GDP growth is projected to decelerate in 2023 despite a strong tourism season, as the solid post-pandemic recovery phase comes to an end and a sizeable drought affects primary production and related activities. Tight monetary policy mitigated the inflation spike in 2022 and – complemented by continued fiscal consolidation - is expected to gradually bring inflation down to the target range. Unequal recovery of employment for low-skilled workers and the impact of inflation on real wages explain recent limited poverty reduction.

**Table 1**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, million</td>
<td>3.4</td>
</tr>
<tr>
<td>GDP, current US$ billion</td>
<td>71.4</td>
</tr>
<tr>
<td>GDP per capita, current US$</td>
<td>20854.3</td>
</tr>
<tr>
<td>International poverty rate ($2.15)(^a)</td>
<td>0.1</td>
</tr>
<tr>
<td>Lower middle-income poverty rate ($3.65)(^a)</td>
<td>0.8</td>
</tr>
<tr>
<td>Upper middle-income poverty rate ($6.85)(^a)</td>
<td>6.7</td>
</tr>
<tr>
<td>Gini index(^a)</td>
<td>40.8</td>
</tr>
<tr>
<td>School enrollment, primary (% gross)(^b)</td>
<td>104.2</td>
</tr>
<tr>
<td>Life expectancy at birth, years(^b)</td>
<td>78.4</td>
</tr>
<tr>
<td>Total GHG emissions (mtCO2e)</td>
<td>34.7</td>
</tr>
</tbody>
</table>

Source: WDI, Macro Poverty Outlook, and official data. 
\(^a\) Most recent value (2021), 2017 PPPs. 
\(^b\) Most recent WDI value (2020).

### Key conditions and challenges

Uruguay’s economy has expanded each year for the last two decades, except for the COVID-19-induced recession in 2020. The pandemic response was effective and fiscally prudent, building on the country’s wide social safety net and an early and widespread vaccination roll-out. A stable democracy with a relatively large middle class, the country has the highest income per capita and the lowest country spreads in the region.

As GDP surpasses its pre-pandemic levels and fiscal accounts improve, Uruguay is turning its attention to structural bottlenecks that had attenuated economic growth in the pre-pandemic years. Some of the underlying challenges include disappointing education outcomes, insufficient integration into the global economy, structurally high inflation, and a weak competition framework. In addition, Uruguay’s financial system is small and dominated by a highly-dollarized banking sector. Addressing these challenges will be key to reigniting an inclusive development process that tackles regional inequalities and relatively high levels of poverty among children and Afro-descendants.

An ongoing sizeable drought is a reminder of the country’s vulnerability to climate shocks. Uruguay is a vocal promoter of financial incentives for climate action in international fora. Last October, Uruguay put its ideas to the test with a successful US$1.5bn market issuance of innovative sustainability-linked bonds, which reward the overachievement of specific Nationally Determined Contribution (NDC) targets with interest-rate buy-downs.

### Recent developments

GDP continued to expand in the first three quarters of 2022, underpinned by the opening of borders to tourism, favorable export prices, and a strong agricultural harvest. Agriculture’s strong performance was mirrored in exports, which increased 19 percent in real terms in the first nine months of 2022. Private and public investments related to a US$3bn paper mill project played an important role in the 12.8 percent increase in gross fixed capital formation in the same period. Private consumption continued to recover from pandemic lows.

The price of Uruguay’s imports rose more steeply than that of its exports following Russia’s invasion of Ukraine, for a slight fall in the terms of trade. In this context, imports outpaced exports measured in US Dollars, despite strong sales of soybeans and beef. At around US$15.4 billion as of January 2023, gross reserves cover roughly the equivalent of 10 months of imports.

Inflation averaged 9.1 percent in 2022, up from 7.8 percent in 2021, driven by food and fuel prices. The Central Bank (BCU) hiked its benchmark rate to 11.5 percent in January 2023, gross reserves cover roughly the equivalent of 10 months of imports.

Inflation averaged 9.1 percent in 2022, up from 7.8 percent in 2021, driven by food and fuel prices. The Central Bank (BCU) hiked its benchmark rate to 11.5 percent in December 2022 for a 700 basis points cut. Real GDP performance was mirrored in exports, which increased 19 percent in real terms in the first nine months of 2022. Private and public investments related to a US$3bn paper mill project played an important role in the 12.8 percent increase in gross fixed capital formation in the same period. Private consumption continued to recover from pandemic lows.

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which appreciated 10.3 percent with respect to the USD in 2022.

To mitigate the impact of inflation, the government frontloaded wage increases for public employees and pensions, limited the pass-through of international oil price spikes, and increased VAT exemptions for recipients of main social programs. The result was an average real wage increase of 1 percent (yoy) even though employment rates and real wages among low-skilled workers are still below pre-pandemic levels (41.8 percent in 2021, compared to 50.5 percent in 2019), largely due to the rebound being driven by non-labor-intensive sectors. This helps explain the limited poverty reduction (which remained at 6.7 percent in 2021 measured by the international upper-middle income line) and a slight increase in inequality.

Despite support measures, fiscal accounts improved in 2022, largely due to an unwinding of COVID-19-related programs and cyclical revenues. The deficit of the non-monetary public sector fell from 5.4 percent of GDP in 2020 to 3.2 percent in 2021 and 2.8 percent in 2022. Despite the gradual phase-out, expenditures directly related to COVID-19 still amounted to 0.5 percentage points of GDP.

