Macro scenario - Uruguay

April 19, 2024

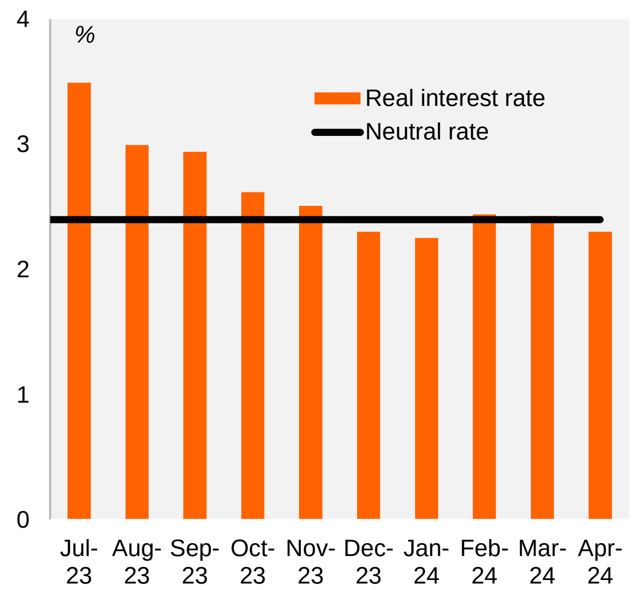
Improving outlook

- A stronger-than-expected start to the year led us to revise our 2024 GDP growth forecast up to 3.5%, from 3.0% previously. A solid labor market and higher spending on domestic tourism point to a positive year for consumption.
- We revised our 2024 year-end inflation forecast down materially to 5.50% from 6.50% in our previous scenario, as a result of the downside surprises in 1Q24 and a stronger-than-expected UYU. In fact, we also revised our YE24 exchange rate call to UYU 39.50/USD from UYU 40.50/USD in our previous scenario.
- After cutting by a total of 300 bps in the easing cycle, we do not expect more rate cuts this year. However, we cannot discard further cuts ahead if inflation continues on a benign trajectory or if medium-term inflation expectations continue to correct toward the target.

Central bank made unexpected cut in April

In the second monetary policy meeting of the year, the central bank's monetary policy committee cut the monetary policy rate by 50 bps to 8.50%. The decision to ease by 50 bps was a surprise with respect to our call and the Bloomberg survey, considering that the BCU appeared to have closed the easing cycle in December 2023 with a 25-bp cut and maintained the policy rate at 9% in the first monetary policy meeting of the year, in February 2024. As such, the move appeared to signal a resumption of the easing cycle initiated in April 2023. Thus, the BCU has cut a total of 300 bps in the cycle. We estimate that the real ex-ante policy rate stood at 2.3% in April (using expectations for the monetary policy horizon), slightly below the BCU's neutral real rate estimate of 2.4%, shifting monetary policy towards expansionary territory even as inflation expectations remain above the BCU's 3%-6% inflation target. In our view, the BCU might be prioritizing past inflation data and a strengthening of the currency over concerns about above-target inflation expectations.

Ex-ante real interest rate



Source: BCU, INE, Bevsa

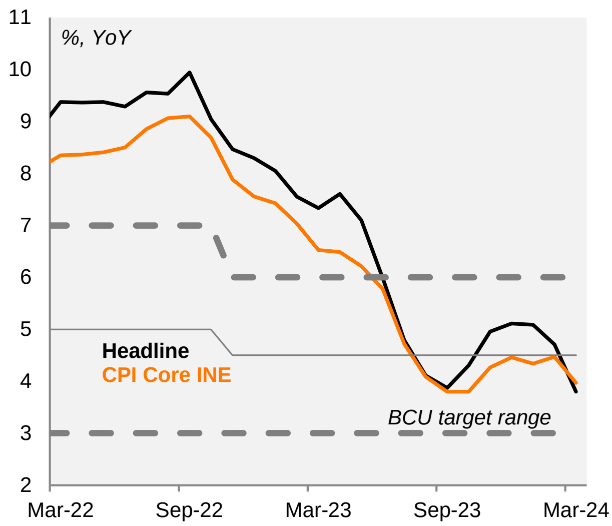
Inflation hits minimum levels

Headline inflation was 0.02% mom in March (from 0.90% a year ago and the five-year median, also 0.90%). The headline figure mainly reflected the lower prices in meat (-1.7% mom), fruits (-3.18%) and tradable goods, mostly affected by the appreciation of the UYU during the month. On the other hand, education tuition costs and natural gas prices offset the downside pressure. Core inflation (excluding fruits & vegetables and fuel prices) also stood almost flat in March (-0.04% mom; from 0.48% mom in March

Please refer to the last page of this report for important disclosures, analyst and additional information. Itaú Unibanco or its subsidiaries may do or seek to do business with companies covered in this research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should not consider this report as the single factor in making their investment decision.

2023). On an annual basis, headline inflation fell to 3.80% from 4.71% in February, while core inflation fell to 3.97%, down from 4.47% in the previous month. We note that both readings remain below the center of the central bank's 3%-6% inflation target range.

