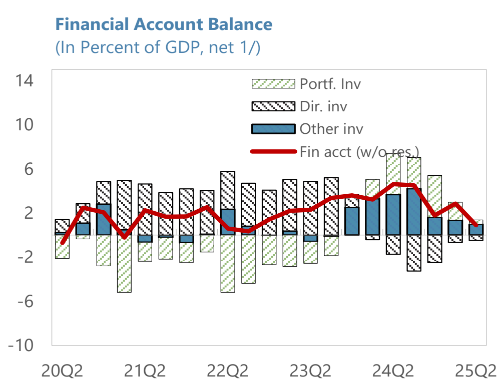
Record cellulose exports, a recovery of soybean exports and solid beef exports bolstered the goods balance …



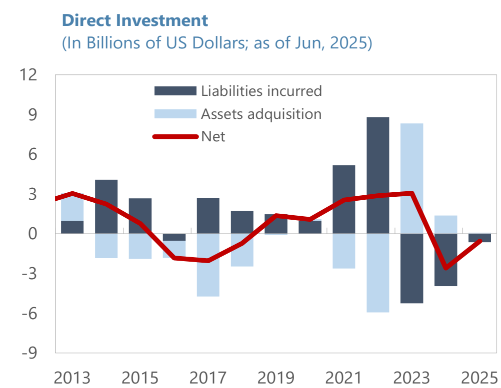
… while the number of Uruguayans visiting Argentina fell.



FDI flows reversed, and portfolio investment increased…



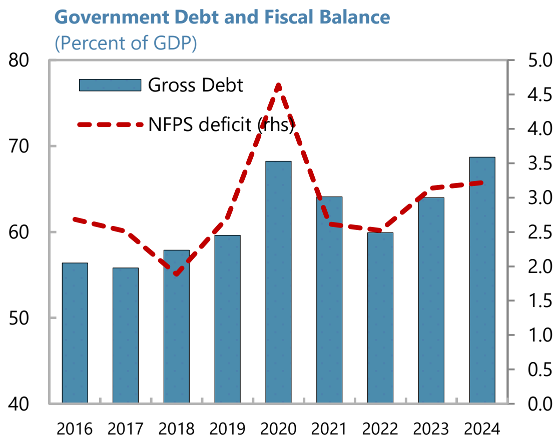
… reducing liabilities incurred in 2024.



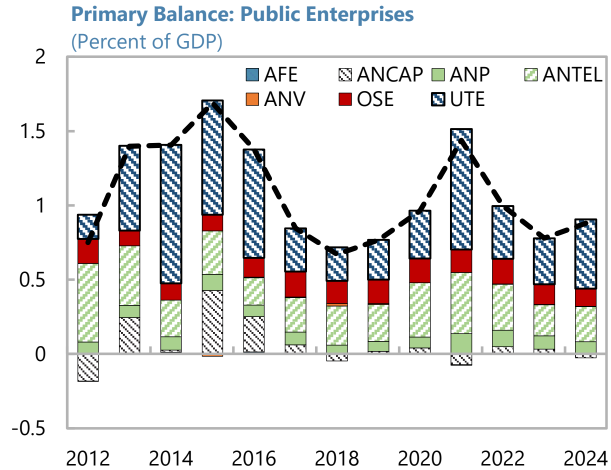
Sources: Banco Central de Uruguay (BCU), World Economic Outlook, Instituto Nacional de Estadistica, Haver Analytics, and IMF staff calculations.
1/ Positive means inflow.

Figure 5. Uruguay: Fiscal Sector

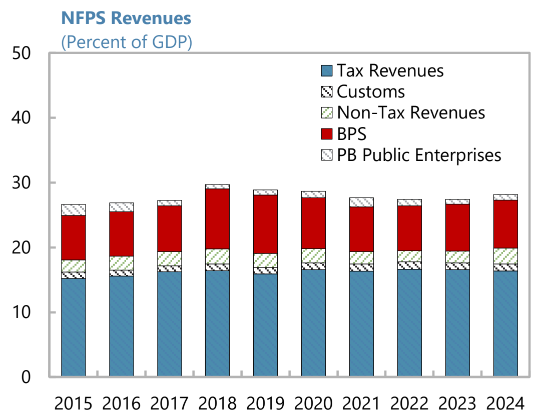
Public debt increased to levels comparable to those during the pandemic while the deficit widened ….



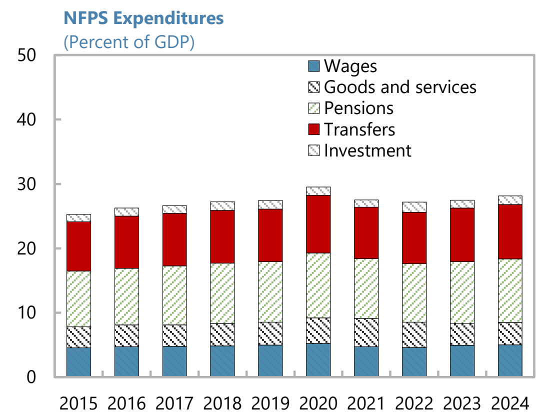
… despite the higher balance of SOEs.



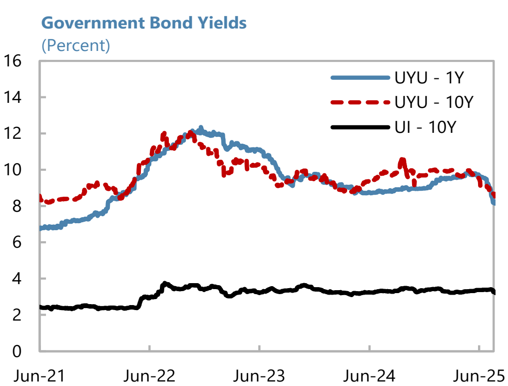
Revenues rose, driven primarily by contributions from state-owned enterprises and non-tax sources…



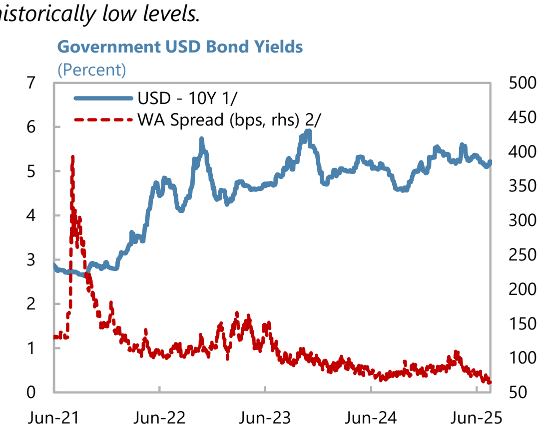
…while expenditures also increased, particularly in pensions and transfers.



Domestic interest rates declined recently…



…mostly driven by decreasing spreads, which remained at historically low levels.

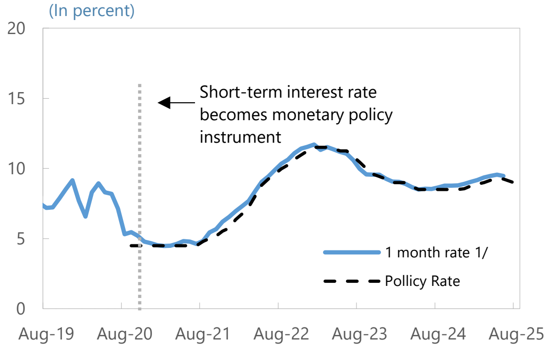


1/ USD-10Y: Yield on 10-year dollar-denominated securities.
2/ WA Spread: Weighted average spread vis-à-vis US Treasuries of comparable maturity.
Source: Uruguayan authorities, Bloomberg, Bolsa Electrónica de Valores del Uruguay, and IMF staff calculations.

Figure 6. Uruguay: Monetary Policy

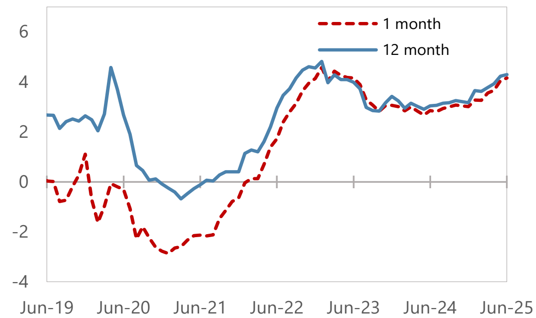
After raising rates towards the end of the year the central bank has started its easing cycle....

Monetary Policy Instrument
(In percent)



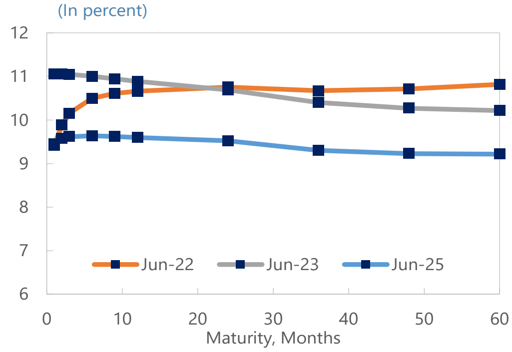
...while keeping the short-term real interest rates above the neutral rate...

Real Interest Rate
(In percent)



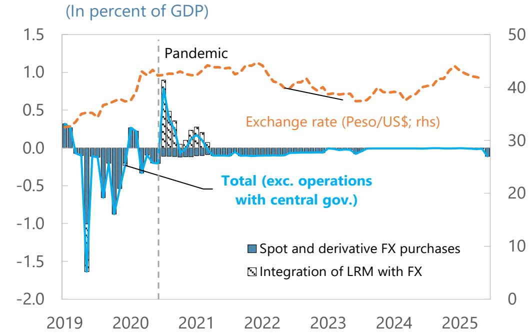
...and the yield curve broadly flat...

Nominal Yields 1/
(In percent)



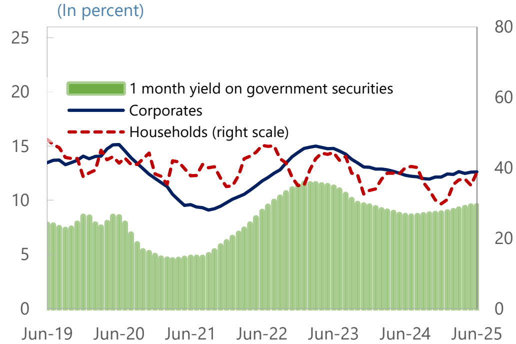
...with no spot and forward FX interventions in 2024 and 2025 to date.

FX Purchases, 2019-25
(In percent of GDP)



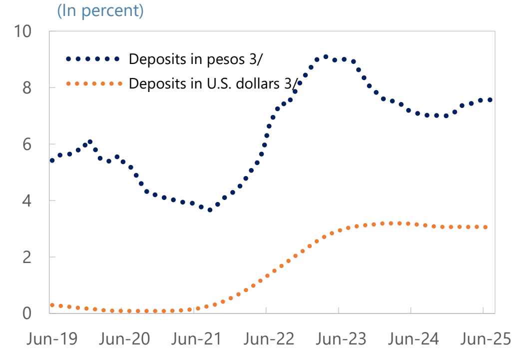
Borrowing costs remain elevated ...

Average Peso Interest Rates 2/
(In percent)



... with a small uptick in rates in local currency while US dollar rates remain steady.

Interest Rates By Currency
(In percent)

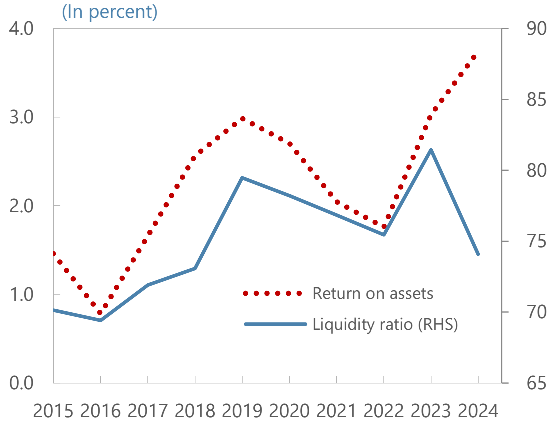


Sources: IMF, World Economic Outlook; Banco Central del Uruguay (BCU), and IMF staff calculations.
1/ Yields on BCU paper issued in nominal pesos (Letras de Regulación Monetaria).
2/ Average interest rates on new peso loans of up to one year.
3/ Weighted average rate on totality of fixed term deposits.

Figure 7. Uruguay: Credit and Banking

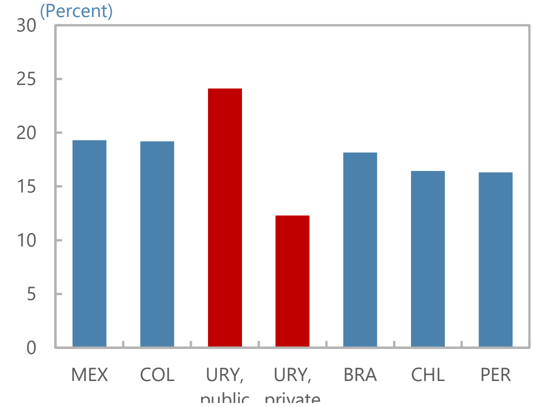
Uruguayan banks improved their profitability supported by higher interest rates...

Return on Assets and Liquidity Ratio
(In percent)



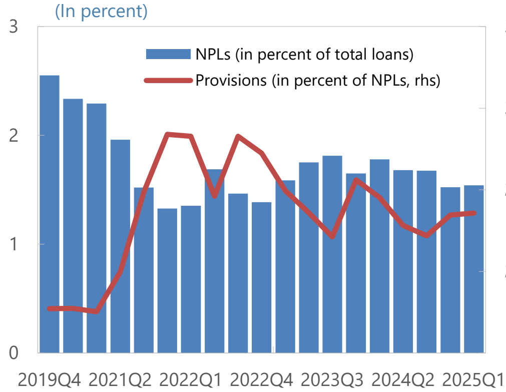
...while capital buffers remained adequate and high for state-owned banks.

Reg. Capital to Risk-Weighted Assets: 2024
(Percent)



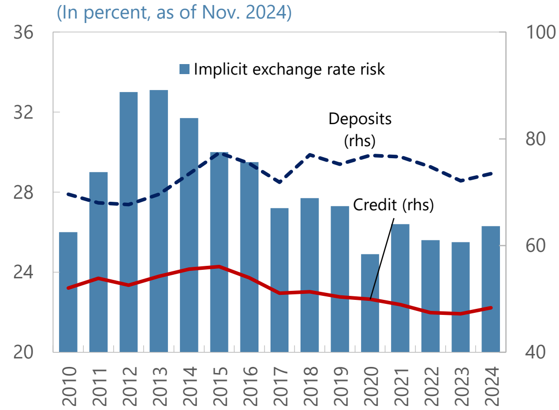
Non-performing loans and provisioning remained stable.

Non-Performing Loans
(In percent)



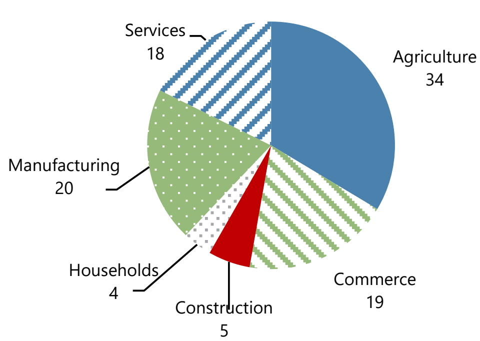
Dollarization, especially for deposits, remains high...

Dollarization and FX Loans
(In percent, as of Nov. 2024)



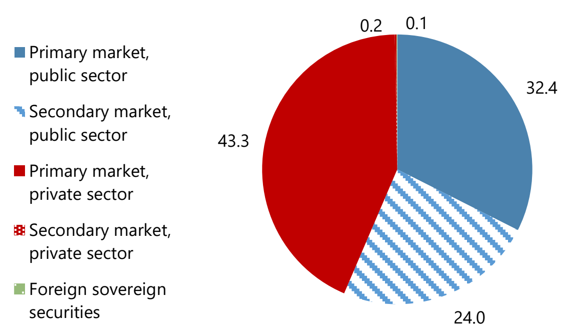
With the agricultural sector receiving the largest share of FX loans among corporates.

Share of Credit by Economic Sector, Foreign Currency
(Percent; as of end-November 2024)



The securities market is dominated by the private sector's certificate of deposits and public sector bonds.

Market Turnover by Type and Ownership, 2024
(Percent)



Sources: IMF, World Economic Outlook; Banco Central del Uruguay (BCU), and IMF staff calculations.

