

Macroeconomic Research
Macro Scenario – Uruguay
August 2024

URUGUAY: Rising inflation calls for monetary caution

1. Activity to expand this year

Leading indicators points to solid growth in 2024.

2. Inflation on the raise

Inflation accelerated in July.

3. On-hold for a while

The BCU maintained the monetary policy rate unchanged since April.

4. Weaker UYU

The UYU has recently depreciated in line with other currencies in the region.

5. Elections are coming up

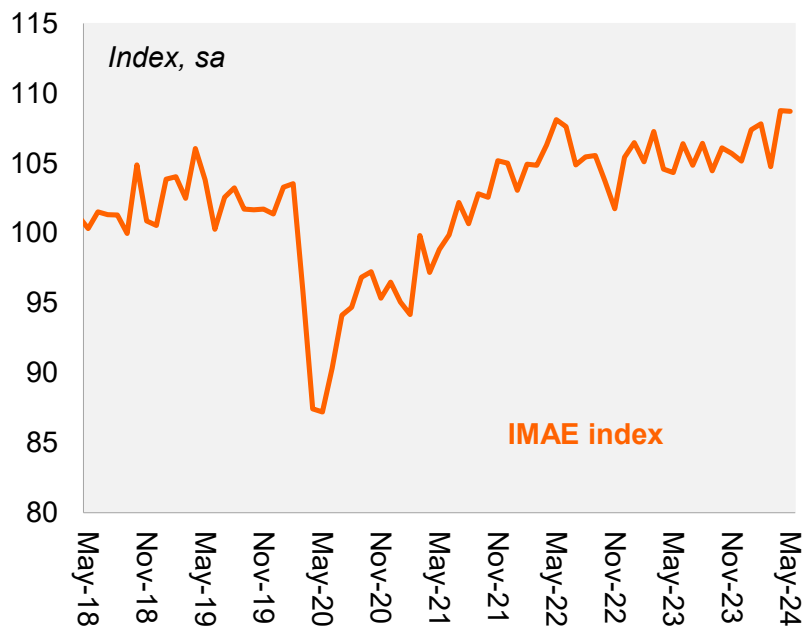
The general election is scheduled for October 27.

1. Activity to expand this year

Leading indicators points to solid growth in 2024.

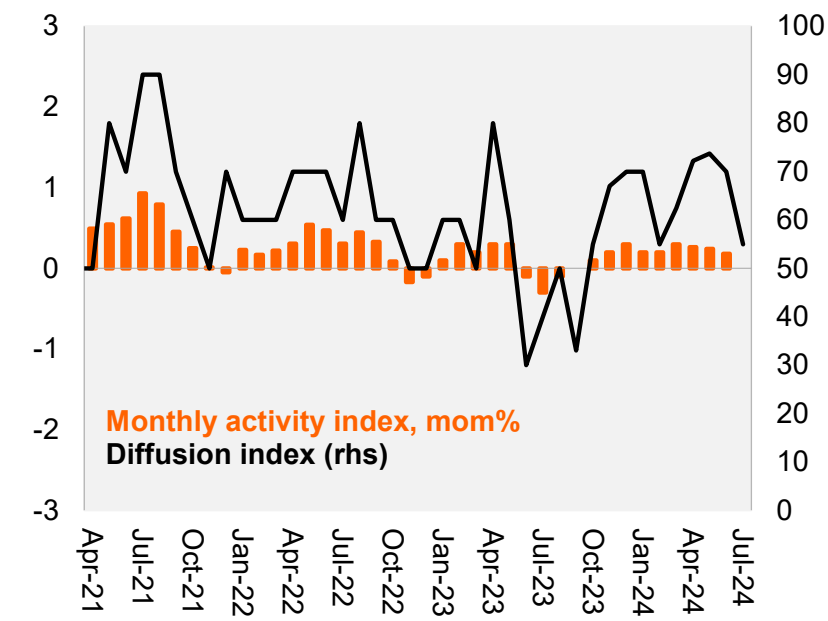
- Economic activity recovers, reflecting the normalization of agricultural activity after the severe drought of 2023. In addition, lower tourism spending abroad due to the appreciation of Argentina's parallel exchange rate is providing additional support to private consumption.
- The central bank's monthly GDP proxy (IMAE) expanded 1.0% qoq/sa in the quarter ended in April, essentially unchanged from the 0.9% qoq/sa in 1Q24.
- Our GDP growth forecast remains at 3.5% for 2024. However, weaker leading indicator data (Ceres index) and lower GDP growth expected for China introduce an alert to our forecast.