### Outlook

After an estimated 5 percent increase in 2022, GDP growth is forecast to fall to 1.8 percent this year, dampened by the drought, tight monetary policy, and continued fiscal consolidation. Growth is projected to recover in 2024 and converge closer to potential GDP by 2025. In this context, the poverty rate and the proportion of the population considered middle-class are expected to change only slightly from their current levels (6.7 and 65.8 percent respectively).

Despite the drought, export growth is expected to remain positive in 2023, due to service exports, tourism, and the production of the new pulp plant. Imports will moderate given lower domestic demand. Terms of trade are expected to improve, as the fall in oil prices outpaces agricultural commodity prices. Trade balance trends are projected to dominate the deficit in primary income, for a gradual reduction in the current account deficit, which is expected to be financed by foreign direct investment in the forecast horizon.

The BCU is expected to maintain its commitment to bring inflation down. In a context of high inflationary inertia, inflation would converge only gradually to the 3-6 percent target range by 2025. The Uruguayan peso is expected to remain strong in the baseline scenario, underpinned by high terms of trade and tight monetary policy.

Despite a planned tax reform to reduce the personal and corporate income taxes, fiscal accounts are projected to improve in 2023 and beyond, mainly through the continued phase-out of COVID-19-related expenditures, a decline in capital expenditures, and as the incomplete pass-through from the oil price spike normalizes. Public debt is expected to decline from 57.6 percent in 2022 to 55.1 percent of GDP in 2025. Pension reform to improve the system’s long-term sustainability is currently being discussed in Congress.

The outlook is subject to downside risks, including a stronger-than-expected deceleration of global economic growth, a faster-than-expected tightening of global interest rates, and more pervasive impacts of the current drought. In addition, persistent inflation in the face of high domestic interest rates could perpetuate a strong real exchange rate beyond its fundamentals and challenge Uruguay’s competitiveness.

### TABLE 2 Uruguay / Macro poverty outlook indicators

![Table](https://example.com/table2.jpg)

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022e</th>
<th>2023f</th>
<th>2024f</th>
<th>2025f</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real GDP growth</strong>, at constant market prices</td>
<td>-6.1</td>
<td>4.4</td>
<td>5.0</td>
<td>1.8</td>
<td>2.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>-6.9</td>
<td>2.3</td>
<td>5.5</td>
<td>2.0</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>-7.3</td>
<td>8.0</td>
<td>0.7</td>
<td>-0.4</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Gross Fixed Capital Investment</td>
<td>1.6</td>
<td>15.2</td>
<td>8.8</td>
<td>0.5</td>
<td>0.4</td>
<td>6.1</td>
</tr>
<tr>
<td>Exports, Goods and Services</td>
<td>-16.0</td>
<td>14.4</td>
<td>14.1</td>
<td>3.0</td>
<td>5.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Imports, Goods and Services</td>
<td>-12.0</td>
<td>20.9</td>
<td>12.0</td>
<td>1.5</td>
<td>2.4</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Real GDP growth</strong>, at constant factor prices</td>
<td>-6.3</td>
<td>4.3</td>
<td>5.0</td>
<td>1.8</td>
<td>2.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-5.4</td>
<td>5.0</td>
<td>-2.8</td>
<td>-8.6</td>
<td>9.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Industry</td>
<td>-6.1</td>
<td>6.7</td>
<td>3.1</td>
<td>1.5</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Services</td>
<td>-6.4</td>
<td>3.9</td>
<td>6.0</td>
<td>2.7</td>
<td>2.4</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Inflation</strong> (Consumer Price Index)</td>
<td>9.8</td>
<td>7.7</td>
<td>9.1</td>
<td>6.9</td>
<td>6.0</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>Current Account Balance</strong> (% of GDP)</td>
<td>-0.9</td>
<td>-2.7</td>
<td>-2.5</td>
<td>-1.4</td>
<td>-0.2</td>
<td>-0.3</td>
</tr>
<tr>
<td><strong>Net Foreign Direct Investment Inflow</strong> (% of GDP)</td>
<td>1.9</td>
<td>3.0</td>
<td>1.7</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Fiscal Balance</strong> (% of GDP)</td>
<td>-5.4</td>
<td>-3.2</td>
<td>-2.8</td>
<td>-2.6</td>
<td>-2.4</td>
<td>-2.4</td>
</tr>
<tr>
<td><strong>Debt</strong> (% of GDP)</td>
<td>29.7</td>
<td>29.9</td>
<td>29.1</td>
<td>28.9</td>
<td>28.8</td>
<td>28.7</td>
</tr>
<tr>
<td><strong>Primary Balance</strong> (% of GDP)</td>
<td>67.7</td>
<td>63.9</td>
<td>57.6</td>
<td>56.5</td>
<td>55.6</td>
<td>55.1</td>
</tr>
<tr>
<td><strong>International poverty rate</strong> ($2.15 in 2017 PPP)</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Lower middle-income poverty rate</strong> ($3.65 in 2017 PPP)</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Upper middle-income poverty rate</strong> ($6.85 in 2017 PPP)</td>
<td>7.2</td>
<td>6.7</td>
<td>6.1</td>
<td>6.3</td>
<td>6.2</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>GHG emissions growth</strong> (mtCO2e)</td>
<td>-2.2</td>
<td>1.6</td>
<td>1.8</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Energy related GHG emissions</strong> (% of total)</td>
<td>18.0</td>
<td>18.4</td>
<td>18.8</td>
<td>18.5</td>
<td>18.3</td>
<td>18.2</td>
</tr>
</tbody>
</table>

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”.
c/ Projections using microsimulation methodology.