Table 1. Uruguay: Selected Economic Indicators, 2021-26

GDP (2024) in trillions of pesos	3.3	Quota	
GDP (2024) in billions USD	81.0	in millions of SDRs	429.1
GDP per capita (2024), U.S. dollars	23,186	in % of total	0.09
Population (2023) in millions	3.5	Poverty rate (2024)	17.3
Main products and exports	Cellulose, beef, soybeans	Gini coefficient (2023)	40.9
Key export markets	China, Brazil, US, EU	Literacy rate (2022)	99.0

					Projections	
	2021	2022	2023	2024	2025	2026
Output, prices, and employment						
Real GDP (percent change)	5.8	4.5	0.7	3.1	2.5	2.4
GDP (US$ billions)	60.7	70.6	78.0	81.0	85.0	90.6
Unemployment (in percent, pa)	9.4	7.9	8.3	8.2	7.9	8.0
Output gap (percent of potential output)	-1.7	-0.4	-1.3	-1.0	-0.8	-0.5
CPI inflation (in percent, end of period)	8.0	8.3	5.1	5.5	4.0	4.5
	(Percent change, unless otherwise indicated)					
Monetary and banking indicators 1/						
Base money	9.1	1.7	9.0	3.3	...	...
M2	16.2	7.2	11.3	13.3	...	...
Growth of credit to households (in real pesos)	4.4	6.4	7.0	4.6	...	...
Growth of credit to firms (in US$)	7.0	19.1	11.2	7.3	...	...
Bank assets (in percent of GDP)	75.0	67.6	63.2	...	...	...
Private credit (in percent of GDP) 2/	26.7	26.6	28.6	31.1	...	...
Monetary policy rate (end of period)	5.8	11.3	9.0	8.8	...	...
	(In percent of GDP, unless otherwise indicated)					
Fiscal sector indicators 3/						
Revenue CG-BPS (A)	27.4	27.3	27.4	28.2	28.8	28.6
excluding *cincuen/cuarentones*	27.1	27.2	27.4	28.2	28.5	28.6
Primary expenditure CG-BPS (B)	28.2	28.0	28.4	28.9	29.9	30.2
Primary balance of local governments (C)	0.1	0.1	0.0	-0.1	-0.1	-0.1
Primary balance of BSE (D)	0.1	0.0	0.0	-0.1	0.2	0.2
Primary balance NFPS (A-B+C+D)	-0.6	-0.5	-1.0	-1.0	-1.0	-1.5
excluding *cincuen/cuarentones* 4/	-0.9	-0.6	-1.0	-1.0	-1.4	-1.5
Interest NFPS	2.0	2.0	2.1	2.3	2.3	-3.8
Overall balance CG-BPS	-3.7	-3.0	-3.2	-3.2	-3.7	-4.0
excluding *cincuen/cuarentones* 4/	-4.1	-3.2	-3.3	-3.3	-4.1	-4.1
Overall balance NFPS	-2.6	-2.5	-3.1	-3.2	-3.3	-3.8
excluding *cincuen/cuarentones* 4/	-3.0	-2.7	-3.3	-3.4	-3.8	-3.9
Gross debt NFPS	64.1	59.9	64.0	68.7	66.6	68.3
Gross debt CG-BPS (authorities' definition) 5/	61.9	60.0	58.3	62.3	60.2	61.9
External indicators						
Merchandise exports, fob (US$ billions)	15.9	17.7	15.2	16.3	16.9	18.1
Merchandise imports, fob (US$ billions)	11.2	13.4	12.9	13.0	13.3	14.0
Terms of trade (percent change)	2.0	-1.7	0.1	0.4	2.1	2.3
Current account balance	-2.4	-3.5	-3.0	-0.8	-1.4	-1.5
Total external debt + non-resident deposits	83.8	78.1	64.6	55.8	57.7	57.8
Of which: External public debt	35.1	29.4	29.6	31.4	31.6	32.7
External debt service (in percent of exports of g&s)	57.9	54.2	53.4	49.0	49.6	33.6
Gross official reserves (US$ billions)	17.0	15.1	16.2	17.4	19.5	19.7
In months of imports of goods and services	13.2	9.2	10.0	10.9	11.7	11.1
In percent of:						
Short-term external (STE) debt	598	587	720	932	839	793
STE debt plus banks' non-resident deposits	289	263	293	328	334	318

Sources: Banco Central del Uruguay, Ministerio de Economia y Finanzas, Instituto Nacional de Estadistica, and IMF staff calculations.

1/ Percent change of end-of-year data.

2/ Includes bank and non-bank credit.

3/ Non-financial public sector (NFPS) includes the Central Government (CG), Banco de Prevision Social (BPS), Banco de Seguros del Estado (BSE), and Non-Financial Public Enterprises (NFPE).

4/ Temporary proceeds resulting from the pension reform that allowed workers above 50 or 40 years old (and with certain income level) to voluntarily move back to the public pension system.

5/ Incorporates the authorities' August-2025 revision to the debt-ratio calculation—peso debt over peso GDP.

Table 2. Uruguay: Medium-Term Macroeconomic Framework, 2021-30

					Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(Annual percent change, unless otherwise indicated)									
National Accounts										
Real GDP	5.8	4.5	0.7	3.1	2.5	2.4	2.3	2.3	2.2	2.2
Total domestic demand	6.3	5.0	2.1	0.1	2.9	2.8	2.7	2.6	2.6	2.6
Final consumption expenditure	3.8	4.8	2.8	1.7	2.9	2.6	2.4	2.1	2.1	2.2
Private final consumption expenditure	3.2	5.4	3.7	1.7	2.2	2.4	2.5	2.3	2.3	2.2
Public final consumption expenditure	5.6	2.6	-0.7	2.0	5.7	3.5	1.9	1.5	1.0	2.4
Gross capital formation	19.2	5.7	-0.8	-7.1	3.1	3.6	4.6	5.2	5.3	4.2
Gross fixed capital formation	18.8	12.3	-5.7	-1.3	3.0	3.5	4.4	5.0	5.2	4.1
Change in inventories (contribution to growth)	0.1	-1.1	0.9	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth)	-0.2	-0.3	-1.3	3.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Consumer Prices										
CPI inflation (average)	7.7	9.1	5.9	4.8	4.7	4.5	4.5	4.5	4.5	4.5
CPI inflation (end of period)	8.0	8.3	5.1	5.5	4.0	4.5	4.5	4.5	4.5	4.5
Balance of Payments										
Current account balance (percent of GDP)	-2.4	-3.5	-3.0	-0.8	-1.4	-1.5	-1.6	-1.7	-1.7	-1.7
Exports of goods and services (volume)	26.2	4.0	-4.5	3.5	1.5	3.4	3.3	3.2	2.9	3.0
Export of goods (volume)	33.5	0.8	-9.5	6.6	1.4	3.7	3.5	3.3	2.9	3.0
Imports of goods and services (volume)	18.3	14.0	1.5	-2.8	3.6	5.1	4.8	4.6	4.4	4.3
Imports of goods (volume)	22.1	6.1	1.4	0.0	2.9	5.2	4.9	4.8	4.6	4.7
Terms of trade (goods)	4.4	-1.5	-2.4	-1.2	1.6	1.9	0.9	0.9	0.9	1.1
	(In percent of GDP, unless otherwise indicated)									
Non Financial Public Sector										
Revenues	27.4	27.3	27.4	28.2	28.8	28.6	29.2	29.7	30.0	30.1
of which: *cincuen/cuarentones*	0.3	0.1	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Primary expenditures	28.2	28.0	28.4	28.9	29.9	30.2	30.2	30.1	29.8	29.9
Primary balance NFPS 1/	-0.6	-0.5	-1.0	-1.0	-1.0	-1.5	-0.9	-0.3	0.4	0.4
excluding *cincuen/cuarentones*	-0.9	-0.6	-1.0	-1.0	-1.4	-1.5	-0.9	-0.3	0.4	0.4
Cyclically adjusted primary balance	0.2	-0.2	-0.5	-0.5	-0.6	-1.3	-0.7	-0.2	0.5	0.5
Overall balance NFPS	-2.6	-2.5	-3.1	-3.2	-3.3	-3.8	-3.2	-2.7	-2.2	-2.1
excluding *cincuen/cuarentones*	-3.0	-2.7	-3.3	-3.4	-3.8	-3.9	-3.3	-2.8	-2.3	-2.2
Gross NFPS debt	64.1	59.9	64.0	68.7	66.6	68.3	68.9	69.2	68.9	68.6
Net NFPS debt (gross debt minus financial assets)	54.2	51.3	55.4	59.5	57.5	59.3	60.0	60.3	60.0	59.7
External Debt										
Gross external debt	83.8	78.1	64.6	55.8	57.7	57.8	57.6	57.3	56.8	56.3
NFPS gross external debt	35.1	29.4	29.6	31.4	31.6	32.7	32.6	32.6	32.5	32.5
Gross international reserves (US$ billions)	17.0	15.1	16.2	17.4	19.5	19.7	19.9	20.1	20.3	20.5
Saving and Investment										
Gross domestic investment	18.2	18.7	17.5	15.6	15.6	15.3	15.2	15.2	15.2	15.0
Public sector gross investment	3.8	4.9	4.3	4.3	4.8	4.8	4.8	4.9	4.8	4.8
Private sector gross investment	14.4	13.8	13.2	11.3	10.7	10.5	10.4	10.3	10.3	10.2
Gross national saving	15.8	14.9	14.1	14.6	14.2	13.9	13.6	13.5	13.4	13.3
Public sector gross saving	-0.8	-0.1	-1.0	-1.1	-0.9	-1.5	-0.9	-0.4	0.2	0.2
Private sector gross saving	16.5	15.0	15.2	15.7	15.1	15.3	14.5	13.8	13.2	13.1
Unemployment and Output Gap										
Population (Mil)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Labor force participation (percent)	61.4	61.9	63.4	64.3	64.4	64.4	64.4	64.4	64.4	64.4
Employment growth (percent)	3.9	2.2	2.4	2.1	1.4	0.3	0.5	0.5	0.5	0.4
Unemployment rate (percent)	9.4	7.9	8.3	8.2	7.9	8.0	8.0	8.0	8.0	8.0
Output gap (percent of potential output)	-1.7	-0.4	-1.3	-1.0	-0.8	-0.5	-0.1	0.0	0.0	0.0

Sources: Banco Central del Uruguay, Haver Analytics and IMF staff calculations.

1/ The non-financial public sector (NFPS) includes the Central Government, Banco de Prevision Social, Banco de Seguros del Estado, local governments and Non-Financial Public Enterprises.

Table 3. Uruguay: Balance of Payments and External Sector Indicators, 2021-30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Projections					
	(In billions of U.S. dollars, unless otherwise indicated)									
Balance of Payments										
Current account	-1.5	-2.5	-2.4	-0.6	-1.2	-1.3	-1.5	-1.7	-1.8	-1.9
Trade balance	4.7	4.2	2.4	3.3	3.6	4.1	4.3	4.6	4.8	5.1
Exports of goods	15.9	17.7	15.2	16.3	16.9	18.1	19.1	20.1	21.2	22.5
Imports of goods	11.2	13.4	12.9	13.0	13.3	14.0	14.7	15.6	16.4	17.4
Of which: Fuel products	1.3	2.0	1.6	1.5	1.4	1.4	1.5	1.6	1.7	1.9
Of which: Non-fuel products	9.9	11.4	11.3	11.5	11.9	12.6	13.2	13.9	14.7	15.5
Services balance	-0.2	-0.3	0.5	0.9	0.8	0.7	0.7	0.8	1.0	1.2
Exports, f.o.b.	4.1	5.9	7.0	7.1	7.5	8.0	8.6	9.2	9.9	10.7
Imports, f.o.b.	4.2	6.2	6.6	6.2	6.8	7.3	7.8	8.3	8.9	9.5
Income balance	-6.0	-6.4	-5.2	-4.8	-5.5	-6.1	-6.6	-7.1	-7.6	-8.2
Financial and capital account balance	-0.2	-2.6	-2.0	-0.3	-1.2	-1.3	-1.6	-1.7	-1.8	-1.9
Foreign direct investment	-2.5	-2.9	-3.1	2.6	-1.3	-2.3	-2.8	-3.5	-3.7	-3.8
Portfolio investment	1.1	1.8	1.3	-2.1	0.0	0.2	0.4	0.6	0.9	1.1
Financial derivatives and other investments (net)	0.4	0.0	-1.0	-1.9	-2.0	0.5	0.7	1.0	0.8	0.6
Change in reserve assets	0.8	-1.6	0.8	1.2	2.1	0.2	0.2	0.2	0.2	0.2
Net errors and omissions	1.3	-0.1	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Reserve Adequacy and External Indicators										
Gross official reserves (stock)	17.0	15.1	16.2	17.4	19.5	19.7	19.9	20.1	20.3	20.5
In months of imports of goods and services	13.2	9.2	10.0	10.9	11.7	11.1	10.6	10.1	9.6	9.2
In percent of short-term debt	598.1	586.6	719.5	932.1	839.2	793.3	772.3	748.1	726.8	708.4
	(In percent of GDP)									
Balance of Payments										
Current account	-2.4	-3.5	-3.0	-0.8	-1.4	-1.5	-1.6	-1.7	-1.7	-1.7
Trade balance	7.8	6.0	3.0	4.1	4.3	4.5	4.6	4.6	4.6	4.6
Exports of goods	26.2	25.0	19.5	20.1	19.9	19.9	20.2	20.2	20.3	20.4
Imports of goods	-18.5	-19.0	-16.5	-16.1	-15.7	-15.5	-15.6	-15.6	-15.7	-15.8
Of which: Fuel products	2.2	2.8	2.1	1.9	1.7	1.6	1.6	1.6	1.7	1.7
Of which: Non-fuel products	16.3	16.2	14.4	14.1	14.0	13.9	14.0	14.0	14.0	14.1
Services balance	-0.3	-0.5	0.6	1.1	0.9	0.8	0.8	0.8	0.9	1.1
Exports	6.7	8.4	9.0	8.8	8.8	8.8	9.1	9.2	9.5	9.7
Imports	7.0	8.8	8.4	7.7	8.0	8.0	8.3	8.4	8.5	8.6
Income balance	-9.9	-9.1	-6.7	-5.9	-6.5	-6.7	-7.0	-7.1	-7.3	-7.4
Financial and capital account balance	-0.4	-3.6	-2.5	-0.4	-1.4	-1.5	-1.6	-1.7	-1.7	-1.7
Foreign direct investment	-4.2	-4.1	-3.9	3.2	-1.5	-2.5	-3.0	-3.5	-3.5	-3.5
Portfolio investment	1.8	2.6	1.7	-2.6	0.0	0.2	0.4	0.6	0.9	1.0
Financial derivatives and other investments (net)	0.7	0.1	-1.3	-2.3	-2.3	0.6	0.8	1.0	0.7	0.6
Change in reserve assets	1.4	-2.2	1.1	1.4	2.5	0.2	0.2	0.2	0.2	0.2
Total external debt	83.8	78.1	64.6	55.8	57.7	57.8	57.6	57.3	56.8	56.3
Of which: Short-term debt (residual maturity)	13.3	10.5	9.9	10.4	5.5	5.4	5.4	5.3	5.3	5.2
Of which: External public debt	35.1	29.4	29.6	31.4	31.6	32.7	32.6	32.6	32.5	32.5
	(In percent of annual exports of goods and services)									
External Debt										
Total external debt (including non-resident deposits)	255	234	226	193	200	201	197	194	191	187
Debt service	57.9	54.2	53.4	49.0	49.6	33.6	34.7	33.5	33.1	32.5
Of which: Interest payments	1.2	1.5	1.5	1.5	1.6	2.0	2.2	2.4	2.5	2.7
	(Annual percent change)									
External Trade										
Exports of goods in US$	56.9	10.7	-13.8	7.1	3.9	6.7	5.5	5.6	5.4	5.7
Imports of goods in US$	41.8	19.7	-4.1	1.0	2.4	5.3	5.2	5.5	5.6	5.7
Export prices in US$	17.5	9.9	-4.8	0.4	2.5	2.9	2.0	2.2	2.5	2.6
Import prices in US$	12.5	11.5	-2.4	1.6	0.9	1.0	1.0	1.3	1.5	1.5
Terms of trade for goods	2.0	-1.7	0.1	0.4	2.1	2.3	1.7	1.6	1.5	1.7
Export volume (goods and non-factor services)	26.2	4.0	-4.5	3.5	1.5	3.4	3.3	3.2	2.9	3.0
Import volume (goods and non-factor services)	22.1	6.1	1.4	0.0	2.9	5.2	4.9	4.8	4.6	4.7
Export volume (goods)	33.5	0.8	-9.5	6.6	1.4	3.7	3.5	3.3	2.9	3.0
Import volume (goods)	22.1	6.1	1.4	0.0	2.9	5.2	4.9	4.8	4.6	4.7
Of which: Non-fuel products	25.5	7.3	3.0	1.3	3.3	5.1	4.8	4.7	4.4	4.6
Of which: Fuel products	6.0	7.0	-3.2	-2.4	6.2	5.9	5.8	5.7	6.2	5.5

Sources: Banco Central del Uruguay and IMF staff calculations and projections.

Table 4. Uruguay: Main Fiscal Aggregates, 2021-30

	2021	2022	2023	2024	Projections 2025	2026	2027	2028	2029	2030
	(In billions of pesos, unless otherwise indicated)									
Revenues	724	794	830	917	1,014	1,081	1,187	1,295	1,408	1,518
Taxes	479	536	553	607	661	727	799	874	951	1,026
Non tax	33	30	35	41	44	47	51	54	58	63
Social security (BPS)	174	199	218	241	274	279	300	322	346	372
of which: *cincuen/cuarentones*	8	3	0	0	13	0	0	0	0	0
Primary balance NFPE	38	29	24	29	36	28	37	45	52	58
Primary expenditures	747	813	859	941	1,053	1,143	1,226	1,312	1,395	1,505
Current	698	744	796	873	969	1,054	1,130	1,208	1,285	1,386
Wages	125	134	149	163	177	191	204	219	236	251
Goods and services	116	114	104	114	136	150	164	173	180	194
Pensions	246	264	291	321	348	382	410	439	466	506
Transfers	210	232	252	274	308	331	352	378	404	436
Capital	49	69	64	68	83	90	96	104	110	118
Central government	30	45	36	41	53	57	62	67	70	76
Public enterprises	19	24	27	27	30	32	34	37	40	43
Primary balance of CG, BPS and NFPE 1/ 2/	-22	-19	-29	-24	-38	-62	-39	-17	12	13
Primary balance of local governments	3	4	0	-3	-4	-4	-4	-4	-5	-5
Primary balance of BSE 3/	3	1	-1	-5	7	8	8	9	9	10
Primary balance NFPS	-16	-15	-30	-31	-35	-58	-35	-12	17	18
excluding *cincuen/cuarentones*	-24	-17	-30	-31	-48	-58	-35	-12	17	18
Interest of the NFPS	53	59	65	73	81	87	97	107	118	126
Overall balance of the CG-BPS	-98	-88	-96	-104	-129	-151	-142	-132	-122	-133
excluding *cincuen/cuarentones*	-109	-94	-99	-109	-146	-154	-146	-137	-126	-138
Overall balance of the NFPS	-69	-73	-95	-105	-116	-145	-132	-119	-101	-108
excluding *cincuen/cuarentones*	-81	-79	-99	-109	-132	-149	-136	-123	-106	-113
Gross debt NFPS	1,695	1,742	1,938	2,236	2,344	2,582	2,800	3,020	3,229	3,453
Net debt NFPS	1,433	1,490	1,678	1,937	2,024	2,241	2,439	2,632	2,812	3,005
	(In percent of GDP, unless otherwise indicated)									
Revenues	27.4	27.3	27.4	28.2	28.8	28.6	29.2	29.7	30.0	30.1
Taxes	18.1	18.5	18.3	18.6	18.8	19.2	19.7	20.0	20.3	20.4
Non tax	1.2	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Social security (BPS)	6.6	6.8	7.2	7.4	7.8	7.4	7.4	7.4	7.4	7.4
of which: *cincuen/cuarentones*	0.3	0.1	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Primary balance NFPE	1.4	1.0	0.8	0.9	1.0	0.7	0.9	1.0	1.1	1.1
Primary expenditures	28.2	28.0	28.4	28.9	29.9	30.2	30.2	30.1	29.8	29.9
Current	26.4	25.6	26.3	26.8	27.5	27.9	27.8	27.7	27.4	27.5
Wages	4.7	4.6	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Goods and services	4.4	3.9	3.4	3.5	3.9	4.0	4.0	4.0	3.8	3.8
Pensions	9.3	9.1	9.6	9.9	9.9	10.1	10.1	10.0	9.9	10.0
Transfers	8.0	8.0	8.3	8.4	8.7	8.7	8.7	8.7	8.6	8.7
Capital	1.9	2.4	2.1	2.1	2.4	2.4	2.4	2.4	2.4	2.4
Central government	1.1	1.6	1.2	1.2	1.5	1.5	1.5	1.5	1.5	1.5
Public enterprises	0.7	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Primary balance of CG, BPS and NFPE 1/ 2/	-0.8	-0.6	-1.0	-0.7	-1.1	-1.6	-1.0	-0.4	0.3	0.3
Primary balance of local governments	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Primary balance of BSE 3/	0.1	0.0	0.0	-0.1	0.2	0.2	0.2	0.2	0.2	0.2
Primary balance NFPS	-0.6	-0.5	-1.0	-1.0	-1.0	-1.5	-0.9	-0.3	0.4	0.4
excluding *cincuen/cuarentones*	-0.9	-0.6	-1.0	-1.0	-1.4	-1.5	-0.9	-0.3	0.4	0.4
Interest of the NFPS	2.0	2.0	2.1	2.3	2.3	2.3	2.4	2.4	2.5	2.5
Overall balance of the CG-BPS	-3.7	-3.0	-3.2	-3.2	-3.7	-4.0	-3.5	-3.0	-2.6	-2.6
excluding *cincuen/cuarentones*	-4.1	-3.2	-3.3	-3.3	-4.1	-4.1	-3.6	-3.1	-2.7	-2.7
Overall balance of the NFPS	-2.6	-2.5	-3.1	-3.2	-3.3	-3.8	-3.2	-2.7	-2.2	-2.1
excluding *cincuen/cuarentones*	-3.0	-2.7	-3.3	-3.4	-3.8	-3.9	-3.3	-2.8	-2.3	-2.2
Gross debt NFPS	64.1	59.9	64.0	68.7	66.6	68.3	68.9	69.2	68.9	68.6
Net debt NFPS	54.2	51.3	55.4	59.5	57.5	59.3	60.0	60.3	60.0	59.7
Memorandum Items:										
Real revenues growth (in percent)	3.2	4.3	1.1	5.9	4.9	1.5	4.6	3.9	3.5	2.6
Real primary spending growth (in percent)	1.7	-0.6	-0.5	4.7	7.0	4.0	2.6	2.4	1.8	3.2
GDP (in billions of pesos)	2,645	2,906	3,028	3,256	3,519	3,783	4,064	4,365	4,686	5,036
Gross debt CG-BPS (authorities' definition)	60.0	56.4	58.3	62.3	61.5	64.0	65.3	65.9	66.2	66.2
Net debt CG-BPS (authorities' definition)	55.3	52.4	54.5	58.0	57.7	60.4	61.9	62.6	63.0	63.0

