URUGUAY

Table 1	2023
Population, million	3.4
GDP, current US$ billion	77.2
GDP per capita, current US$	22564.5
International poverty rate ($2.15)[a]	0.2
Lower middle-income poverty rate ($3.65)[a]	0.8
Upper middle-income poverty rate ($6.85)[a]	6.4
Gini index[a]	40.6
School enrollment, primary (% gross)[b]	105.5
Life expectancy at birth, years[b]	78.0
Total GHG emissions (mtCO2e)	37.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

After experiencing a once-in-a-century drought in 2023, Uruguay's growth is projected to rebound to 3.2 percent in 2024, driven by agricultural exports. Cellulose production is also expected to increase as the new pulp mill reaches full capacity. Despite a 3.7 percent increase in average real wages in 2023, the lack of growth in sectors employing low-income workers has kept the poverty rate stable at 6.7 percent.

Key conditions and challenges

Uruguay has the highest income per capita and the largest share of the middle class in Latin America, but it faces challenges in accelerating growth. The economy grew 5.3 percent annually between 2003 and 2014 but then only 1 percent over 2014-2019, and 0.7 percent between 2019-2023. While the poverty rate is low at 6.7 percent (under the international poverty line of US$6.85 per day, 2017 PPP) compared to the rest of the region, poverty reduction has stalled. Income inequality, as measured by the Gini coefficient, rose slightly to 40.9 points in 2023.

The recent slowdown reflects a combination of exogenous factors, notably the severe drought that caused agricultural losses of nearly 3 percent of GDP in 2023, and structural challenges such as low productivity growth and gaps in human capital quality. Despite structural transformation, approximately 70 percent of exports still depend on natural resources. Limited competition and low trade integration have prevented faster diversification.

Some structural reforms have advanced. Important parametric pension reforms were enacted in May 2023, although Uruguayans will vote during the Presidential elections this October on whether to repeal its implementation. Reforms in education, including the introduction of a competency-based curriculum, have also begun to take shape. Decisive implementation of these and other reforms to reignite growth will be crucial to drive Uruguay's social progress.

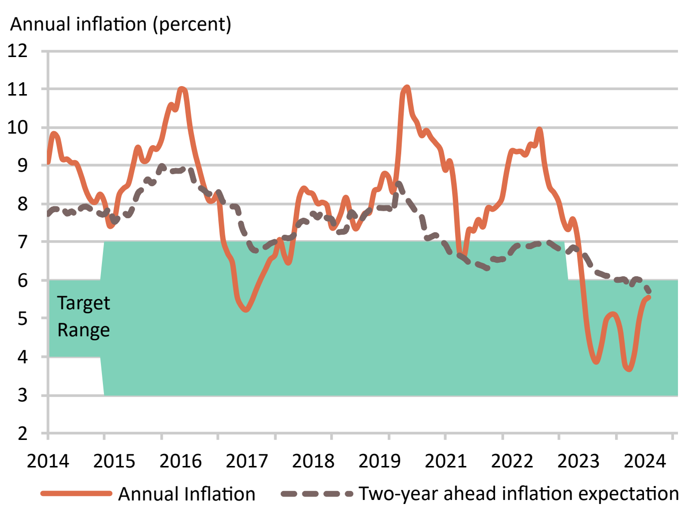
Recent developments

The economy continued to recover from the drought that began in late 2023. Real GDP grew 2.2 percent y-o-y in the first half of the year, driven by higher exports of soy, cellulose, beef, and hydropower. Fixed investment remained tepid, reducing growth by 0.5 percentage points, while the destocking associated with agriculture exports erased 2.4 percentage points from growth.

Labor demand increased as the economy recovered. The employment rate stood at 58.8 percent in July 2024, and unemployment was at 8.3 percent. The labor participation rate reached 64.2 percent, 1 percentage point (pp) above the previous year, and the highest since 2016. However, informality grew by 1.5 pp, reaching 21.7 percent nationally, with the northeastern departamentos showing an average increase of 5pp. This exacerbates existing regional disparities in poverty and access to good quality jobs.

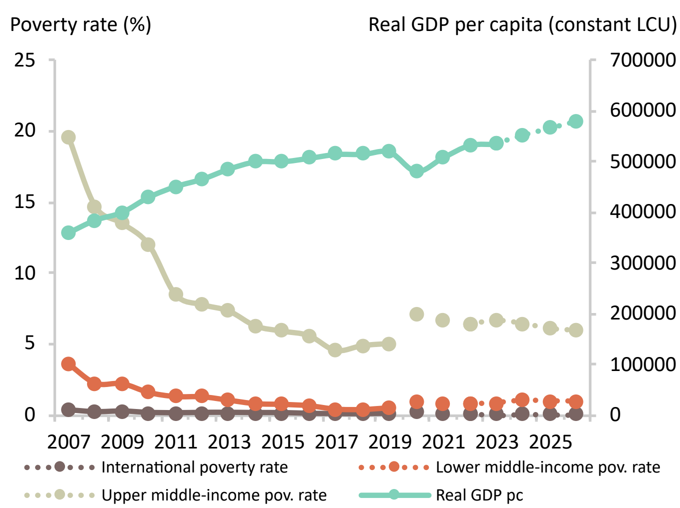
On a 4-quarter rolling sum basis, the seasonally adjusted current account deficit narrowed from an estimated 3.7 percent of GDP at the end of 2023 to an estimated 3.4 percent of estimated GDP in Q1 2024. This improvement mostly reflected a larger trade surplus

FIGURE 1 Uruguay / Annual inflation and inflation expectations



Source: Central Bank of Uruguay.

