TPCG

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

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

Uruguay Strategy Flash

The govt. coalition approved the pension reform in the Lower House

Late on Tuesday, the govt. coalition passed the long-awaited pension reform, which will now return to the Senate for final approval.

Late on Tuesday, the govt. coalition passed the long-awaited pension reform, which will now return to the Senate for final approval. The reform managed to pass due to the support of the minor members of the govt. coalition, including Cabildo Abierto and the Colorado Party. After weeks of intense negotiations, the administration finally managed to iron out the last details granting some concessions, securing the approval for the pension reform. Now, the bill will return to the Senate. Even with the upper chamber having approved the original project, the modifications included in the Representatives chamber force the project to go back to the Senate, which will vote today on the updated bill for its definitive approval.

The final draft included several amendments introduced by the junior members of the coalition. Even as these slightly watered down its impact, they do not defeat the bill's main intent of securing the system's sustainability in the long run.

The final draft included several amendments introduced by the junior members of the coalition. Even as these slightly watered down its impact, they do not defeat the bill's main intent of securing the system's sustainability in the long run. The approved reform would gradually increase the retirement age to 65 years. A transition period would start in 2034, with the generation born in 1973 retiring at 61, and since, each generation would retire a year later until the generation born in 1977 would retire at 65. The minimum amount of worked years to retire would stand at 30, albeit contributing for 35 years would result in early retirement at 64 or a 38-year contribution would be rewarded by a retirement age of 63. Cabildo Abierto's insistence secured that the calculation for pensions included the last 20 years of the person's work, instead of the original 25. The reform also planned to consolidate all retirement regimes making them converge within 10 years in a single system. Ten years after the approval of the bill (2033, given the legislation is passed in 2023), the convergence would start, with the old pension system rules weighing 50% and the new ones 50%. In turn, the new system would gradually replace the old one, as the influence of the systems would be modified by 5% each year until the old system disappears. So, the new system would fully take effect by 2043. In addition, compatibility between retirement and paid activity will be promoted, so that workers can retire, but continue with a job. Finally, one of the proposals of the Partido Colorado that stuck determined a phasing out the IASS tax. Said instrument taxes pensioners who earn a pension that exceeds said fixed monthly amount. It currently contributes roughly USD400mn yearly, and the planned reduction would amount to 20% (USD80mn), in two symmetric phases, 10% in 2024 and 10% in 2025.

We believe the new pension reform could be key to guaranteeing the sustainability of the system in the long run, but the lack of impact in the short term could see it modified before it starts to take effect.

We believe the new pension reform could be key to guaranteeing the sustainability of the system in the long run, but the lack of impact in the short term could see it modified before it starts to take effect. The original pension reform wanted to bring the deficit of the system to -1.8% of GDP by 2070, while the current system would put said figure at -4.7% of GDP. Looking at 2070, without the reform, non-corrected Outlays would snowball to 12.6% of GDP, while the proposed Soc. Sec expenditure would remain stable, at 9.8% of GDP, ensuring the system's sustainability. On the side of Soc. Sec income, the trend is not expected to change significantly, as the reform does not address in any major way the number of contributions received by the system. These would amount to 7.4%-7.5% of GDP. However, the amendments negotiated by both Cabildo Abierto and the Colorado Party do put some pressure on the outlay side. Preliminary calculations put the cost of said measures near the 0.5-1% of GDP mark. Even as these figures could see the system's deficit increase to 2.3%-2-8%; the impact of the reform would continue to

be substantial against the non-reformed liability flows. However, on negative news, the FA was not happy with the approval of the project and already voiced its intentions of reforming the pension system again if they regain power in the next election cycle. The problem of the implementation of the law remains, as most of its key items would see life beyond 2033. That is at least two presidential elections away, meaning that its short-term impact will be close to zero. So, even if the reform's approval is good news for the administration, the question of how long it will remain in place stands. This compounds with the fact that the FA currently has a slight advantage over the government coalition in voting metrics, a fact which may give them the chance to activate their threat of reforming the pension system again if they win the 2024 election. They would indeed need a majority in both houses of Congress to do so, but in the event of said scenario occurring, the impact of the current reform would be negligible, as it would not have enough time to bear fruit. In this context, we continue to believe the main threat to the current reform comes not from the impromptu modifications it harbored, but from its durability in time, which will directly determine its impact on fiscal dynamics.

In other news, S&P increased the country's long-term local and foreign currency credit ranking to BBB+, from BBB, with a stable outlook.

In other news, S&P increased the country's long-term local and foreign currency credit ranking to BBB+, from BBB, with a stable outlook. The rating agency considers that substantial progress has been made to limit the debt burden and solidify public finances, mostly on the back of the likely approval of the pension reform and the fiscal framework created by the administration. In addition, it highlights Uruguay's growth, pointing at the finalization of the UPM II plant as a key event in the government's effort to diversify the country's growth, increasing its repayment capabilities. In addition, it reaffirms the stable outlook for the country. Currently, Moody's credit score for Uruguay's foreign currency long-term debt stands at Baa2, with a stable outlook, while Fitch's long-term rating on the foreign currency side is BBB-, also with a stable outlook.

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 Valores 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.