Sources: Ministerio de Economia y Finanzas, Banco Central del Uruguay, and IMF staff calculations.

1/ Banco de Prevision Social (BPS).

2/ Non-financial public enterprises (NFPE).

3/ Banco de Seguros del Estado (BSE).

Table 5. Uruguay: Monetary Survey, 2016-24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(End of period, in billion of pesos)								
Banco Central del Uruguay (BCU)									
Net foreign assets	399	461	565	560	705	764	615	634	774
Gross international reserves	394	459	546	542	687	758	606	633	768
Net domestic assets	-285	-330	-443	-413	-542	-584	-421	-412	-542
Net credit to the public sector	60	104	112	108	66	35	63	135	126
Net credit to the financial system	-202	-176	-272	-284	-323	-346	-288	-276	-318
Credit to the private sector	1	1	1	1	1	0	0	0	0
Securities issued by the BCU	-125	-250	-222	-205	-280	-291	-283	-333	-371
Other	-55	-56	-162	-105	-76	-30	94	28	-51
Peso monetary liabilities 1/	113	131	122	147	163	180	194	222	232
Public and Private Banks 2/									
Net foreign assets	177	168	318	281	395	477	449	394	446
Net domestic assets	611	633	735	757	899	1,039	1,042	1,112	812
Net credit to the public sector	39	36	62	56	63	77	70	86	100
Net credit to the financial system	250	285	339	351	439	497	446	454	35
Credit to the private sector	445	445	548	554	627	706	773	865	1,011
Other	-123	-133	-214	-204	-229	-241	-248	-293	-335
Liabilities to the private sector (residents)	788	801	1,051	1,038	1,293	1,516	1,491	1,505	1,755
Banking System (Central, Private, and Public Banks)									
Net foreign assets	575	629	883	841	1,100	1,241	1,064	1,027	1,220
Net domestic assets	236	197	42	230	229	313	463	520	574
Credit to the public sector	98	140	174	164	129	112	133	221	226
Credit to the rest of financial system	-6	50	-83	24	57	57	-5	33	94
Credit to the private sector	445	446	549	555	627	706	773	865	1,011
Other	-302	-439	-598	-514	-585	-562	-438	-598	-757
Broad money (M3)	811	826	925	1,070	1,329	1,554	1,528	1,548	1,795
	(In percent of total private credit) 3/								
Composition of Credit									
Credit to firms	60.9	57.3	56.7	57.9	60.3	63.2	62.0	61.2	61.6
Credit to households	39.1	42.7	43.3	42.1	39.7	36.8	38.0	38.8	38.4
Consumption	46.7	45.8	44.5	44.2	55.0	50.5	51.2	51.3	51.5
Car loans	0.0	0.0	0.0	0.3	3.6	4.2	5.4	6.9	9.6
Mortgages	25.9	25.8	25.1	25.4	41.5	45.3	43.3	41.9	38.7
	(Percent change) 3/								
Memorandum Items:									
Base money	9.7	3.6	-6.5	27.2	5.8	9.1	1.7	9.0	3.3
M1	6.6	10.3	2.8	8.8	15.7	16.4	-0.1	6.1	10.5
Broader M1 (M1 plus savings deposits)	8.4	15.0	5.7	8.3	18.5	17.8	0.4	9.9	12.5
M2	14.4	13.3	9.9	6.3	16.8	16.2	7.2	11.3	13.3
M3	3.9	1.9	11.9	15.7	24.2	16.9	-1.7	1.3	15.9
Credit to firms (in US$)	1.5	-4.2	2.4	-3.7	1.1	7.0	19.1	11.2	7.3
Credit to households (in real pesos) 4/	-0.5	2.7	1.3	1.9	-0.6	4.4	6.4	7.0	4.6

Source: Banco Central del Uruguay and IMF staff calculations.

1/ Peso monetary liabilities include base money and non-liquid liabilities.

2/ The Banco de la Republica Oriental de Uruguay (BROU), Banco Hipotecario de Uruguay (BHU; mortgage institution), private banks, financial houses and cooperatives.

3/ Percentage change from previous year. In pesos, unless otherwise indicated.

4/ Includes credit to households from banks and credit cooperatives.

Table 6. Uruguay: Selected Financial Soundness Indicators, 2016-24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital Adequacy									
Regulatory capital in percent of risk-weighted assets	14.2	15.6	16.6	16.8	17.7	16.3	16.9	17.0	17.2
Regulatory Tier 1 capital to risk-weighted assets	13.0	14.5	15.6	15.7	16.6	15.4	15.8	16.0	16.6
Capital to assets	8.6	9.2	10.3	10.4	9.7	8.9	9.6	10.1	10.5
Asset Quality									
Non-performing loans in percent of total loans	2.4	2.7	2.8	2.6	2.3	1.3	1.4	1.7	1.5
Specific loan-loss provisions in percent of non-performing loans	152.0	158.3	159.7	177.1	177.4	283.9	272.4	256.1	234.5
Earnings and Profitability									
Return on assets	0.8	1.7	2.6	3.0	2.7	2.0	1.8	3.0	3.7
Return on equity	2.7	11.4	19.1	21.5	20.8	15.4	11.6	22.7	26.8
Interest marging to gross income	60.8	61.8	70.1	70.5	68.3	65.3	69.2	57.0	54.1
Trading income to total income	6.2	5.6	1.1	0.8	2.6	0.5	-2.5	15.3	12.5
Liquidity									
Liquid assets to total assets	50.7	52.0	53.4	70.2	59.4	59.5	55.9	58.8	52.0
Liquid assets to short-term liabilities	69.4	71.9	73.1	79.5	78.2	76.8	75.4	81.4	74.1
Customer deposits to total (noninterbank) loans	180.4	179.1	169.9	182.4	205.5	205.8	178.9	159.5	161.9
Net open position in foreign exchange to capital	36.1	34.5	35.7	36.2	32.6	29.9	30.6	35.1	35.3
Dollarization									
Foreign-Currency-Denominated Loans to Total Loans	64.9	62.0	70.4	57.0	55.8	53.8	51.2	50.6	53.0
Foreign-Currency-Denominated Liabilities to Total Liabilities	73.9	70.6	70.0	73.3	74.3	73.8	71.1	68.7	69.4

Sources: Uruguayan authorities; and IMF Financial Soundness Indicators.

Annex I. Maximum Debt Capacity in Uruguay[1]

1. While the Uruguayan fiscal rule framework introduced in 2020 played a notable role in strengthening fiscal discipline, updating it is important to learn from experience. In particular, the framework lacked a fiscal anchor directly linked to the ultimate objective of debt sustainability. Without such a reference point, the framework missed a mechanism to systematically steer public finances toward long-term sustainability (see IMF, 2022). Establishing a transparent and credible debt-to-GDP anchor is important to strengthen fiscal discipline and enhance policy predictability. The fiscal framework proposed by the new administration in the five-year budget submitted to parliament in August 2025 considers a net debt anchor of 65 percent of GDP for the CG-BPS, equivalent to 75 percent of GDP for the NPFS coverage on a gross basis.[2]

2. This Annex briefly summarizes the literature on debt thresholds (or limit) relevant for Uruguay and applies Jiang et al. (2024)'s new method to estimate a debt limit. The literature usually defines the debt limit as the level of debt beyond which the sustainability of public finances would be severely compromised. After establishing a suitable debt limit along with an assessment of the potential shocks impacting debt trajectories, a prudential debt anchor is defined as a level that minimizes the likelihood of exceeding the debt limit over a specific time frame (IMF, 2023). Therefore, a prudential debt anchor is equivalent to the debt limit minus a "safety margin".

3. The literature has proposed several methodologies to estimate the debt limit of countries:

a. **Debt thresholds estimated using empirical models predicting debt distress events.** For instance, exceeding a debt threshold of about 70 percent of GDP has been found, for the case of emerging markets, to substantially increase the likelihood of a debt distress event or affect negatively growth (Caner et al., 2010; Chudik et al., 2017).

b. **The Maximum Achievable Primary Balance (MAPB) method**: Starting with the formula of the debt-stabilizing primary balance (see for instance Escolano, 2010), the MAPB focuses on identifying the highest primary balance a government could theoretically sustain based on historical data and fiscal policy constraints. This method assesses the upper bound of fiscal effort, assuming the government maximizes the primary surplus. The debt limit ratio in the MAPB is estimated as

[1] Prepared by Hector Perez Saiz (Western Hemisphere Department).

[2] In addition to not considering the liquid assets of the government, the gross debt of the NFPS includes the debt of the central government with the BCU, the debt of local entities, and the debt of the non-financial public sector, among others. With the recent change in methodology announced by the authorities in the recent five-year budget submitted to the parliament, both the estimated net debt ratio of the GC-BPS provided by the authorities and the gross debt ratio of the NFPS included in this report are estimated by dividing debt levels measured in pesos over GDP measured in pesos. The difference between both ratios is estimated approximately at 10 percentage points of GDP as of 2024.

$$\frac{D}{Y} = \frac{PB^*}{r - g}$$

where PB^* is the highest achievable primary balance, and $r - g$ is the difference between the real interest rate on debt and economic growth. The intuition of this method is that governments cannot do "whatever it takes" to generate primary surpluses to stabilize debt in a very unfavorable macroeconomic environment as there are constraints on raising revenues as well as on cutting expenditures, which cannot fall below certain levels.

c. **Debt limit and fiscal space:** Ostry et al. (2010) refined the MAPB method by considering the optimum fiscal reaction function, which captures how governments adjust their primary balances in response to rising debt. The key insight is that as debt increases, governments often raise their primary surplus to stabilize debt dynamics, but there is a limit to how much fiscal tightening is politically and economically feasible. Once a country reaches the point where it can no longer increase its primary balance to offset the growing interest burden of debt, its debt level becomes unsustainable.

4. **Recently, Jiang et al. (2024) introduced a new framework that draws on multiple strands of existing literature.** They develop a continuous-time stochastic model to analyze optimal fiscal policy in the presence of tax distortions and government borrowing. Building upon Barro's (1979) framework, the authors explore how factors such as primary deficits, interest payments, and GDP growth influence the dynamics of the debt-to-GDP ratio. Their model also considers the government's option to default, which determines its debt-carrying capacity (i.e. debt limit), and incorporates a convenience yield on risk-free government debt that affects the timing of debt issuance and tax policies. The authors arrive at an elegant formula for the debt-carrying capacity incorporating these elements:

$$\frac{D}{Y} = \frac{\tau_N - \gamma}{r + \epsilon + \lambda - \delta - g}$$

where τ_N is the optimum tax rate, γ is the government spending ratio, r is the risk-free rate, ϵ is the debt surge arrival rate, λ is the risk premium on GDP volatility, δ is the convenience yield, and g is GDP growth.

5. **Estimations of the debt limit for Uruguay's NFPS gross debt ratio are presented here, using two approaches.** [3] The first approach uses the MAPB method. Based on the relatively large primary surpluses that were observed in Uruguay during the 2000s, close to 3.5 percent of GDP, real interest rates under stress ranging from 6 to 7 percent, and a growth rate near the estimated potential of 2.2 percent, the approach yields debt limit estimates for the NFPS between 60 and 100 percent of GDP (Figure A1). The second approach uses the model of Jiang et al. (2024) and estimates a range for the debt limit for Uruguay's NPFS between 81 and 113 percent of GDP, for an average

[3] These empirical estimates consider gross debt of the non-financial public sector (NFPS), which is the fiscal perimeter considered by the IMF in the debt sustainability analysis for Uruguay.

estimate around 95 percent. [4] The sensitivity analysis shown in Figure A2 together with the broad range of results reported in the prior literature and alternative methodologies, underscore the substantial uncertainty surrounding the estimate of debt limit.

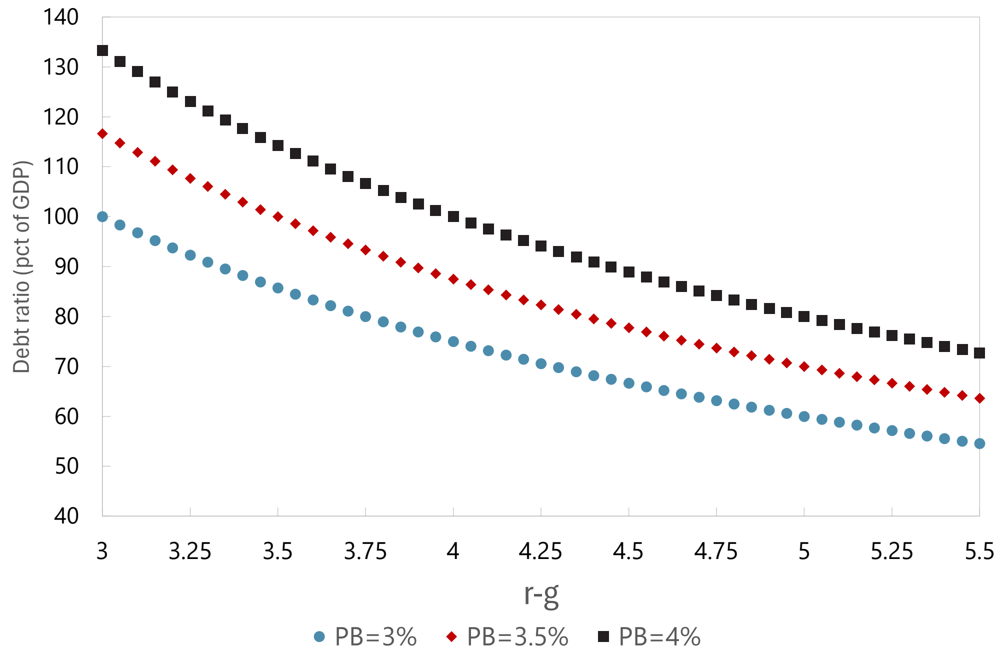
6. Given a debt limit, an estimated distribution of future debt trajectories is needed to calibrate a prudential debt anchor. Using data on shocks to debt and to its main determinants since 2001, the 90th percentile of the debt-to-GDP ratio appears to be large, around 40 percent of GDP above the baseline at a 5-year horizon. But such an exercise includes the 2002-5 crisis in Uruguay, in which a dramatic exchange rate devaluation hiked the debt ratio and banks' recapitalization cost around 17 percent of GDP. With international reserves currently at 11½ months of imports and a share of FX-denominated debt half of what it was 25 years ago (from 95 percent of debt to 49 percent of debt), such FX-related jumps in debt are now improbable. In addition, the banking sector is very well capitalized and highly liquid. If the 2002-5 crisis is excluded from the historical sample to draw a distribution of possible future debt trajectories, the width of the upper half of the debt distribution falls to around 25 percentage points of GDP.

7. Previous analyses for Uruguay have suggested a debt limit (for the NFPS perimeter) of around 70-90 percent of GDP, and a debt anchor of around 50-70 percent of GDP. Sbrancia (2023) estimates the debt limit at 70 percent of GDP (for the NFPS perimeter), while Cantisani (2024) places it at 84 percent of GDP (for the Central Government-BPS). Based on these debt limits, assuming a ten-year horizon and a 5 percent tolerance level, the prudential debt levels (NFPS coverage) estimated by the authors would be around 51 percent of GDP and 75 percent of GDP, respectively, whereas our results suggest a range of 55-80 percent of GDP. A recent report from the Fiscal Advisory Council in Uruguay (CFA, 2024) reviews various methodologies and some of these results.