Annual inflation

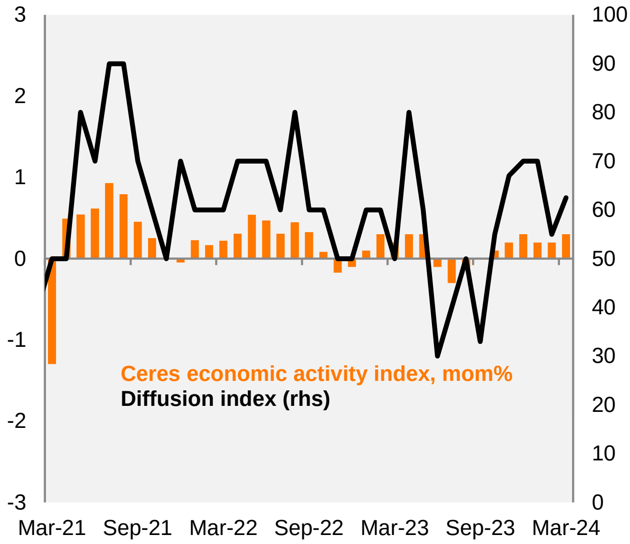


Source: INE

Activity started the year on the right foot according to leading indicators

Early signs point to a positive start to the year for economic activity. The central bank's monthly GDP proxy (IMAE) rose by 1.4% YoY in the quarter ending January, following a 2.0% expansion in 4Q23. On sequential basis, the index expanded by 0.8% mom/sa in January, after falling 0.8% in December. The leading activity indicator published by Ceres think tank rose by 0.3% mom/sa in March, the sixth consecutive monthly sequential expansion. The diffusion index (the number of sectors that evolved favorably) stood at 62.5% in March, up from 55% in February. In our view, the solid labor market (employment rose by 1.4 pp yoy and real wages expanded 3.7% yoy in February) and a positive tourism season explain the favorable activity performance.

Gaining steam



Source: CERES

Primary spending contracted again

The central government's 12-month nominal fiscal deficit edged slightly higher to 3.4% of GDP in February 2024, compared to 3.3% at the end of 2023. This fiscal balance measure excludes extraordinary income from the social security agency (asset transfers from individuals switching from the private pension system to the public pension system). Total real revenues rose by 5.8% yoy in the quarter ended in February (up from 4.0% in the previous month), in line with the recovery of economic activity. On the expenditure side, primary spending declined by 4.5% yoy in real terms, driven by lower non-personnel and capital expenditures, (-8% in the quarter ended in January).

Sweet spot: Higher growth and lower inflation

We revised our 2024 GDP growth forecast up to 3.5% from 3.0% in our previous scenario, in light of positive figures for 1Q24. While the normalization of agricultural activity after the severe drought of 2023 supports the recovery, we also envisage a solid year for consumption growth driven by the state of the labor market and greater expected domestic tourism expenditures, in turn mainly reflecting spillovers from the appreciation of the parallel exchange rate in Argentina.

We revised our inflation forecast for December 2024 to 5.50% from 6.50% before, mostly due to the downside surprises in 1Q24 and a stronger-than-expected UYU. In fact, we also revised our YE24 exchange rate call to UYU 39.50/USD from UYU 40.50/USD in our previous scenario.

We maintained our monetary policy rate forecast of 8.50% for YE24, although we reached this level earlier than anticipated (previously we expected this level for the second half of the year). While we do not expect further cuts in 2024, the BCU could cut further if inflation remains well-behaved or if inflation expectations continue to correct toward the BCU's inflation target.

We maintained our nominal 2024 fiscal balance forecast at -3.0% of GDP, in line with the MoF's projections. The government's discipline in fiscal management over the years supports our call.

Andrés Pérez M.
Diego Ciongo

Uruguay | Forecasts and Data

	2018	2019	2020	2021	2022	2023	2024F		2025F	
							Current	Previous	Current	Previous
Economic Activity										
Real GDP growth - %	0.2	0.7	-6.3	5.3	4.9	0.4	**3.5**	3.0	**3.0**	3.0
Nominal GDP - USD bn	65.3	62.1	53.7	61.4	71.3	77.3	**84.4**	86.1	**91.7**	90.8
Population (millions)	3.5	3.5	3.5	3.5	3.6	3.6	**3.6**	3.6	**3.6**	3.6
Per Capita GDP - USD	18,630	17,650	15,221	17,324	20,058	21,665	**23,589**	24,058	**25,550**	25,308
Unemployment Rate - year avg	8.4	8.9	10.4	9.3	7.9	8.3	**8.0**	8.0	**7.8**	7.8
Inflation										
CPI - %	8.0	8.8	9.4	8.0	8.3	5.1	**5.5**	6.5	**5.5**	6.0
Interest Rate										
Reference rate - eop - %	8.25	8.57	4.50	5.75	11.50	9.00	**8.50**	8.50	**8.00**	8.00
Balance of Payments										
UGY / USD - eop	32.40	37.35	42.35	44.69	39.9	38.9	**39.5**	40.3	**41.5**	42.0
Trade Balance - USD bn	-0.8	-0.1	-0.2	0.0	-0.8	-2.5	**1.0**	1.0	**1.0**	1.0
Current Account - % GDP	-0.5	1.2	-0.8	-2.5	-3.9	-3.6	**-1.0**	1.0	**-1.0**	1.0
Foreign Direct Investment - % GDP	-1.1	2.2	1.9	2.4	4.5	5.5	**2.0**	2.0	**1.5**	1.5
International Reserves - USD bn	15.6	14.5	16.2	17.0	15.1	16.2	**18.0**	18.0	**18.5**	18.5
Public Finances										
Nominal Balance Central Gov. (*) - % GDP	-1.9	-4.0	-5.8	-4.2	-3.0	-3.3	**-3.0**	-3.0	**-2.7**	-2.7
Gross Public Debt Central Gov. - % GDP	45.0	45.1	48.0	61.2	58.5	58.3	**55.0**	55.2	**52.0**	53.4

Source: FMI, Haver, Bloomberg, BCU, Itaú.
(*) Excludes extraordinary inflows to the Social Security Trust Fund.

Macro Research – Itaú

Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis

Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. ("Itaú Unibanco"). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report ("relatório de análise") for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.
2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.
3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.
4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú's CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.