Juan Manuel Pazos
Chief Economist
+54 11 4898 6606
jmpazos@tpcgco.com

Santiago Resico
LATAM Strategist
sresico@tpcgco.com
+54 11 4898 6615

March 21, 2023

Uruguay Strategy Flash

The IMF presented its preliminary appraisal of Uruguay's 2022

Recently the IMF released its concluding statements on the annual visit to Uruguay, within the Article IV framework.

Recently the IMF released its concluding statements on the annual visit to Uruguay, within the Article IV framework. The Fund's assessment of Uruguay's 2022 was very positive, as the mission praised the authorities for its strong and cohesive response to the end of the COVID-19 pandemic and the posterior negative external shocks. In addition, it highlighted the strong dynamics enjoyed by the Uruguayan economy during last year, estimating growth to clock in at +4.9% for 2022. In addition, the IMF found the monetary and fiscal policies carried out by the administration responsible and robust. The fund praised the BCU's handling of the monetary policy, as it turned its bias from dovish to contractive appropriately, hiking the policy rate from +5.75% to +11.5% during 2022. The hawkish stance compounded with a non-intervention in the FX market, which resulted in a strong nominal (+13%) and real (+20%) appreciation of the UYU, which helped to fight inflationary pressures. Finally, the IMF praised the responsible management of public finances, as the NFPS deficit compressed to -2.8% from -3.1% in 2021, excluding cincuentones. In this context, the Fund's appraisal of the fiscal rule and the administration's commitment to the latter was very positive.

The IMF's outlook for 2023 envisages growth slowing down, inflation tempering and an administration still committed to fiscal consolidation.

The IMF's outlook for 2023 envisages growth slowing down, inflation tempering and an administration still committed to fiscal consolidation. On the real economy side, the fund expects the drought to shave Uruguay's growth in 2023, cutting short the solid positive dynamics the economy enjoyed since the end of the pandemic. Therefore, the IMF sees the economy growing by 2% in 2023. This comes in line with both the official government forecasts and our estimates. For the Fund, risks are tilted to the downside, with the main macroeconomic risks deriving from a worsening of external conditions, deterioration of international geopolitical tensions, and the severity and duration of the current drought.

On the monetary policy side, the IMF expects inflation to hover around the +7% mark, in line with our estimates, albeit slightly over the administration's forecasts (+6.7%).

On the monetary policy side, the IMF expects inflation to hover around the +7% mark, in line with our estimates, albeit slightly over the administration's forecasts (+6.7%). The IMF estimation stands roughly in the middle of market expectations, which stand in between the +6.5% and +7.5% mark. Furthermore, the IMF expects the inflationary process to converge to the target range (+6%-+3%) by 2024. In the exchange rate department, the IMF supports the BCU's stance, stating that the exchange rate should continue to act as a shock absorber with FX interventions limited to respond to disorderly market conditions. In our recent trip to Montevideo, we found the BCU authorities to be strongly committed to maintaining this stance (for more details, click here). In addition, it continues to recommend enhancing the de jure independence of the CenBank to boost its credibility and framework.

Looking at fiscal figures, the IMF sees the NFPS deficit compressing from -2.8% of GDP to -2.3% in 2023.

Looking at fiscal figures, the IMF sees the NFPS deficit compressing from -2.8% of GDP to -2.3% in 2023. The fund envisages a substantial risk in the drought, as it could force the administration's hand into a more supportive stance. Still, the transitory nature of the shock should not present a major threat to the fiscal position. Once the drought effect dilutes, additional fiscal efforts would be needed to put debt on a firm downward path and rebuild policy space. Furthermore, the recent tax reduction (0.2% of GDP) should be met by a slower increase in expenditure. The administration is expecting the yearly deficit to close at 2.6% of GDP, slightly over the IMF estimates. In our view, the administration's track record signals it should comply with the envisaged target for the year, but further compression does seem unlikely, especially with the 2024 elections closing in. Even as fiscal efforts have been substantial, the IMF staff points out that Debt to GDP ratios are at historic highs. According to the fund's estimates, bringing NFPS debt to a range between 50-55 percent of GDP over the medium term would provide large enough buffers to respond to shocks.

TPCG Analysts & Staff

Research			
Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615

Sales & Trading			
Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Juan Martin Longhi	S&T Director	jlonghi@tpcgco.com	+54 11 4898-6656
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693

Corporate Banking			
José Ramos	**Head of Corporate Banking**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Camila Martinez	Corporate Sales	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612

Capital Markets			
Fernando Lanus	**Head of Capital Markets**	**flanus@tpcgco.com**	**+54 11 4898-6632**
Nicolás Alperín	Investment Banking Analyst	nalperin@tpcgco.com	+54 11 4898-6604

Asset Management			
Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valors SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For U.S. persons only:

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any U.S. person, which is not a U.S. Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another U.S. registered broker dealer.