8. Going forward, rising global interest rates, heightened uncertainty, and more frequent shocks are putting downward pressure on countries' debt-carrying capacity. Higher borrowing costs increase debt service burdens and can worsen debt dynamics. In parallel, increased geopolitical risks and global uncertainty raise risk premium, reduce market access, and may amplify volatility. For the case of Uruguay, more frequent and correlated shocks—such as climate events, or commodity price swings—could further strain fiscal buffers and challenge the ability to sustain high debt levels, suggesting a cautious approach is needed when considering these estimates.

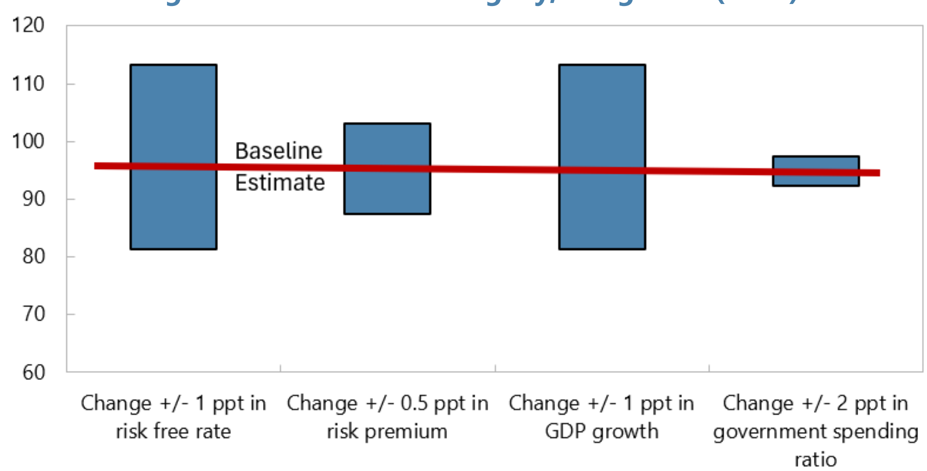
[4] This estimate assumes a risk-free rate (r) equal to 0.9 percent; a growth rate (g) equal to 2.5 percent; and a growth risk (λ) equal to 1.9 percent, among other parameters.

Figure 1. Debt Limit in Uruguay, MAPB method



Note: Debt limits shown for URY for various parameters considered. Source: IMF Staff calculations

Figure 2. Debt limit in Uruguay, Jiang et al. (2024)



Note: Sensitivity analysis shows the range for the debt limit corresponding to the increase/decrease in the parameters specified in each case. Source: IMF Staff calculations based on Jiang et al. (2024).

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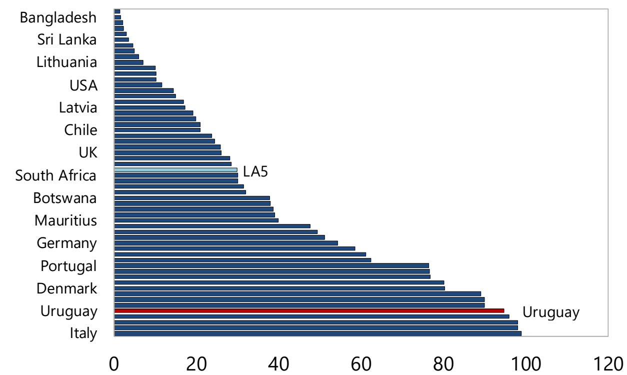
Annex II. Labor Market in Uruguay: Institutions and Challenges[1]

1. The labor market dynamics in Uruguay are shaped by a highly centralized and widespread collective bargaining process. With more than 95 percent of all formal employment covered, Uruguay has one of largest collective bargaining coverage of the world. The negotiations are tripartite, including representatives from employers, labor unions and the government, which sets negotiation guidelines (*pautas*) for each round. The system is characterized by being highly centralized. Currently divided into 24 sectors with several subgroups, the 252 agreements are extended to all workers including those that do not participate in negotiations (Law 18.566, 2009).

Collective Bargaining Coverage
(Percent)



Source: ILO, IMF staff calculations.

2. The current bargaining framework presents several trade-offs.

- *Indexation*: Although widespread indexation practices have protected real wages, they have contributed to inflation persistence in the past (Rabanal and Sbrancia, 2024). The parameters to adjust wages have changed over time and have typically included three components:[2] (i) expected inflation (ii) corrective clauses where additional adjustments are incorporated if inflation exceeds expected inflation and (iii) recovery or real growth, which partially reflects improvements in aggregate productivity and more recently, to account for the impact of the pandemic on real salaries. While past agreements incorporated an expected inflation measure, the application of corrective clauses induced backward-looking indexation. This has increased the persistence of inflationary shocks that in principle could be transitory, leading to more difficult monetary policy trade-offs.[3]

- *Minimum wages*. Evidence suggests that the minimum wage policies reintroduced in the collective agreement framework could have helped reduce wage inequality across firms by increasing wage premia of low-paying firms in Uruguay (Bergolo et al. 2025). However, the system often fails to recognize the heterogeneity among firms, such as differences in size, location, productivity, financing, and seasonal factors. This lack of differentiation can impose constraints on competitiveness by hindering efficient labor reallocation and limiting the operational flexibility of smaller firms. Additionally, opt-outs (*descuelgues*), which would allow firms or sectors to apply exceptions if they are unable to meet wage increases, are rarely used,

[1] Prepared by Maria Alexandra Castellanos (Western Hemisphere Department).

[2] Cukerman, et al. (2017), CPA Ferrere Report (2022) "Negociación Colectiva y Formación Laboral en Uruguay".

[3] See Rabanal and Sbrancia (2024)

although there are no significant regulatory obstacles, which suggests an issue with firm and workers incentives to entertain them.

- *Hiring regulations*. The country ranks relatively high in terms of flexibility in employment protection legislation, with lower stringency in dismissal practices than regional and OECD peers and severance payment levels comparable to the regional average. However, firms perceive hiring regulations and wage-setting practices as restrictive, particularly due to the centralized nature of collective bargaining.[4] The academic literature (based on data from other countries) has shown that a high degree of centralization can have large costs in terms of forgone aggregate earnings and employment (Boeri et al. 2021). Employment and wage-setting frictions can reinforce geographical and intergenerational disparities considering that vulnerable groups, such as inland and young workers, are more sensitive to labor market rigidities (Torres and McKenzie, 2020).[5]

[4] WEF, Global Competitiveness Report; EIU, Business Environment Ratings. See also Selected Issues Paper.

[5] While the evidence of collective bargaining on employment effects for the youth is mixed (Banerji and others, 2015; Bertola and others, 2007, Fanfani 2023), they remain a vulnerable group considering that the wages of youth and low tenure workers are often concentrated near the minimum floors set by collective agreements (Card and Cardoso, 2022; Cardoso (2005), Adamopoulou and Villanueva (2022)), and that wage rigidities from these agreements can exacerbate job losses during recessions for workers close to the minima (Adamopoulou and Villanueva, 2025).

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Annex III. Migration in Uruguay: Challenges and Opportunities[1]

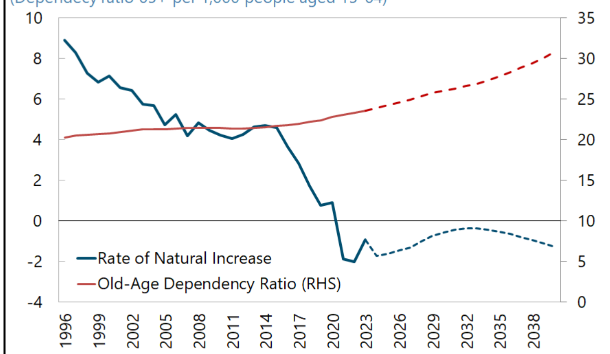
A. New Demographic Landscape

1. Uruguay's population is at risk of stagnation. The 2023 Census revealed the lowest intercensal population growth since 1860 with a 0.2 percent annual average growth between 2011 and 2023. Fueled in part by lower fertility[2], the rate of natural increase has not only been declining but has reached negative numbers with deaths exceeding the total number of births since 2021. Uruguay's population peaked at 3.5 million in 2020 and is expected to decline steadily to 3.0 million in 2070 alongside population aging. By then, one third of the population will be 65 or older –twice the current share–with the average age rising from 38 to almost 50 years and a sustained increase in the old-age dependency ratio.[3]

Rate of Natural Increase and Old-Age Dependency Ratio

(RNI per 1,000 people)

(Dependecy ratio 65+ per 1,000 people aged 15-64)



Sources: INE

2. A smaller and aging population poses significant challenges for the labor market, productivity and long-term growth. By increasing labor market shortages, a declining workforce can drive up wage pressures and weaken competitiveness. Lower labor supply may not only slow output growth (Gagnon et. a. 2921; Maestas et Al. 2023) but also hinder innovation and productivity (Aksoy et. a. 2019, Jones 2022). A rising old-age dependency ratio can strain inter-generational equity as well as fiscal sustainability by putting additional pressure on pension systems and care-related public spending (Lee 2016).[4]

3. Reversing a historical trend, immigration has contributed to halting Uruguay's population from shrinking. Immigration has seen a significant upswing over the past 10 years, emerging as a potential factor to prevent population decline. Since 2017, Uruguay has experienced a sharp boost in the immigrant population. By 2023 nearly 122.2 thousand people living in the country were foreign-born, 59.5 percent more than in the previous census (2011) accounting for 3.5 percent of the population. Assuming current immigration trends continue, population decline would be postponed by almost 20 years (Figure 1.2).[5] Moreover, the significantly younger age distribution of recently arrived migrants (Figure 2), can add to a favorable demographic boost. Immigration can

[1] Prepared by Maria Alexandra Castellanos (Western Hemisphere Department).

[2] Since 2016, the reduction in TFR has accelerated at unprecedented levels falling from 2.0 births per woman in 2015 to 1.3 in 2023, the lowest in Latin America and below the 2.1 replacement rate.

[3] INE, 2025 population projections.

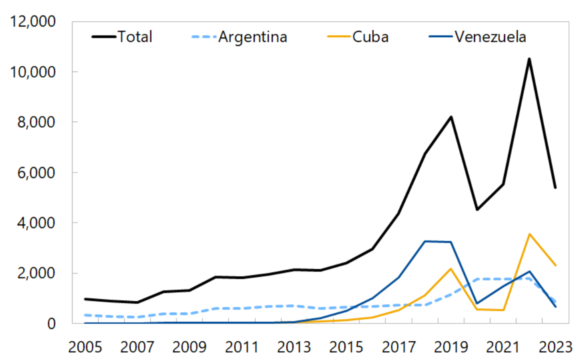
[4] IMF, WEO April 2025.

[5] Compared to the baseline scenario from INE which assumes zero net migration from 2024 onwards (Figure 1.2).

also continue strengthening the social security system. Between 2017-2023, the incorporation of nearly 34,577 foreign workers accounted for 45.2 percent of the growth in the number of contributors to the social security system (Núñez and Antúnez, 2024).

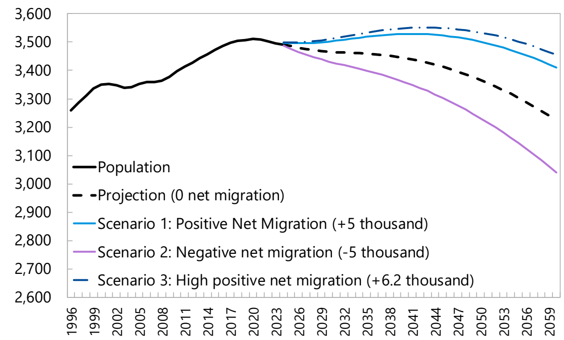
Figure 1. Immigration and Population Projections

Immigrants in Uruguay by Year of Arrival
(Immigrants living in the country in 2023)



Sources: INE, 2023 Census

Population Projections and Net Migration Scenarios
(Thousands)

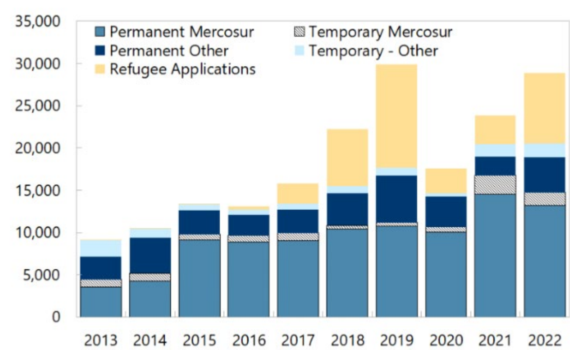


Sources: INE and IMF staff calculations.

B. Immigration Policy in Uruguay

4. Uruguay has flexible immigration policies, facilitating immigrants labor market integration. Nationals from Mercosur countries can benefit from its mobility agreement to obtain either a temporary or permanent residence with their national identification.[6] The certificate enables immigrants to request a Uruguayan ID.[7] Furthermore, in May 2024 the Ministry of Interior signed a decree aimed at regularizing the situation of nearly 24,000 immigrants who

Residence and Refugee Initial Applications



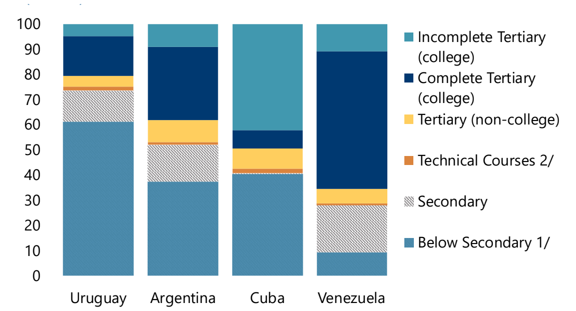
Sources: DNM, UNHCR, Programa de Población UDELAR

[6] The application requires a national identity document or passport, proof of a clean criminal record in countries where a person resided for more than six months in the past five years, and a vaccination certificate (Selee and Bolter, 2020 (page 20)).

[7] Obtaining a passport and travel documents became increasingly more difficult for Venezuelans, creating a significant mobility obstacle. In response, some countries in the region relaxed their immigration policies by accepting expired passports and introducing temporary residencies and regularization options for undocumented immigrants (see Alvarez et al. 2022).

lacked legal status.[8] In addition, the Refugee Commission (CORE) has recently granted the first refugee status recognitions under the *prima facie* mechanism for Venezuelan citizens, which could benefit around 3,500 Venezuelan seeking for refugee status.[9] Between 2013 and 2022, initial residence requests more than doubled. Residency status enables formal participation in the labor market.[10]

Education by Origin Group
(Percent)



1/ Below secondary includes primary and incomplete secondary education.
2/ Technical courses that are not accredited as secondary.
Sources: 2023 Census, INE, IMF staff calculations.

5. People who decide to migrate appear to be highly educated and are likely to participate in high-skilled occupations. As a result, immigrant workers have a high concentration of higher-skilled occupations including managerial positions, professionals, technicians and associate professionals' occupations (Figure AIII.2).

6. Labor force participation of migrants in Uruguay is generally high. The first panel of Figure AIII.2 show labor force participation gaps of immigrant workers relative to natives by skill group. Measured in percentage point differences, a positive value indicates that migrants have higher participation rates. The second panel displays unemployment rates along with their respective gaps. On average, labor force participation is higher for low-skilled migrants who are also slightly more likely to be unemployed than natives (0.4 percentage point difference). The differences in labor force participation partly reflect migrant's younger age profile (Figure AIII.2, panel 4) and potentially self-selection in the migration decision –looking for job opportunities abroad. While labor force participation can be associated with labor market integration, the figures require a cautious interpretation considering that in emerging markets, lower-skilled workers can be more likely to be absorbed into the informal sector.

7. Unemployment rates are similar for foreign-born and native workers, reflecting Uruguay's flexible integration policies, although high-skilled migrants still face challenges. The foreign-native unemployment gap is negative in Uruguay, positioning the country as one of the few places where the unemployment rate for foreign-born is lower than for natives. Nonetheless, high-skilled migrants are, on average, more likely to be unemployed than natives (unemployment

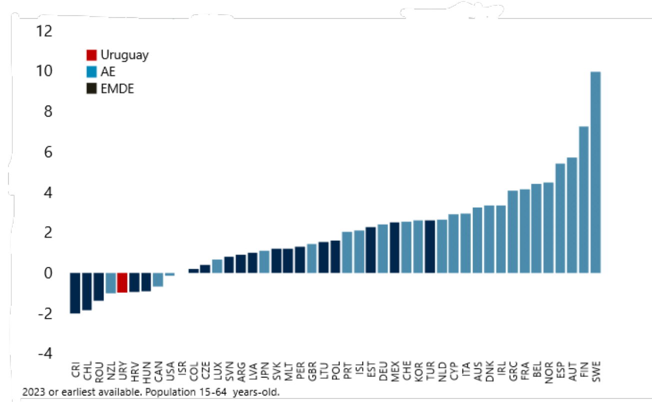
[8] The decree N° 138/024 created the figure of *residence by rootedness* under three categories: (i) labor or self-employment (ii) family, and (iii) training. The first two provide permanent residence while the third one provides renewable temporary residence.

[9] Law 18.076. The mechanism establishes a simplified procedure which requires personal identity documentation, having no criminal record, and proof of physical presence and habitual residence in Uruguay. The initiative aims to speed up the process by reducing the need for long interviews to determine the refugee status of applicants.

[10] Employers are required to register immigrant workers in the social security using a Uruguayan ID or a national one for Mercosur nationals, while non-Mercosur members can temporarily use their passports once they have started a residence request.

among 18-64 years olds is 2.8 percentage points higher for high-skilled migrants than for their natives counterparts).

Unemployment Gaps
(Percentage points, foreign-born minus native unemployment)



Sources: OECD migration database; INE 2023 Census ; and IMF staff calculations.