FIGURE 2 Uruguay / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

in Q1 2024, driven by lower volumes of imported capital goods.

Headline inflation rose 5.6 percent y-o-y in August 2024, up from 5.4 percent in the previous month, as the prices of food and household items increased. However, both headline and core inflation remained within the Banco Central del Uruguay's (BCU) target range of 3 to 6 percent. After easing rates by a cumulative 275 basis points between April 2023 and April 2024, the BCU has held policy rates steady at 8.5 percent.

The non-financial public sector fiscal deficit reached an estimated 3.2 percent of GDP in the twelve months ending in July 2024, unchanged from the same period a year ago. In the first half of 2024, public revenues rose by 4.2 percent y-o-y in real terms, driven by higher transfers from public enterprises, while expenditures rose 5.8 percent over the same period, led by pensions. Gross public debt increased to 64.2 percent of GDP in 2023, partly reflecting the recapitalization of the central bank. Uruguay continues to enjoy the lowest sovereign spreads in the region.

Outlook

The economy is forecasted to rebound to 3.2 percent in 2024. Agricultural exports are expected to keep the post-drought momentum, while cellulose production is expected to increase as the new UPM-II pulp mill reaches full capacity. Growth is expected to stabilize around 2.6 percent in 2025-2026, converging towards potential. Private consumption is expected to remain robust as inflation pressures continue to abate, while fixed investment is projected to pick up as global financial conditions gradually improve.

Due to the faster-than-expected disinflation in 2023, the government expects deviations from the structural fiscal deficit and real primary spending cap of the fiscal rule in 2024, following four years of compliance. The fiscal deficit is expected to decline marginally to 3.1 percent of GDP this year as tax revenues rebound from the drought and relative price differences with Argentina normalize. By 2026, the fiscal deficit is projected to further decrease to 2.7 percent of GDP as consolidation efforts continue. Net indebtedness is expected to adhere to the legal ceiling, with public sector debt projected at 64-65 percent of GDP over the forecast period.

Average inflation is expected to subside in 2024 and remain within the target range over 2025-2026. Despite lower inflation, the poverty rate is projected to remain stable at 6.4 percent in 2024. Sectors that tend to employ low-skilled labor, such as construction and retail, have not shown steady improvements. Growth and labor demand in these sectors are key to improving income for the poor and vulnerable population.

The recovery may be constrained by weaker external demand, particularly from China, alongside commodity price volatility, heightened geopolitical tensions, and growing trade fragmentation. Additionally, Uruguay's high dollarization levels pose a risk in the face of a strong dollar and tighter-for-longer global financial conditions. While a transition to the La Niña phenomenon later this year is expected to be benign, unexpected extreme weather remains a risk.

TABLE 2 **Uruguay** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	5.6	4.7	0.4	3.2	2.6	2.6
Private consumption	3.2	5.7	3.6	3.7	3.3	3.3
Government consumption	5.2	2.5	-0.2	0.4	0.8	0.3
Gross fixed capital investment	19.3	11.8	-7.0	4.5	2.6	2.6
Exports, goods and services	13.5	9.8	0.7	4.7	4.0	4.0
Imports, goods and services	17.9	12.4	6.0	5.0	4.5	4.5
Real GDP growth, at constant factor prices	5.3	4.5	0.4	3.2	2.6	2.6
Agriculture	12.6	-9.5	5.0	3.0	2.7	2.5
Industry	5.7	3.5	-3.8	3.0	1.8	1.8
Services	4.5	6.2	1.1	3.3	2.9	2.8
Inflation (consumer price index)	7.7	9.1	5.9	5.5	5.9	5.6
Current account balance (% of GDP)	-2.5	-3.9	-3.8	-3.2	-2.9	-2.7
Net foreign direct investment inflow (% of GDP)	2.5	4.2	5.6	4.5	4.1	3.6
Fiscal balance (% of GDP)[a]	-3.1	-2.8	-3.2	-3.1	-2.9	-2.7
Revenues (% of GDP)	29.2	29.6	29.9	29.8	29.8	29.7
Debt (% of GDP)	62.4	62.0	64.2	64.3	64.4	64.5
Primary balance (% of GDP)[a]	-0.9	-0.6	-0.9	-0.8	-0.6	-0.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.1	0.2	0.1	0.1	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	0.8	0.8	0.9	1.0	1.0	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	6.7	6.4	6.7	6.4	6.1	6.0
GHG emissions growth (mtCO2e)	8.8	1.3	0.4	1.8	1.7	1.9
Energy related GHG emissions (% of total)	21.3	22.6	22.3	23.1	23.9	24.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Non-Financial Public Sector. Excluding revenues associated with the "cincuentones".
b/ Calculations based on SEDLAC harmonization, using 2023-ECH. Actual data: 2022 and 2023 (Preliminary). Nowcast: 2024. Forecasts are from 2025 to 2026.
c/ Projections using microsimulation methodology.