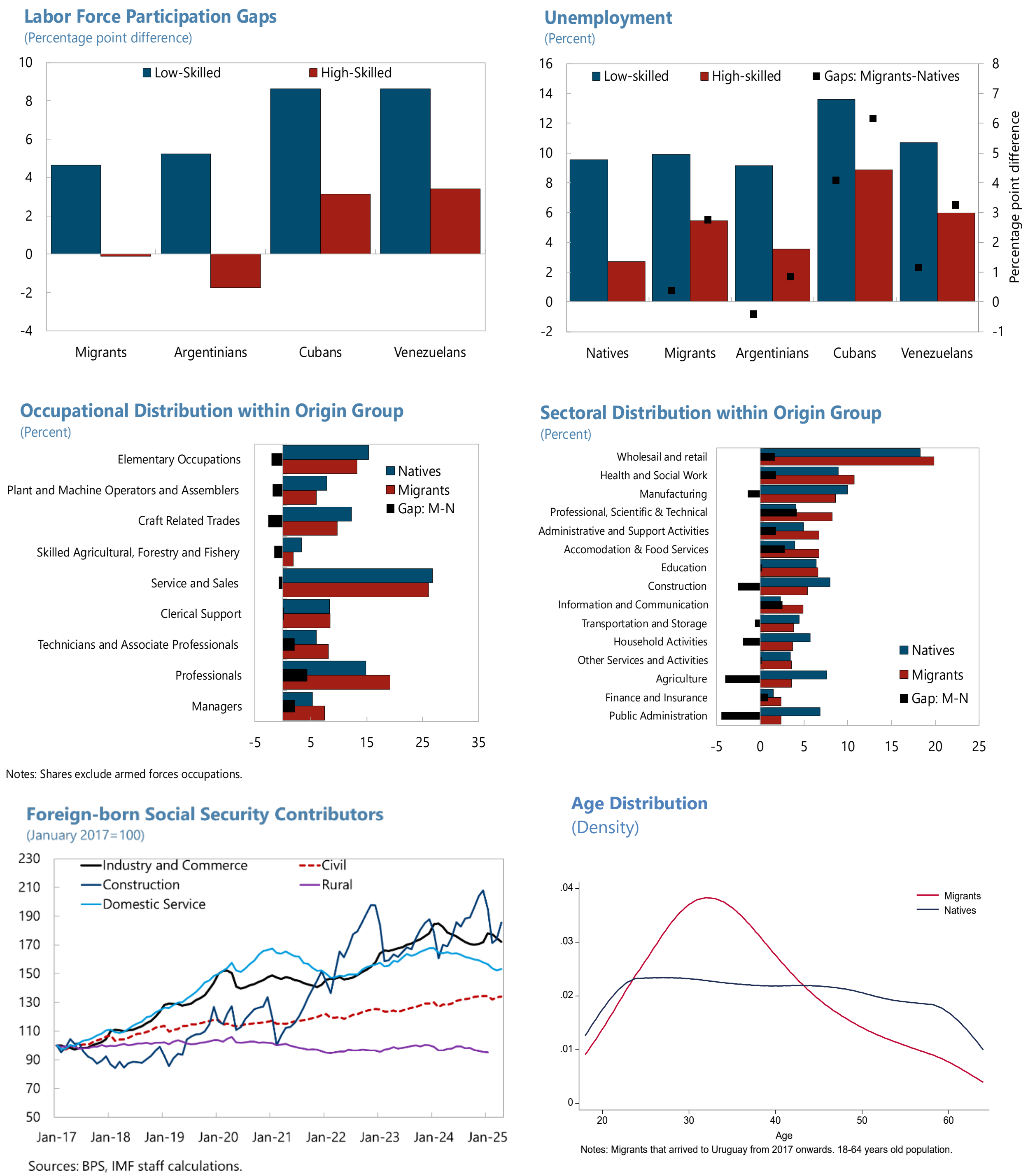
8. Higher-skilled workers may be more likely to face integration barriers because of foreign certifications validation processes. As evidenced in several countries, immigrants are vulnerable to *skill downgrading* [11] likely due to licensing, legal requirements and language barriers (Peri, 2016). Increasing the risk of skill mismatch and downgrading upon arrival, such integration barriers can reduce the productivity gains from immigration. While Uruguay has benefitted from a larger supply of IT professionals –one of the country's most demanded jobs according to private stakeholders –professionals from sectors that require formal certifications (such as in the health sector) face barriers to integration because of the costs and long waiting times associated with degree recognition. Addressing these limitations would promote effective integration and support recently announced initiatives to attract qualified foreign talent to work in the scientific-technological sector through tax incentives.

C. Conclusion

9. With appropriate integration policies, immigration could moderate the risk of population decline in Uruguay. A declining and aging population poses significant challenges for the labor market and fiscal sustainability. With fertility at record lows, immigration in Uruguay has emerged as a potential option to sustain the country's workforce. Building on Uruguay's flexible immigration policies and regularization efforts, alleviating bottlenecks in the accreditation system of professional qualifications and skills validation could mitigate skill mismatches. This would also help address labor market shortages and enhance productivity, allowing the country to further benefit from immigrants' arrival and successful labor market integration.

[11] Lebow (2024), Dustmann et al. (2016), Dustmann et al. (2013).

Figure 2. Labor Market Outcomes[1/] and Demographic Characteristics of Migrants and Natives



1/ Population aged 18-64 years old. Gaps are calculated in percentage points as the difference between labor market indicators of migrants minus natives.
Sources: INE 2023 Census (Panels 1-3,5), Banco de Previsión Social (Panel 5) ECH, 2024 (Panel 4), IMF staff calculations.

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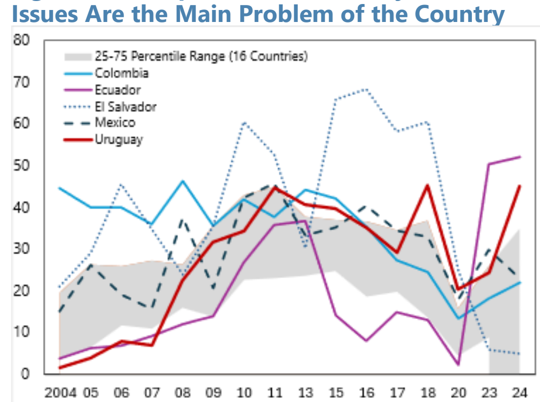
Annex IV. Crime in Uruguay[1]

1. Addressing crime and insecurity is a priority in the new administration agenda. Although Uruguay is one of the safest countries in the region, insecurity concerns have recently increased. By 2024, 45 percent of citizens considered insecurity and violence as the main problem of the country. (Latinobarómetro 2024) The latest trends contrast with the 2 percent proportion that felt this way 20 years ago and are mirrored by the 42 percent of Uruguayans that report feeling unsafe according to national surveys.[2] When asked about the more frequent type of violence, 32 percent of respondents have identified violence associated to drug trafficking as the main one, followed by organized crime (17 percent) and gang related violence (14 percent).[3] The homicides rate remains well below the Latin American average, but it has risen in the last decade from 8 to 11 per 100,000 people, exceeding the global rate of 7.7 per 100,000 and some departments are more dangerous.

Figure 1. Perception that Insecurity/Violence Issues Are the Main Problem of the Country



Sources: Latinobarómetro: and IMF staff calculations.

2. Illegal markets can develop even in environments with strong state capacity, institutions and social protection infrastructure (Feldmann and Luna 2022). Strong logistical infrastructure including well-developed ports and high volumes of traffic can also turn such countries into attractive locations for organized crime (Sampó and Troncoso 2022; Alba 2002; Fynn, Pérez Betancur, and Tiscornia 2024; Cruz Salazar and Anselmo 2023).

3. Crime undermines firms' ability to operate and to innovate, with impacts being most significant for small enterprises. The 2016-18 World Bank Enterprise Survey indicates that the costs of crime for Uruguayan firms account for 3.7 percent of sales, considering both security spending and losses due to crime (theft, robbery, vandalism or arson). While the average costs are lower than in Latin America (6.7 percent), these are non-negligible and are proportionally larger for small enterprises. According to the same survey, the direct costs for firms with less than 20 employees represent 5.3 percent of sales, of which 3.4 percent are due to losses and 1.8 percent due to the costs of private security. Overall, as much as 27 percent of firms in Uruguay consider crime a major or severe barrier of doing business. When summed to the losses to human capital (injuries, death) and to the costs of public security, the costs of crime amount to 2.7 percent of GDP in Uruguay (Vincent-Pérez et al. 2024).

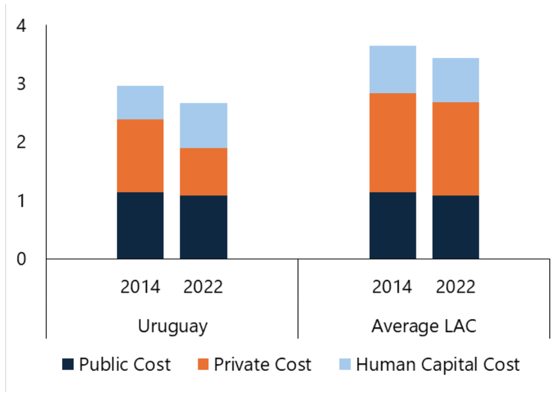
[1] Prepared by Maria Alexandra Castellanos (Western Hemisphere Department) with research assistance support of Roberta Guarnieri.

[2] INE, ECH, 2024. Share of respondents that feel safe or very unsafe walking alone in their neighborhood at night.

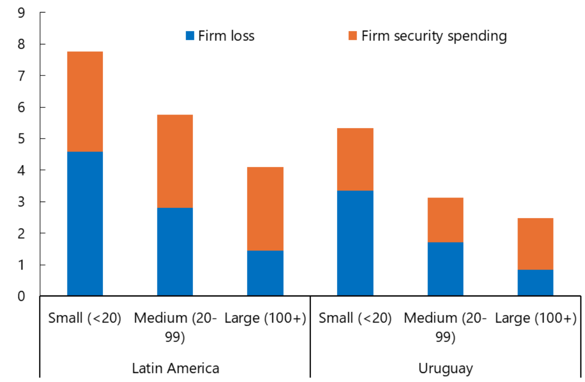
[3] Latinobarómetro 2024.

Figure 2. Direct Costs of Crime

2.1. Total Costs of Crime
(Percent of GDP)



2.2. Security Spending and Losses due to Crime
(Percent of sales)



Sources: 1. Vincent et al. (2024) and IMF staff calculations. 2. World Bank Enterprise Surveys; Innovation, Firm Performance and Gender (IFPG); National Institute of Statistics and Geography (2014 wave of National Survey of Business Victimization and 2018 wave of ENVIPE) and IMF staff calculations.

4. **Fighting organized crime is a key priority in the authorities' agenda.** The new administration announced that public safety and community enhancement will be a priority, with an emphasis on combating organized crime and corruption, preventing money laundering, and protecting the borders. The draft five-year budget is allocating resources to increase the size of the police force and the staffing of prisons. Additionally, the agenda aims to develop a humanizing prison system policy and improve the quality of life for police personnel.[4] The initiatives provide continuity to some of the previous administration plans, which included capital investments in security as well as crime prevention strategies via monitoring and data collection.[5]

5. **Future efforts should consider the specificities of the country as well as the evolving nature of crime.** The fast growth of scams, and associated cybersecurity risks represent a threat for individuals and financial institutions. Moreover, they often serve the interests of organized networks. The 2023 National Risk Assessment (NRA) highlights that the main threat of drug trafficking has grown since the last NRA while new high risks relating to the use of virtual assets have emerged. Policies should target both traditional and new digital risks.

6. **Addressing crime through an integrated and comprehensive approach would protect Uruguay's institutional capacity, support investment and growth.** With significant public, private and human capital costs, crime can undermine productivity, investment, and capital accumulation compromising output growth. Tackling insecurity requires integrated strategies including boosting

[4] Ministry of Finance presentation for the Marketing Executives Association (ADM) *"2025: Perspectivas, restricciones y desafíos"*. Montevideo, 8th of April 2025.

[5] This includes the implementation of a bi-annual module of citizen safety in the Household Survey, a new Victimization National Survey and the release of crime reports microdata.

data collection, analytics and monitoring efforts; improving coordination across institutions; fostering international cooperation and enhancing fiscal efficiency in security spending (Bisca and others 2024). Initiatives that identify local vulnerabilities and competitive advantages that can be attractive for the development of illegal markets would also help curb organized crime, prevent regional spillovers and safeguard Uruguay's institutional strength.

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Annex V. External Sector Assessment

Overall Assessment: *The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The current account (CA) deficit narrowed to -0.8 percent of GDP in 2024. This improvement was driven by the recovery in agricultural exports, most prominently soy and cellulose related goods, and the strengthening in the balance of services. The CA balance is expected to converge to a deficit of about 1.7 percent of GDP in the medium term, driven by a moderation of export prices and a stabilizing primary income balance.*

Potential Policy Responses: *Policies that would help keep the CA in line with its norm include making progress on fiscal consolidation into the medium term as well as structural reforms, to improve competitiveness, raise potential growth, and make the economy more resilient to extreme weather-related shocks. The exchange rate should continue to act as shock absorber while FX interventions should be limited to respond to disorderly market conditions.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Uruguay's NIIP was -19.1 percent of GDP at the end of 2024, a reduction in net indebtedness from the previous year (-21.6 percent of GDP) driven by a stock-flow adjustment as the peso depreciated, reducing the USD value of foreign liabilities, and FDI inflows were cancelled. Foreign assets in 2024 were mostly comprised of direct investment (31.0 percent of GDP), while the share of international reserves to GDP remained stable at 21.5 percent. Foreign Direct Investment remained the largest component of liabilities (59.5 percent of foreign liabilities). The NIIP over the last five years (2020-2024) has averaged -23.1 percent of GDP and has seen a progressive trend reduction.

Assessment. While Uruguay's NIIP is negative, the composition of its liabilities (mainly FDI) and low sovereign risk spreads create favorable conditions. Over the medium term, as real GDP growth converges to its potential and the current account stabilizes around its norm, the NIIP is projected to hover around -20.5 percent of GDP (average 2027-2030). Uruguay's strong institutional framework and prudent macroeconomic management should motivate steady FDI flows. Vulnerabilities arise from financial dollarization, the share of public foreign-currency debt, and heightened global uncertainty.

2024 (% GDP)	NIIP: –19.1	Gross Assets: 94.3	Debt Assets: 65.0	Gross Liab.: 113.4	Debt Liab.: 31.7

Current Account

Background. The CA deficit reached -0.8 percent of GDP in 2024, higher by 2.3 percentage points compared to 2023, reflecting a recovery of the trade balance which shifted from 3.6 to 5.2 percent of GDP in the same period. Three main factors contributed to the trade balance improvement: (i) a resurgence in agricultural exports, particularly soybeans following the previous year's drought; (ii) a significant increase in cellulose exports driven by enhanced production capacity and to a lesser extent, higher prices; and (iii) a reduction in services imports, especially from outbound tourism. Coupled with a continued reduction in the primary balance deficit (6.2 percent of GDP in 2024), the 2024 CA deficit was at its lowest since 2020. In 2024, substantial price differentials with Argentina—which weakened the balance of goods and services in

2023— reversed, supporting tourism revenues particularly at the beginning of 2025. The CA deficit is expected to widen slightly to 1.4 percent of GDP in 2025 as cellulose production reaches full capacity, and increased demand drives higher imports. Over the medium term, the CA deficit is expected to gradually converge to 1.7 percent of GDP.

Assessment. The EBA model estimates a cyclically adjusted balance of -1.1 percent of GDP and a cyclically adjusted CA norm of ‑1.7 percent of GDP in 2024. This implies an EBA model CA gap of 0.6 percent of GDP, with a range from 0.2 to 1.0 percent of GDP.

2024 (% GDP)	CA: –0.8	Cycl. Adj. CA: –1.1	EBA Norm: –1.7	EBA Gap: 0.6	Staff Adj.: 0.0	Staff Gap: 0.6

Real Exchange Rate

Background. In 2024, the peso depreciated on average 3.6 percent between 2023 and 2024 (from 38.8 Uruguayan pesos per U.S. dollar to 40.2 on average). Despite the depreciation against the USD, the REER appreciated by one percent in 2024 (a cumulative appreciation of 18.4 percent since 2021), due to a nominal appreciation against other key trading partners, most notably Brazil and Argentina. The peso depreciation seen throughout the second half of 2024 (the USD/UYU ended the year at 44.1), has partially reversed in 2025 as appreciation pressure on the peso stemmed from the weakening of the USD and tighter domestic monetary policy.

Assessment. The IMF staff CA gap for 2024 implies a REER gap of -3.3 percent (applying a semi-elasticity of 0.19). The EBA REER level and index models estimate an overvaluation of 29.1 percent and of 14.8 percent, respectively, in 2024. The IMF staff's overall assessment, based on the CA gap, is a REER gap in the range of -5.4 to -1.1 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2024, Uruguay recorded net financial account inflows of 0.8 percent of GDP, lower than 2023 (3.0 percent of GDP). The fall in net capital inflows was accompanied by an outflow of net FDI of 3.2 percent of GDP, a reversal from the 3.9 percent of GDP of net FDI inflows seen in 2023. This reversal was due to a write-off of FDI loans of around US$4.5 billion (5.6 percent of GDP) and was partially offset by increases in portfolio investment sourced from reinvestment of profits and capital contributions. Net inflows of portfolio and other investments (totaling 5.3 percent of GDP) helped to offset the net FDI outflow and reserve accumulation (1.4 percent of GDP).

Assessment. The lengthening of sovereign debt maturity, high share of fixed-rate debt as well as an increasing share of debt issued in local currency are positive steps towards reducing the exposure of public finances to FX depreciation and refinancing risks. Risks to capital flow reversals are limited as the country's external liabilities are mostly comprised of FDI (around two-thirds). The banking sector maintains ample liquidity buffers while the central government's precautionary credit lines with multilaterals provide financial backstop.

FX Intervention and Reserves Level

Background. Uruguay has a floating exchange rate. Following the 2020 enhancement of the monetary policy framework, which switched to the short-term interest rate as the main policy instrument, the exchange rate has gradually been allowed to act as shock absorber. In 2024, the central bank did not conduct FX interventions either in the spot or forward markets, while reserves remained high at US$17.4 billion.

Assessment. Reserves are adequate relative to various criteria, including the IMF's reserve adequacy metric (around 170 percent as of the end of 2024) and serve as insurance against external shocks. The exchange rate should continue to act as a shock absorber and FX interventions should be limited to respond to disorderly FX market conditions.

Annex VI. Risk Assessment Matrix

Table 1. Uruguay: Risk Assessment Matrix [1/]

Source of Risks	Likelihood	Impact	Horizon	Policy Advice
Global Risks				
Conjunctural Risks				
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High	Medium	ST	Implement structural reforms to ensure the economy can adjust flexibly to rotations in export demand. Allow for sectoral reallocation and reforms to strengthen business climate. Strenghten communication of current stance and provide forward guidance to anchor inflation expectations in an environment of higher uncertainty. Allow the exchange rate to adjust.
Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	High	Medium	ST	The exchange rate should continue to be allowed to act a shock absorber and foreign exchange intervention should only be used to address disordely market conditions. Further enhance monetary policy framework and communication to anchor inflation expectations. Support efforts to de-dollarize the economy to minimize foreign currency risk.
Commodity Price Volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High	Medium	ST	Uruguay likely to benefit from higher agriculture prices but volatility could make forward planning difficult. Higher oil price could translate into higher inflation - prudent monetary policy needed to anchor inflation expectations. Fiscal policy should remain neutral overall but provide targeted assistance to low-income households.
New Trade Agreements. A breakthrough in trade talks could reduce uncertainty and protectionism, boost investment and productivity, and support broader reforms to lift medium-term growth.	Low	Medium	ST, MT	New trade agreements for Uruguay of her trading partners can boost economic growth. Increased agricultural and industrial capacity can help to respond to higher export demand. Execute planned structural reforms to further enhance growth prospects.
Structural Risks				
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	High	ST,MT	Continue the implementation of climate change strategies focused on mitigation and adaptation.
Labor Supply Gaps. Tighter restrictions to migration could worsen labor shortages in aging economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues.	Medium	Medium	MT, LT	Build on Uruguay's flexible immigration policies and regularization efforts to prevent projected population decline, alleviate skill mismatches and better address labor market shortages. Continue to enhance educational quality to build human capital. Promote policies to close the labor force participation gender gap.
Domestic Risks				
Unfavorable economic shocks combined with insufficient fiscal adjustment. Higher debt-to-GDP with insufficient fiscal adjustment due to spending rigidities leading to sovereign-rating downgrades and higher yields, as there is no credible plan to regain macroeconomic stability in the medium run.	Low	Medium	ST,MT	Recalibrate plans to introduce a credible adjustment plan, underpinned by concrete measures that will lead to macroeconomic stability.
Delayed progress in structural reforms or reversal of macroeconomic stability. Growth remains anemic due to competitiveness problems.	Medium	Medium	ST,MT	Implement envisaged structural reforms (to education, labor market, business environment, SOEs), which are needed to raise potential growth.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline. Likelihood reflects staff's subjective assessment: "low" (below 10 percent), "medium" (10-30 percent), and "high" (30-50 percent). The RAM captures staff views on the source of risks and overall concern as of the time of discussions with the authorities. Risks may interact and materialize jointly. The conjunctural shocks reflect shorter-term risks (12-18 months) while structural risks are more persistent.

Annex VII. Sovereign Risk and Debt Sustainability Framework (SRDSF)

1. **Uruguay has a low risk of sovereign stress, with sustainable debt levels.** The country's access to readily available and large financial reserves, and emergency credit lines of the central government (CG) with multilaterals acts as a strong safeguard against sudden external shocks. Public debt is projected to remain broadly stable over the forecast horizon. That said, further consolidation efforts would be recommended to bring the debt-to-GDP ratio on a steady downward path in the medium term. Options include reducing tax incentives, moderating the wage bill, and improving the efficiency of spending.

2. **Accounting and classification issues, and BCU recapitalization, partly explain the drivers of debt dynamics.** The fiscal perimeter is the non-financial public sector (NFPS). NFPS debt covers the CG, Banco de Prevision Social (BPS), local governments, state-owned enterprises and Banco de Seguros del Estado (BSE). Most of the debt is issued by the CG. Residual factors have been the main driver of debt increases in Uruguay, largely reflecting the impact of indexation and foreign exchange valuation effects. The country relies heavily on financing instruments indexed to inflation or nominal wage growth, which automatically raise the principal as these indicators rise. However, the resulting increases in the principal are not captured in the real interest component. This reflects the use of the GFSM 1986 manual, which does not provide clear guidance on how to account for indexed instruments, leading to classification issues in the reporting of debt dynamics. Residuals also include several non-marketable bonds issued by the CG to recapitalize the BCU.

Table 1. Uruguay: Risk of Sovereign Stress

Horizon		Mechanical signal	Final assessment	Comments
Overall		...	**Low**	The final assessment is a low overall sovereign stress risk, despite a medium-term assessment with moderate risk due to the relatively high proportion of foreign currency and indexed debt. Staff expects that the authorities will continue to prioritize reducing the share of FX debt and smoothing the profile of amortizations while extending maturities, in order to minimize risks. These actions inform staff's assessment of overall low risk.
Near term 1/				
Medium term		**Low**	**Moderate**	Medium-term vulnerabilities are moderate as a relatively large proportion of public debt is denominated in foreign currency and the share of holdings by non-residents is large.
	Fanchart	**Moderate**	...	
	GFN	**Low**	...	
	Stress test		...	
Long term		...	**Moderate**	Long-term risks are moderate reflecting spending rigidities and a relatively high tax burden. The pension reform enacted in 2023 is expected to help stabilize pension spending in the long term.
Sustainability assessment 2/		Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline				Yes

DSA Summary Assessment

Uruguay has a low risk of sovereign stress, with sustainable debt levels. The country's access to readily available financial reserves and emergency credit lines acts as a strong safeguard against sudden external shocks. The debt increase in 2024 was mainly attributed to temporary valuation effects due to sharp exchange rate depreciation of the peso compared to the U.S. dollar, driven by uncertainty surrounding the pension referendum. Substantial peso appreciation in the first half of 2025 has partly reverted those valuation effects. Additionally, wage and pension increases are expected to moderate as they align with the budget and 2023 pension reform.

Source: IMF staff estimates.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Uruguay: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

Coverage		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

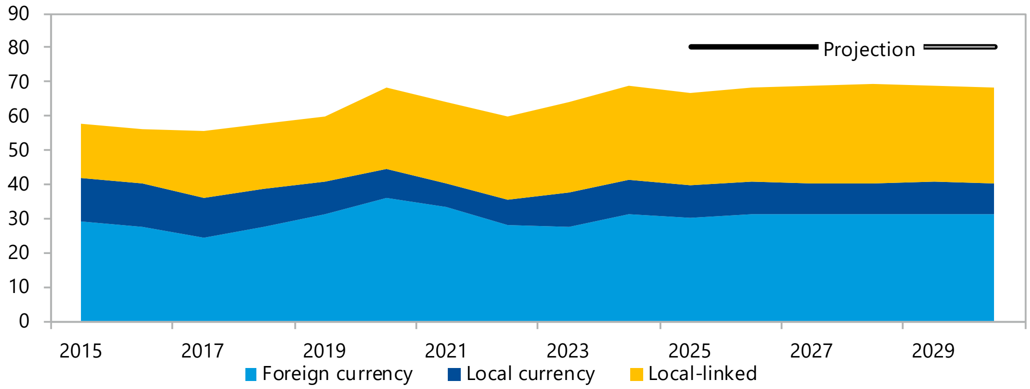
Issuer \ Holder		Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The NFPS covers the central government, Banco de Prevision Social (BPS), local governments, state-owned enterprises and Banco de Seguros del Estado (BSE). Most of the debt is issued by the CG. In all figures reported by IMF staff the ratio of debt to GDP is measured as the stock of debt at the end of each year measured in Uruguayan pesos divided by GDP in Uruguayan pesos. No outstanding arrears are incorporated in the debt series.

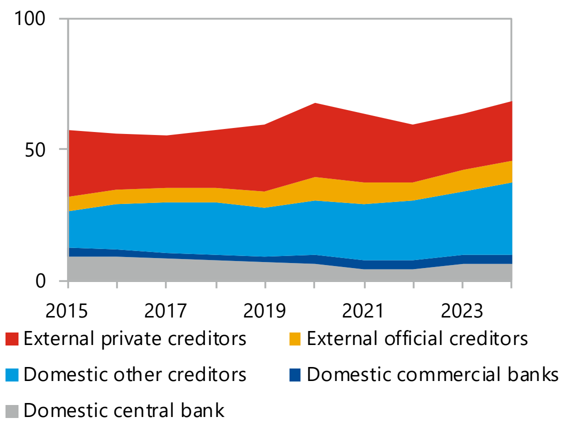
Table 3. Uruguay: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



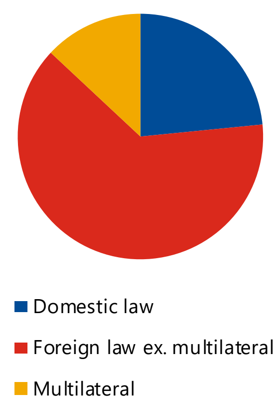
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



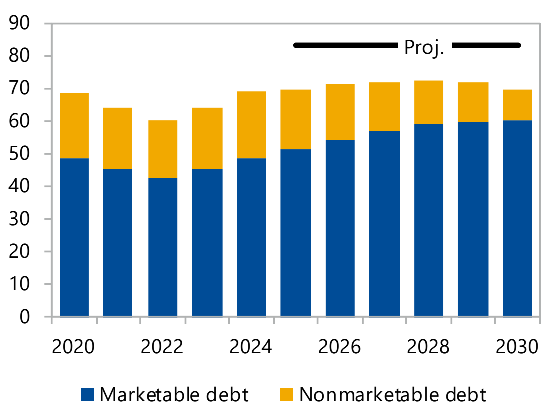
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2024 (percent)



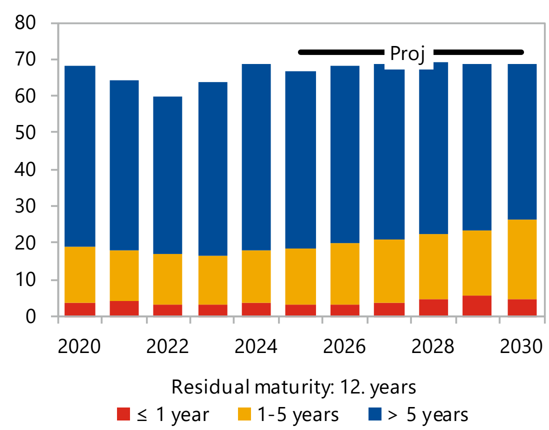
Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (Percent of GDP)



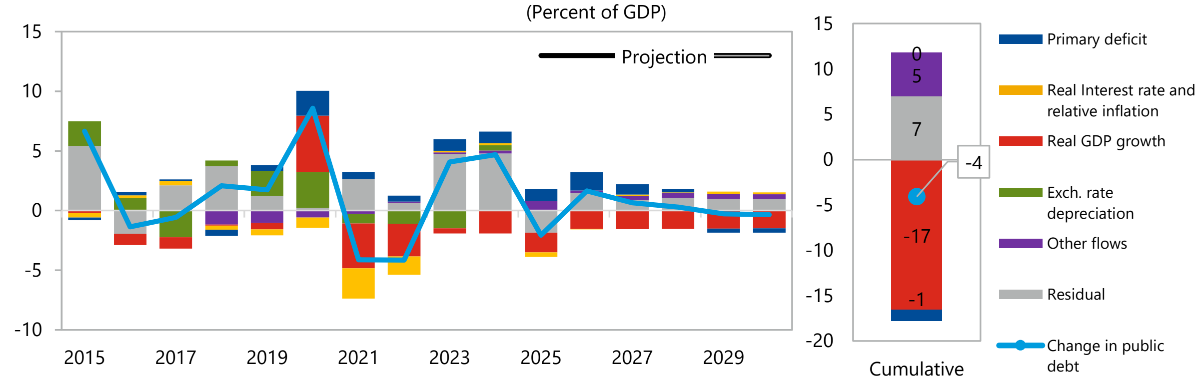
Note: The perimeter shown is nonfinancial public sector.

The composition of public debt by currency and maturities is expected to remain fairly stable.

Table 4. Uruguay: Baseline Scenario
(in percent of GDP unless indicated otherwise)

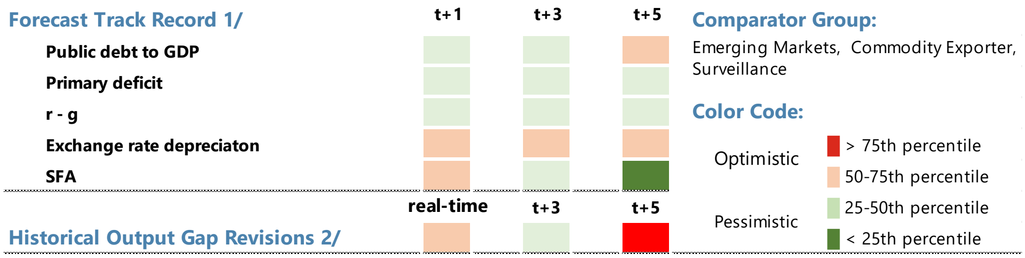
	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	68.7	66.6	68.3	68.9	69.2	68.9	68.6	68.0	67.3	66.5	65.6
Change in public debt	4.7	-2.1	1.6	0.7	0.3	-0.3	-0.3	-0.5	-0.7	-0.8	-0.9
Contribution of identified flows	-0.1	-0.2	0.2	-0.2	-0.8	-1.3	-1.3	-1.5	-1.6	-1.7	-1.7
Primary deficit	1.0	1.0	1.5	0.9	0.3	-0.4	-0.4	-0.5	-0.7	-0.8	-1.0
Noninterest revenues	28.2	28.8	28.6	29.2	29.7	30.0	30.1	30.1	30.1	30.1	30.1
Noninterest expenditures	29.1	29.8	30.1	30.1	30.0	29.7	29.8	29.5	29.4	29.3	29.2
Automatic debt dynamics	-1.3	-2.0	-1.6	-1.4	-1.5	-1.3	-1.4	-1.3	-1.3	-1.3	-1.2
Real interest rate and relative inflation	0.2	-0.4	0.0	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2
Real interest rate	-0.3	-1.2	-0.8	-0.8	-0.8	-0.7	-0.8	-0.8	-0.7	-0.7	-0.7
Relative inflation	0.5	0.8	0.8	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Real growth rate	-1.9	-1.7	-1.5	-1.6	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.4
Real exchange rate	0.5	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.2	0.8	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.2	0.8	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Contribution of residual	4.8	-1.9	1.5	0.9	1.1	1.0	0.9	0.9	0.9	0.9	0.8
Gross financing needs	6.2	6.6	6.6	6.4	6.3	6.5	7.6	6.4	6.3	6.8	6.5
of which: debt service	5.2	5.6	5.1	5.5	6.0	6.9	8.0	7.0	7.1	7.6	7.5
Local currency	1.1	1.0	1.0	0.9	1.1	1.1	1.9	1.2	1.3	1.4	1.7
Foreign currency	2.4	2.4	2.2	2.4	2.1	2.1	2.3	2.1	1.9	1.8	1.8
Memo:											
Real GDP growth (percent)	3.1	2.5	2.4	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Inflation (GDP deflator; percent)	4.3	5.5	5.0	5.0	5.0	5.0	5.1	5.1	5.1	5.1	5.1
Nominal GDP growth (percent)	7.5	8.1	7.5	7.4	7.4	7.4	7.5	7.5	7.5	7.5	7.5
Effective interest rate (percent)	3.8	3.6	3.7	3.8	3.8	3.9	3.9	3.9	3.9	4.0	4.0

Contribution to Change in Public Debt
(Percent of GDP)

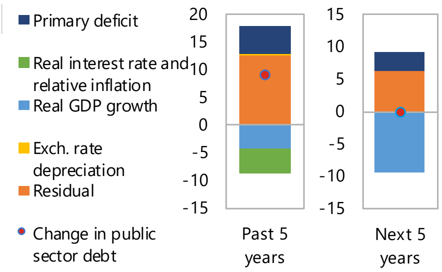


Public debt is projected to remain broadly stable over the forecast horizon. Following a strong rebound in 2024, economic growth is expected to moderate in 2025 and gradually converge to its potential in the medium term. The fiscal deficit is expected to increase in 20205 due to fiscal inertia. However, the new five-year budget law is expected to reduce the deficit and stabilize debt in the medium term. The residual incorporates the effect of changes in the value of indexed-debt and for that reason is non-zero during the projection period.

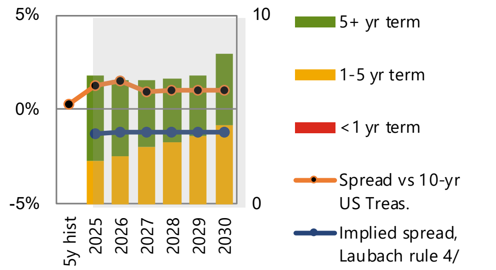
Table 5. Uruguay: Realism of Baseline Assumptions



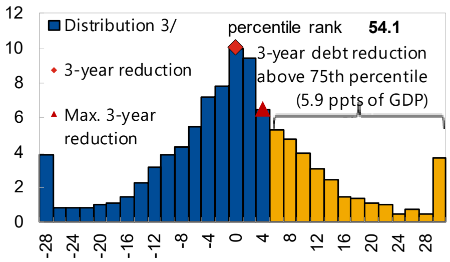
Public Debt Creating Flows
(Percent of GDP)



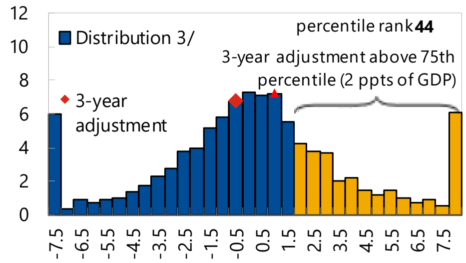
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



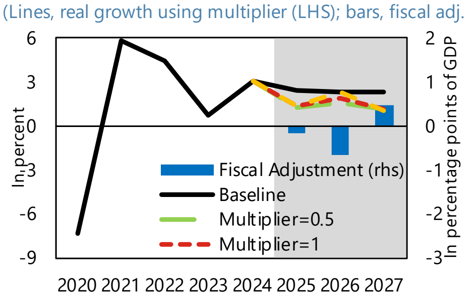
3-Year Debt Reduction
(Percent of GDP)



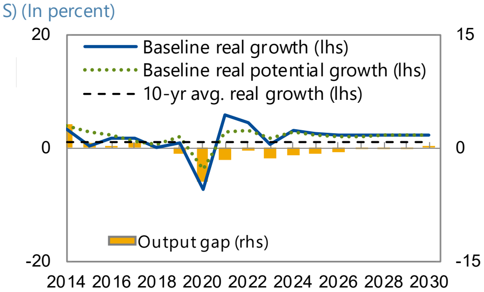
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth
(In percent)



Realism charts show that assumptions behind projections are in line with history and balanced. The large residual in the debt decomposition incorporates the impact of adjustments to the principal of linked-bonds. The forecast track-record is broadly neutral with no large biases.The assumption for interest rates reflects the expected path for US rates while spreads on FX debt remain constant. For peso debt, staff assumption is that these would decline with inflation during the projection period.

Source: IMF Staff calculations.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

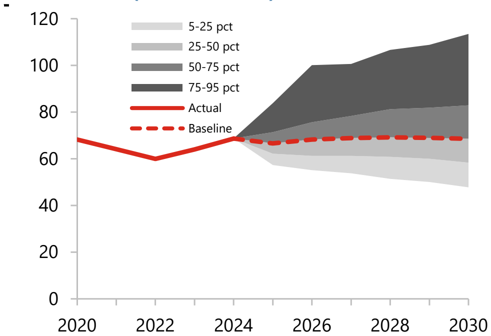
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

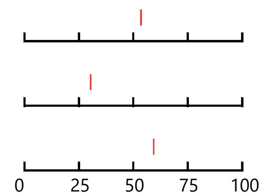
Table 6. Uruguay: Medium-Term Risk Analysis

Uruguay: Medium-Term Risk Assessment

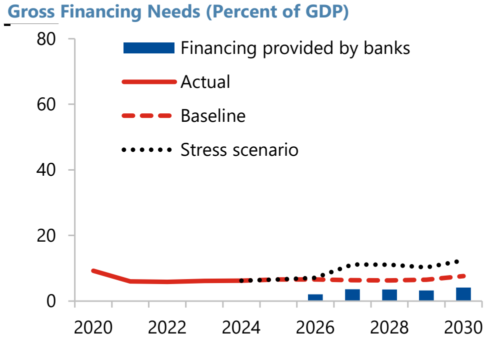
Final Fanchart (Percent of GDP)



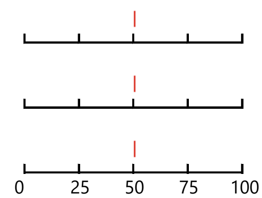
Debt fanchart module	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	65.8	1.0	
Probability of debt non-stabilizaiton *(percent)*	11.2	0.1	
Terminal debt-to-GDP x institutions index	27.0	0.6	
Debt fanchart index (DFI)		1.6	
Risk signal: 3/		Moderate	



Gross Financing Needs (Percent of GDP)



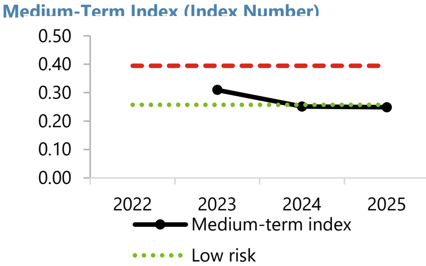
Gross financing needs (GFN) module	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	6.7	2.3	
Initial Banks' claims on the gen. govt *(pct bank assets)*	5.3	1.7	
Chg. In banks' claims in stress *(pct banks' assets)*	8.9	3.0	
GFN financeability index (GFI)		7.0	
Risk signal: 4/		Low	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value	Weight	Contribution
Debt fanchart index	1.6	0.4	0.5	0.2
GFN finaceability index	7.0	0.1	0.5	0.1
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Moderate		

Prob. of missed crisis, 2025-2030, if stress not predicted: 9.1 pct.

Prob. of false alarms, 2025-2030, if stress predicted: 42.0 pct.

The medium-term analysis indicates that debt-related risks remain moderate. The probability of debt not stabilizing, though not negligible, is estimated at around 10 percent. Gross financing needs are projected to remain relatively stable, even under stress scenarios, with only a modest increase toward the end of the forecast horizon. Two of the three mechanical risk signals are assessed as low.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

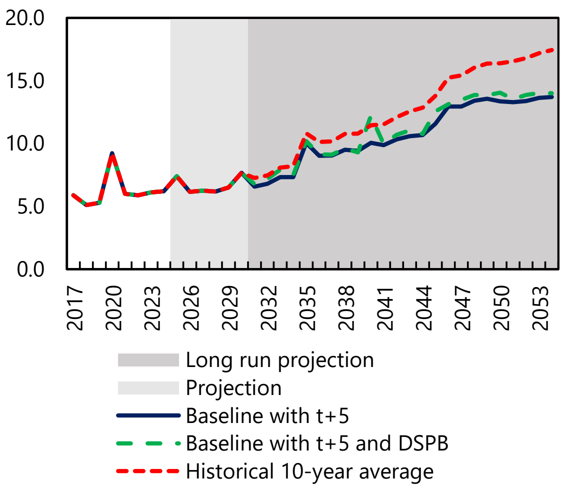
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Table 7. Uruguay: Long-Term Risk Analysis: Large Amortizations

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

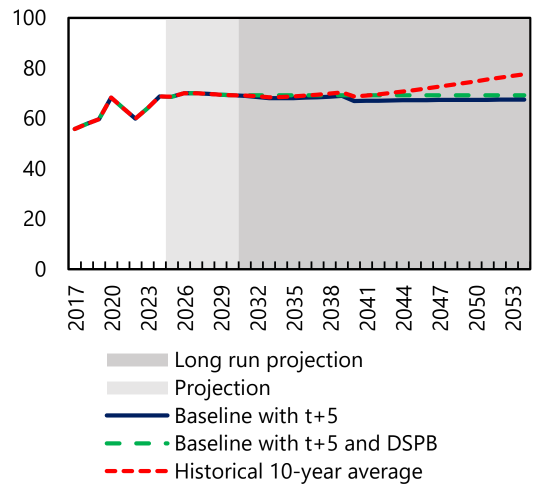
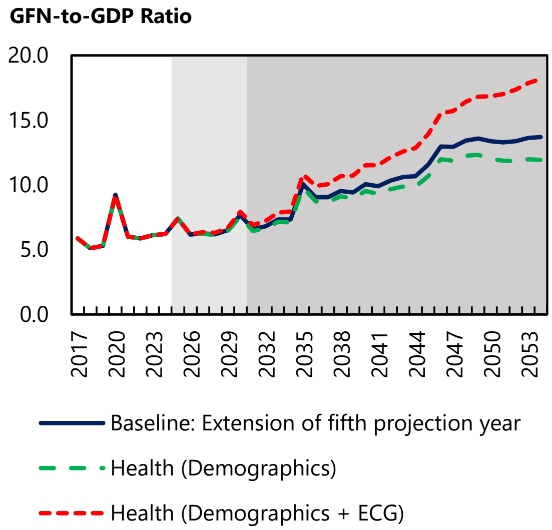
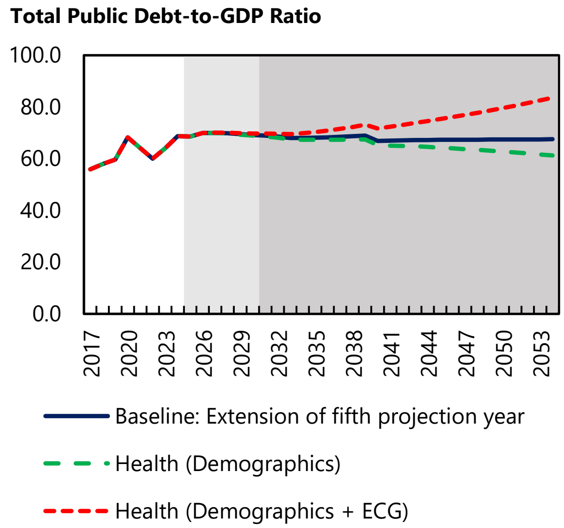


Table 8. Uruguay: Long-Term Risk Analysis II, Demographics, Health





Annex VIII. List of FSAP Recommendations

	Key Recommendations	Agency	Time[1]
	Macroprudential Policy, Systemic Risk Analysis and De-Dollarization		
1	Develop a comprehensive macroprudential framework: (i) clearly assign a mandate for macroprudential policy, (ii) strengthen powers for data collection and implementation of tools. Update: **In progress** - Taking into consideration the recommendations of the CBT and the FSAP, the BCU prepared and published a macroprudential framework ("Documento marco de la política macroprudencial"). Additionally, the BCU proposed changes to the institutional arrangements governing macroprudential oversight. These changes were approved by the Board through Resolution R.N°:D-302-2024 on October 10, 2024, which formally established a Macroprudential Policy Committee. A proposal has been introduced to strengthen governance and improve the effectiveness of decision-making.	MEF, BCU, SSF, COPAB	ST
2	Close data gaps to enable comprehensive risk analysis of system-wide FX liquidity risk, climate risks and risks in the non-financial sectors. Update**: In progress**. Following the IMF technical assistance on stress testing in December 2022, the SSF developed a roadmap, and work has now begun on solvency stress testing. PD series were developed for the corporate sector. New models with lagged variables are planned, and work is ongoing to generate PDs for consumer and housing sectors. The LGD methodology report is ongoing. In coordination with the SSF and the Financial Stability Department, a physical risk stress test related to climate change was designed using the scenarios published by the NGFS for the banking system. The policy report will be presented to the Macroprudencial Committee.	BCU, MOE, SSF	ST
3	Incorporate enhanced solvency stress tests into risk-based supervision, including for calibration of Pillar 2 capital add-ons and restrictions on dividend distribution for banks that fail the tests. Update: **In progress**. After receiving the 3-phased technical assistance by IMF, the SSF started enhancing stress testing and Pillar 2 capital requirements, including the results of stress tests conducted by the SSF (top-down). Please see recommendations #2 and #11. Subsequently, it will be necessary to carefully define the circumstances and stress test outcomes that would trigger the additional capital requirement.	BCU, SSF	ST
4	Continue progress on de-dollarization by strengthening the monetary policy framework and developing peso capital markets. Update: **In progress**. The Central Bank of Uruguay is developing a comprehensive strategy to gradually reduce the role of the U.S. dollar in the financial system and to strengthen the use of the peso as the preferred currency for savings, lending, and investment. The first set of measures aims to make peso-denominated financial intermediation more attractive both for banks and for their customers.	MEF, BCU, SSF	I

	Key Recommendations	Agency	Time[1]
	The second set of measures addresses a structural challenge: the limited availability of attractive, low-risk peso-denominated investment instruments, especially for households and small businesses. In parallel, in 2024 the SSF issued Circular 2461, which will increase the capital requirement from 125% to 150% for dollar-denominated loans granted to sectors with income in pesos, andwill reduce it from 125% to 100% for loans to sectors with income in foreign currency. Regarding monetary policy, significant reforms were introduced starting in 2020 to align with a modern inflation-targeting framework. In that sense, the inflation target was lowered to 3-6%, we adopted the interest rate as the instrument for monetary policy, transparency and communications were improved (monetary policy report, and monetary policy minutes and communique), the frequency of monetary policy meetings doubled, the frequency of formal meetings between the Executive and the CB fell (we had two meetings in the last five years compared to 20 regular meetings in the five years prior to that). After the pandemic, monetary policy set inflation stabilization as a priority. At present, inflation has remained on target for 27 consecutive months, while inflation expectations lie within the tolerance band and are gradually converging toward the target. There was a change in communication, moving from the range to the specific target. Ongoing efforts focus on consolidating symmetric disinflation while fostering cultural and institutional reforms to ensure its durability and resilience against reversal.		
	Banking Supervision and Regulation		
5	Increase and protect SSF's operational autonomy and provide budgetary autonomy. Update: **Pending**. The BCU has given consideration to the decentralization granted to the SSF. In compliance with the provisions of articles 63, 185, and 221 of the Constitution, the functional organization as well as budget matters, are kept in the Board because they constitute natural manifestations of the power of command, despite the SSF's possibility of dictating preparatory acts addressed to the Board of Directors.	MEF, BCU	I
6	Establish a fixed mandate for the Directors of the BCU and define a list of justified causes for dismissal of BCU Directors and of the Superintendent. Update: **Pending,** as this needs a constitutional reform (special regime of autonomous entities).	MEF, BCU	MT
7	Increase resources, including to strengthen work on credit risk reviews. Update: **Pending.** The BCU is currently developing its five-year strategic plan, which will include considerations on resource allocation.	MEF, BCU, SSF	ST
8	Redesign the *"Impuesto al Patrimonio"* (wealth tax) for banks. Update: **Pending**. It is still to be evaluated by the new government authorities.	MEF	ST
9	Expand early intervention powers over SOBs and strengthen SOBs' governance. Update: This matter has not been incorporated into the policy agenda. There are constitutional constraints (special regime of autonomous entities)	MEF	ST
10	Expand the prudential consolidation perimeter.	SSF	ST

	Key Recommendations	Agency	Time[1]
	Update: **Pending**. BCU has proposed amendments to Articles 1 and 2 of Law No. 17.613 of December 27, 2002, regarding prudential regulation and supervision of economic group entities. These amendments were formalized through Resolution RD 248-2025, issued on August 11, 2025.		
11	Develop Pillar 2-type of supervisory expectations on capital levels. Update: **In progress**. After concluding the IMF technical assistance on operationalizing Pillar II capital requirements, the SSF developed a roadmap, the first stage of which is currently underway. A regulatory draft was issued addressing additional capital requirements, taking into account the supervisory review, credit risk concentration, structural interest rate risk, and stress test results.	SSF	ST
	Crisis Management, Resolution and Safety Nets		
12	Fully include SOBs in the resolution framework and redefine the government's role in funding resolution. No action has been taken on this recommendation for the reasons stated during the exchange with the IMF officials in charge of the FSAP.	MEF	ST
13	Design an effective ELA framework. Update: **In progress**. A legal proposal was made to art. 34 of the BCU´s Organic Charter regarding the central bank's role as lender of last resort, expanding the possibility of conducting operations with a wider range of eligible securities.	BCU, MEF	I
14	Strengthen COPAB's operational independence and expand its resolution tools. Update: **In progress.** COPAB is working on some of the observations received. The purpose is to promote regulatory changes that allow the expansion of its functions and the tools available for resolution. The necessary changes in its structure will be linked to the new functions and tasks.	MEF, COPAB	ST
15	Introduce a Recovery and Resolution Planning framework. Update: **In progress**. On June 2024, Circular No. 2458 was issued, introducing Article 582.8, which requires domestic systemic banks to provide information about their recovery process, including options to restore financial stability during times of severe stress. Additionally, Communication No. 2024/164 was released, outlining the guidelines institutions should follow when preparing this information. It is being incorporated into the supervision process (EMG and procedures).	SSF, COPAB	I
	Financial Integrity		
16	Ensure availability of accurate and current beneficial ownership information on companies and trusts, including by increasing the resources of supporting authorities, and strengthen AML/CFT supervision for higher risk sectors. Update**: In progress.** The National Strategy for Combating Money Laundering, Terrorism Financing, and Proliferation Financing was just approved. This strategy includes a detailed action plan that sets out 22 objectives, along with their corresponding targets and concrete actions to be implemented to mitigate the risks identified across different areas.	SSF, SENACLAFT, UIAF, AIN	ST
	Financial Development Issues		
17	Improve BROU's corporate governance practices, operational autonomy and encourage the gradual increase of its domestic lending portfolio to creditworthy firms based on robust and sound solvency, profitability and risk analysis criteria.	MEF, BCU	MT

	Key Recommendations	Agency	Time[1]
	Update: The authorities agree that the BROU could play a more important role in the Uruguayan financial sector, but this must be done through independent management decisions of the institution as an Autonomous Entity in the commercial sphere of the State (art. 185 of the Constitution) and without compromising its solvency, profitability and good risk management practices.		
18	Increase the role of SoEs in the capital markets. Update: No action has been taken on this recommendation	MEF, BCU	ST
19	Continue adapting capital markets regulations to the size and capacity of Uruguayan companies. Update: **In progress.** The increased flexibility is consistent with the authorities' ongoing work to adapt the regulatory framework. The SSF has issued several regulations including Circular 2405, which amended the simplified public offering regulation; and Circular N° 2.469 concerning the reopening for Securities Issuances when the pending subscription amount has not been paid . In addition, other regulations were reviewed in 2025 such as crowdfunding and closed investment fund The Board has recently proposed amendments to its Organic Charter and the Securities Market Law, granting the Central Bank authority to regulate financial operations based on economic substance, ensuring oversight of activities with expected returns, and clarifying securities must be "easily transferable," ensuring legal certainty and defining the regulatory scope for the Superintendency of Financial Services. Further analysis is ongoing as part of the strategic planning for the next five years.	MEF, BCU	I
20	Strengthen monitoring, regulatory and supervisory frameworks for new Fintech entrants, ensure a level playing field and fast-track implementation of full range of open banking services and expand to open finance and open data. Update: **In progress**. In 2024, an innovation strategy was developed by a cross-functional working group. Regarding open finance, the conceptual framework has been created and published, and two draft laws have been prepared but not yet approved by the Board. These efforts are currently being shaped within the framework of strategic thinking for 2030.	BCU, SSF, CC	MT
21	Improve the quality of MSME data available in private credit bureaus and credit registry and unify movable asset and pledges registries to support asset-based finance. Update: **In progress.** In 2024, the SSF began registering credit-granting entities (EOCs); so far, 10 entities—mainly unions—have been registered. These entities are expected to provide more information on loans and borrowers, although this is not yet in place. Data on company size has been submitted to the Credit Risk Registry (CRC) since June 2025, but it has not yet been processed. Additionally, the BCU is including initiatives in its 2030 strategic plan to promote lending and investment in the local currency for MiPyMes.	MOED, TA	ST
	[1] I —Immediate (within 1 year), ST—Short term (within 1-2 years), MT—Medium term (within 3-5 years)		

Annex IX. Data Issues Annex

Table 1. Uruguay: Data Adequacy Assessment for Surveillance

(As of September 22, 2025)

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	A	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	B	B		
Granularity 3/	B		B	B	B		
			B		B		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision has some shortcomings but is broadly adequate for surveillance. The 2016 base national accounts statistics are not as detailed as before, and historical numbers (pre-2016) using the updated base are not available. For example, quarterly data on the decomposition of fixed capital formation (into public and private) is no longer available and investment by sector is also unavailable. For the external sector, more granular export data, including product level data and detailed information on service exports by country, would reduce data gaps. For the government finance statistics, increases in the principal of indexed debt instruments are not captured in the real interest component, reflecting the use of the GFSM 1986 manual, which does not provide clear guidance on how to account for indexed instruments. Closing financial data gaps will be key in building more reliable measures for credit risk analysis (i.e., probability of default, loss given default) and for assessing system-wide FX liquidity and concentration risks. The FSAP recommended to improve the quality of MSME data available in private credit bureaus and credit registry and unify movable asset and pledges registries to support asset-based finance. Information on the informal economy is lacking and although the granularity of data in other sectors of the economy are adequate for surveillance they can be enhanced.

Changes since the last Article IV consultation. Results of the 2023 Census have now been published, leading to revised population estimates. Due to a change in methodology by the National Statistics Agency (INE) the poverty rate estimates have been revised.

Corrective actions and capacity development priorities. The authorities are starting a multi-year process to rebase their national accounts statistics.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. Uruguay's provision of data pertaining to climate change, income and gender inequality and digitalization does not constitute a data gap.

Table 2. Uruguay: Data Standards Initiatives

Uruguay subscribes to the Special Data Dissemination Standard (SDDS) since February 2004 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Uruguay: Table of Common Indicators Required for Surveillance

As of September 22, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Uruguay[8]	Expected Timeliness[6,7]	Uruguay[8]
Exchange Rates	Sep-25	Sep-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep-25	Sep-25	D	D	M	M	1W	1M
Reserve/Base Money	Sep-25	Sep-25	D	D	M	M	2W	2W
Broad Money	Sep-25	Sep-25	D	D	M	M	1M	1M
Central Bank Balance Sheet	Aug-25	Sep-25	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	Jul-25	Aug-25	M	M	M	M	1M	1M
Interest Rates[2]	Sep-25	Sep-25	D	D	D	...	...	...
Consumer Price Index	Aug-25	Sep-25	M	M	M	M	1M	NLT 5D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	May-25	Aug-25	M	M	A	A	2Q	12M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	May-25	Aug-25	M	M	M	M	1M	3M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2025	Jun-25	Q	Q	Q	Q	1Q	1Q
External Current Account Balance	Q1/2025	Jun-25	Q	Q	Q	Q	1Q	NLT 1Q
Exports and Imports of Goods and Services	Jul-25	Aug-25	M	M	M	M	8W	8W
GDP/GNP	Q2/2025	Sep-25	Q	Q	Q	Q	1Q	3M
Gross External Debt	Q1/2025	Jun-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	Q1/2025	Jun-25	Q	Q	Q	Q	1Q	1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

URUGUAY

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 6, 2025

Prepared By: Western Hemisphere Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of August 31, 2025)

Membership Status: Joined: March 11, 1946; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	429.10	100.00
IMF's Holdings of Currency (Holdings Rate)	317.44	73.98
Reserve Tranche Position	111.67	26.02
SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	704.53	100.00
Holdings	636.02	90.28

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jun 08, 2005	Dec 27, 2006	766.25	263.59
Stand-By	Apr 01, 2002	Mar 31, 2005	1,988.50	1,988.50
of which SRF	Jun 25, 2002	Jun 24, 2003	128.70	128.70
Stand-By	May 31, 2000	Mar 31, 2002	150.00	150.00

Overdue Obligations and Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.50	1.99	1.99	1.99	1.99
Total	0.50	1.99	1.99	1.99	1.99

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Ex-Post Assessment. The last Ex-Post Assessment of Longer-Term Program Engagement was considered by the Executive Board on August 29, 2007 (Country Report No. 08/47).

Exchange Rate Arrangement. The currency of Uruguay is the Uruguayan peso (UY$). Uruguay's de jure and de facto exchange rate arrangements are classified as floating. As of September 22, 2025, the exchange rate in the official market was UY$39.872 per U.S. dollar. Uruguay accepted the obligations of Article VIII Sections 2, 3 and 4 of the IMF's Articles of Agreement, and maintains an exchange rate system free of multiple currency practices and restrictions on payments and transfers for current international transactions.

Article IV Consultation. Uruguay is on the standard 12-month consultation cycle. The Executive Board of the International Monetary Fund concluded the 2024 Article IV Consultation with Uruguay and endorsed the staff appraisal without a meeting on a lapse-of-time basis (IMF Country Report No. 24/215). Staff discussions for the 2025 Article IV consultation took place September 8—September 19, 2025.

FSAP Participation and ROSCs. A Financial Sector Stability Assessment (FSSA) was considered by the Executive Board on December 16, 2022, the report was not published. A factual statement on the FSAP was published on January 23, 2023. Previously, a Financial Sector Stability Assessment (FSSA) was considered by the Executive Board on June 28, 2006 (Country Report No. 06/187). An FSAP Update was conducted in 2012 and the FSSA was published on May 31, 2013 (Country Report No. 13/152). A ROSC module on fiscal transparency was published on March 5, 2001. A ROSC module on data dissemination practices was published on October 18, 2001. A ROSC on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) was published on December 12, 2006 (Country Report No. 06/435). A data module ROSC was published on February 11, 2014 (Country Report No. 14/42).

Technical Assistance 2009–24

DPT	Purpose	Date of Delivery
ICD	General Macroeconomic Analysis	April 2022
FAD	Inflation impact on spending	April 2024
	Public Financial Management	November 2018
	Revenue Administration (Follow-up)	November 2017
	Assist with strengthening customs' reform strategy and implementation of the governance framework	November 2015
	Tax Administration, PFM (Follow-up)	October 2015
	Treasury Management	August 2014

DPT	Purpose	Date of Delivery
FAD	Tax, customs, and social security administration	August 2014, March 2014, November 2012, November 2011, September 2010
	Performance Informed Budgeting	March 2011
	Private public partnership	May 2010
LEG	Structures and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	October 2017
	Structure and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	November 2016
	Structure and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	March 2016
	Structure and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	October 2015
	Structure and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	March 2015
	Assist the authorities on strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	October 2014
	Follow up of the implementation of the AML/CFT National Strategy	October 2013
	Assist the authorities on the launch of the recently designed AML/CFT national strategy	June 2012
	Assist the authorities on the elaboration of a risk-based national strategy enhancing the AML/CFT regime	December 2010
	Conduct a money laundering/terrorist financing country risk assessment consistent with the objectives of the national AML/CFT strategy	January, April, and July 2009

DPT	Purpose	Date of Delivery
MCM	Operationalizing Pillar 2 capital requirements	November 2024
	Enhancing bottom-up stress tests in the context of Pillar 2	May 2024
	Strengthening the Stress Testing Framework	December 2023
	Strengthening the Cyber Resilience of Financial Market Infrastructures	June 2023
	Strengthening Monetary Policy Communications	November 2021
	Central Bank Transparency Review	September 2021
	Sovereign Asset and Liability Management and Development of the Local Currency Government Bond Market	September 2016
	Bank resolution	June 2014
	FSAP update	September 2012
STA	Monetary and Financial Statistics	February 2020
	Trade Margins and Commercialization Channels	September 2016
	Balance of Payments and International Investment Position Statistics.	April and October 2015
	Data ROSC reassessment	August 2012

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

- World Bank: https://www.worldbank.org/en/country/uruguay
- Inter-American Development Bank: https://www.iadb.org/en/countries/uruguay/overview
- Development Bank of Latin America: https://www.caf.com/es/paises/uruguay/

Statement by Mr. Madcur and Mr. Elola (OEDAG) on Uruguay
Executive Board Meeting
October 24, 2025

On behalf of the Uruguayan authorities, we extend our sincere appreciation to Mr. Espinoza and his team for their open and constructive engagement during the 2025 Article IV Consultation. The authorities welcome the productive policy dialogue and broadly concur with staff´s views on policies and needed reforms. They also value the staff's analytical work and insightful reports, which contribute meaningfully to the ongoing policy discussions.

Uruguay's new administration, which took office in March 2025, is advancing an agenda focused on inclusive growth and macroeconomic stability, while promoting private investment and reinforcing social protection. In line with Uruguay's political tradition, parties alternate in office without a refoundation approach, preserving core policies that have consistently supported long-term growth and resilience to external shocks. This institutional continuity has earned Uruguay widespread international recognition for its strong democratic governance, low levels of corruption, and a high degree of economic freedom. The new authorities fundamentally concur with the IMF's advice, as noted in the Staff Report (page 23), which commends Uruguay's sound and prudent economic policies. The proposed reforms to the fiscal rule and the Fiscal Council, together with new wage negotiation guidelines aimed at wage deindexation, are consistent with prior Fund guidance. In line with this guidance, the authorities are also taking steps to strengthen the *de jure* independence of the Central Bank of Uruguay (BCU), while the longstanding absence of monetary financing and the more recent lack of foreign exchange interventions have further reinforced the institution's credibility. The draft five-year budget law outlines a medium-term strategy to reduce the fiscal deficit. Both staff and authorities concur with the importance of maintaining fiscal prudence to safeguard favorable market access, low sovereign spreads, and social cohesion. The budget, including its key provisions, has already received approval in the House of Representatives and is expected to pass in the Senate, where the government holds the necessary majority.

Economic Outlook and Labor Market

Uruguay's economy rebounded strongly in 2024, following a modest 0.7 percent growth in 2023 that was constrained by a severe drought. GDP expanded by 3.1 percent, driven by the revitalized agricultural sector, increased pulp production, and higher hydropower generation. Stronger exports and household consumption—supported by a reduced exchange rate differential with Argentina—also contributed to the recovery. In the second quarter of 2025, economic activity continued to grow, with GDP rising by 2.1 percent compared to the same period in 2024. The authorities concur with staff expectations of real output growth of about 2.5 percent in 2025.

The labor market showed positive year-on-year developments in August 2025. The employment rate rose to 59.8 percent; an increase of 0.7 percentage points compared to August 2024. Meanwhile, the activity rate reached 64.4 percent, which is considered relatively high. The unemployment rate declined to 7.0 percent, down from 8.4 percent a year earlier. Despite recent positive trends, significant disparities remain across gender and age groups, with women and youth disproportionately affected. In response, the new authorities are redesigning incentive structures to encourage companies to hire individuals from these highly impacted populations.

The government's recent wage negotiation guidelines reflect a coordinated strategy to align wage dynamics with the inflation target and broader macroeconomic objectives. As outlined on page 21 of the Staff Report, while previous rounds focused on restoring real wages in the aftermath of the pandemic, the 2025–2026 guidelines introduce two key innovations: (i) wage indexation based on expected inflation, with differentiation by income level to safeguard lower wages, and (ii) correction clauses linked to core inflation, aimed at stabilizing inflation dynamics. We note that, given the existence of a tolerance range, activating the correction clause is highly unlikely in the current context.

Fiscal Policy and Debt Management

In 2024, the Ministry of Economy and Finance (MEF) reported that the Central Government's fiscal deficit (CG-BPS) reached 3.3 percent of GDP. This outcome—along with deferred expenditures, advanced tax collections, and spending commitments inherited from the previous administration that continue to strain the fiscal balance—led the new authorities to include a fiscal consolidation plan in the five-year budget. The plan outlines a strategy to reduce the deficit by 1.5 percentage points of GDP, aiming to achieve a primary surplus of 0.1 percent of GDP in the structural fiscal balance by 2029.

The fiscal adjustment will be primarily achieved through a gradual increase in revenues. Half of the additional revenue is expected to come from newly proposed taxes, including the implementation of the global minimum corporate tax rate and the rationalization of selected tax instruments. Notably, this portion of the adjustment is legally mandated and will take effect at the beginning of the government's term, guaranteeing its implementation. The new tax initiatives are expected to have a minimal impact on business activity, as they mainly target revenue streams—such as taxes on international corporations operating in Uruguay—that would have been collected regardless. The remaining half of the adjustment will be supported by a modernized and more efficient tax administration, developed with technical assistance from the IMF, and reinforced by enhanced anti-fraud enforcement mechanisms. Public expenditure will be maintained at a broadly constant share of GDP. The Office of Planning and Budget (OPP) will enhance and strengthen the mechanisms necessary to implement strict and consistent controls over expenditure execution, ensuring that funds are disbursed only upon the achievement of predefined objectives and that incentive structures are improved to better align wages with productivity.

In line with the recommendations of the IDB and IMF, as highlighted on page 13 of the Staff Report, the new administration submitted a proposal to the Uruguayan Parliament as part of the five-year budget to improve the fiscal rule and establish a stronger fiscal framework. This reform is built around two central pillars: the adoption of a dual fiscal rule and the strengthening of external technical bodies. The dual rule integrates a medium-term anchor based on net public debt with short-term operational targets, aligning with international best practices. Concurrently, the enhanced role of external technical bodies is designed to improve the transparency, credibility, and oversight of the fiscal framework. Under this new structure, the Fiscal Advisory Council (CFA) will transition from a consultative entity to an autonomous institution, thereby reinforcing its institutional independence and supervisory authority.

According to the Debt Sustainability Analysis (DSA), Uruguay faces a low risk of sovereign stress and maintains sustainable debt levels. The proposed fiscal trajectory is designed to uphold debt sustainability and ensure that public debt remains below the 65 percent of GDP anchor, thereby supporting medium-term macroeconomic stability.

Monetary Policy and Inflation

Inflation in Uruguay has remained within the BCU's tolerance range for over two years and on target for the past four months. In 2025, a sustained downward trend—driven by the global weakening of the U.S. dollar, and declining inflation expectations—led the rate to fall to 4.25 percent in September, slightly below the BCU's official target of 4.5 percent. The monetary stance remains contractionary, aiming to keep inflation close to the target, reduce disparities between inflation in tradable and non-tradable goods, and reinforce the convergence of expectations. By September 2025, inflation expectations had reached 4.6 percent, reflecting sustained alignment with the BCU's target and a disappearing credibility gap after almost 20 years. The BCU started its easing cycle in July and is transitioning toward a neutral stance. This process is anchored in its commitment to achieving the 4.5 percent inflation goal, supported by still contractionary monetary policy, enhanced BCU communication, and the government's guidelines for collective bargaining.

External Sector

Uruguay maintains a strong external position, supported by ample reserve assets held by the BCU, which totaled USD 18.52 billion (about 22 percent of GDP) as of September 2025. This strength is further reflected in the narrowing of the current account deficit, which stood at 1.0 percent of GDP for the 12 months ending in June 2025—0.6 percentage points lower than in the same period of the previous year—driven by the rebound in economic activity following the climate-related disruption of 2023. Even under a highly adverse scenario—encompassing risks in the monetary and exchange markets, the fiscal sector, and the financial system, combined with a complete shutdown of capital markets for a defined period—the BCU would have required USD 16.05 billion as of May 2025. This underscores the country's resilience to external shocks. The flexible exchange rate regime, aligned with a sustainable current account position, continues to support macroeconomic stability by enhancing the economy's capacity to absorb external shocks.

Financial Sector

The country's banking sector remains sound, profitable, well-capitalized, and highly liquid. As of June 2025, profitability remains historically high, at 2.5 percent of assets and 21 percent of equity. The non-performing loan rate closed the second quarter of 2025 at 1.8 percent, approaching its historical low of 1.5 percent. Bank solvency remains robust, averaging nearly twice the regulatory minimum. Stress tests conducted by the Superintendency of Financial Services (SSF) confirm that the banking system could withstand a severe recession scenario while maintaining adequate capital buffers. Liquidity conditions also remain highly favorable.

The BCU is pursuing a comprehensive strategy to gradually reduce the financial system's predominance of the U.S. dollar and to strengthen the peso as the preferred currency for savings, lending, and investment. This strategy is built on three key pillars: first, making peso-denominated financial intermediation more attractive for both banks and their clients; second, addressing the structural shortage of appealing, low-risk peso investment instrument options, particularly for households and small businesses; and third, encouraging banks to expand lending in local currency. Supporting these efforts, the SSF issued a circular in 2024 to adjust capital requirements and further promote de-dollarization and the development of a stronger domestic currency market.

The authorities remain firmly committed to combating AML/CFT. In July 2025, the BCU strengthened its AML/CFT framework by approving a new National Strategy for Combating Money Laundering. Additionally, the Uruguayan Senate—backed by broad political support—granted preliminary approval to amendments to the AML/CFT law. These amendments include measures to reinforce the role of the National Secretariat for the Fight Against Money Laundering and Terrorism Financing (SENACLAFT) and to expand financial oversight mechanisms.

Structural Reforms

The new government has launched an ambitious microeconomic reform agenda aimed at streamlining and digitalizing administrative procedures that currently hinder business activity, as well as modernizing the fiscal incentive framework. As emphasized in the Selected Issues Paper, regulatory and administrative barriers continue to constrain private sector development, underscoring the urgency of these reforms. Initial progress was made in July with the introduction of a set of reforms to simplify foreign trade processes. Centered on two key pillars—cost reduction and increased agility—these measures are expected to eliminate paperwork for 75 percent of foreign trade documentation. To further advance this agenda, the authorities have announced the creation of the National Directorate for Investment Incentives (DINAII), which has received preliminary approval from the House of Representatives. This new entity is designed to strengthen investment incentive policies by adopting a comprehensive approach to the fiscal framework. DINAII will be responsible for identifying and implementing reform measures, while also enhancing institutional coordination in investment promotion. A central component of the reform is the digitalization of procedures through existing platforms such as the Foreign Trade Single Window (VUCE) and the Investment Single Window (VUI). Both platforms will be upgraded to improve functionality, expand their scope, and better support the digitalization agenda. The integration of artificial intelligence is expected to play a pivotal role in advancing a broader strategy of deregulation and paperless administration, aiming to reduce processing times and simplify regulatory frameworks.

In parallel, the authorities are reviewing the current fiscal incentive framework, which—according to the Selected Issues Paper—offers significant opportunities to enhance economic performance. In this context, the authorities, in collaboration with the IMF, are moving forward with plans to secure Technical Assistance to support the reform process.

Institutional and Environmental Governance

Uruguay stands out in today's volatile global landscape for its strong institutions and commitment to environmental sustainability, two pillars that mitigate its risk profile. According to Freedom House, the country has a longstanding tradition of democratic governance and consistently upholds political rights and civil liberties, earning a score of 96 out of 100 in 2025. Uruguay ranks 13th globally in Transparency International's 2024 Corruption Perceptions Index and holds the 29th position in economic freedom, as reported by the Heritage Foundation in 2025. Its environmental leadership is evident in the transformation of its energy matrix, with over 98 percent of electricity generated from low-carbon sources between September 2024 and August 2025. Notably, it was the first country to issue a sovereign bond with a step-up/step-down coupon structure linked to environmental performance based on its Paris Agreement commitments. These foundations of democratic integrity and environmental stewardship underpin Uruguay's position as the country with the lowest sovereign spread in the region, reinforcing its resilience in an unpredictable global landscape.

Conclusion

Despite multiple adverse external shocks—from regional and global economic pressures to climate-related events—Uruguay has remained steadfast in its policy direction. Looking ahead, the country faces several significant challenges, especially on the domestic fiscal front. The authorities are fully committed to addressing them, while keeping in mind the imperative need to improve the welfare of Uruguayan society, particularly of its most vulnerable sectors. Nonetheless, Uruguay possesses key strengths that provide a solid foundation for optimism in navigating these hurdles. These strengths include strong institutional frameworks, broad political consensus on addressing critical issues, robust financial buffers, and a longstanding reputation for honoring its commitments.