Activity Index



Source: BCU

Losing steam



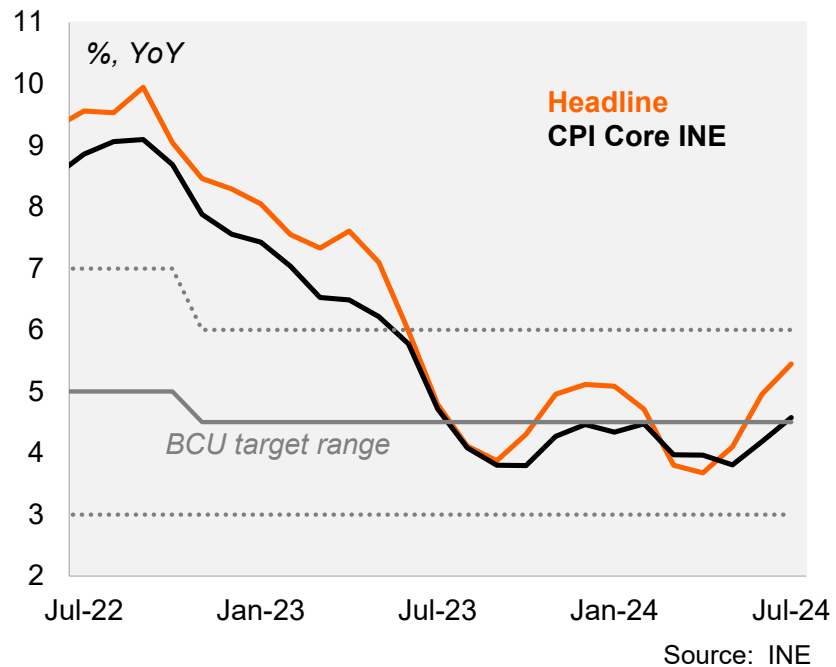
Source: CERES

2. Inflation on the raise

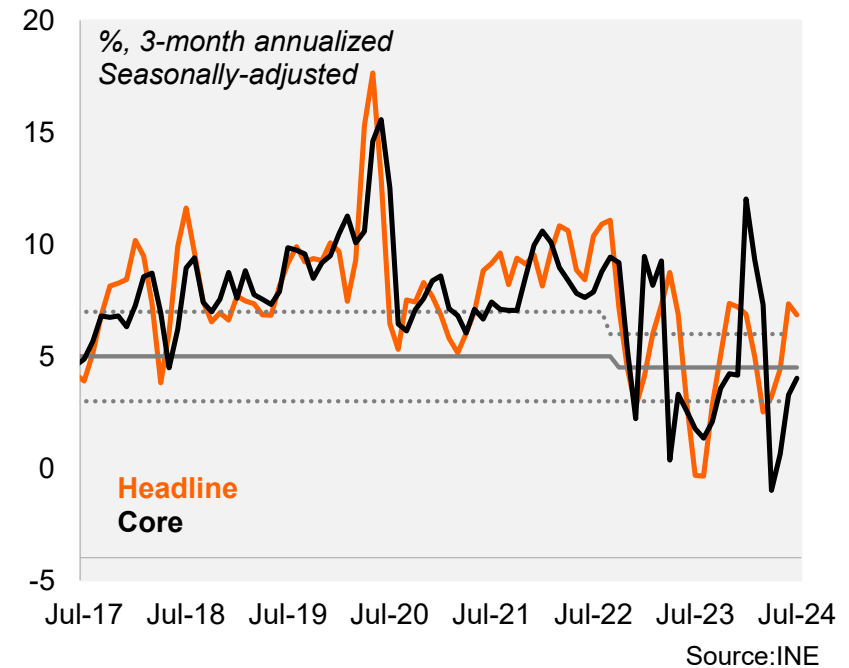
Inflation accelerated in July.

- Headline inflation jumped to 5.45% from 4.96% in June, while core inflation accelerated to 4.58%, from 4.18% in the previous month.
- We expect inflation to remain within the Central Bank's inflation target range (3-6%) during the rest of the year (5.5% yoy for YE24).

Annual inflation



Inflation at the margin

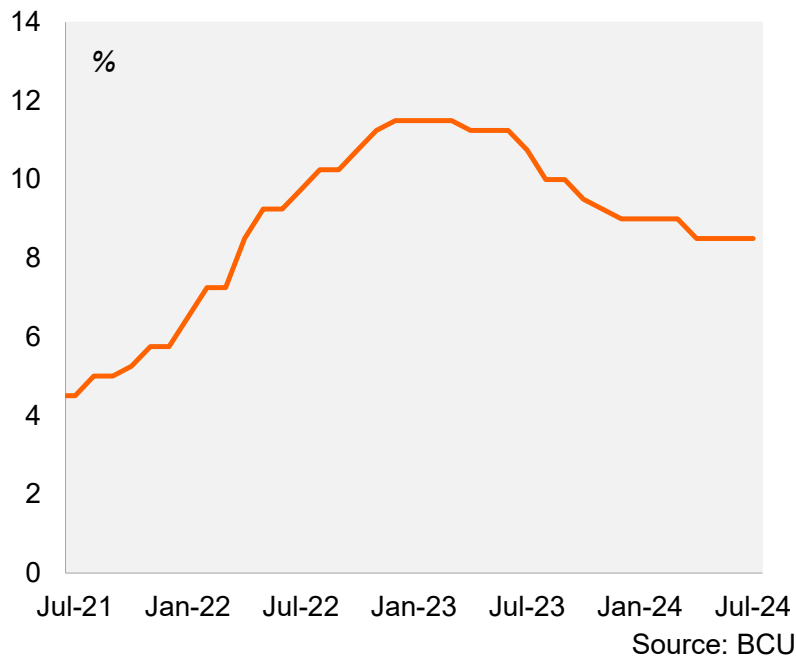


3. On-hold for a while

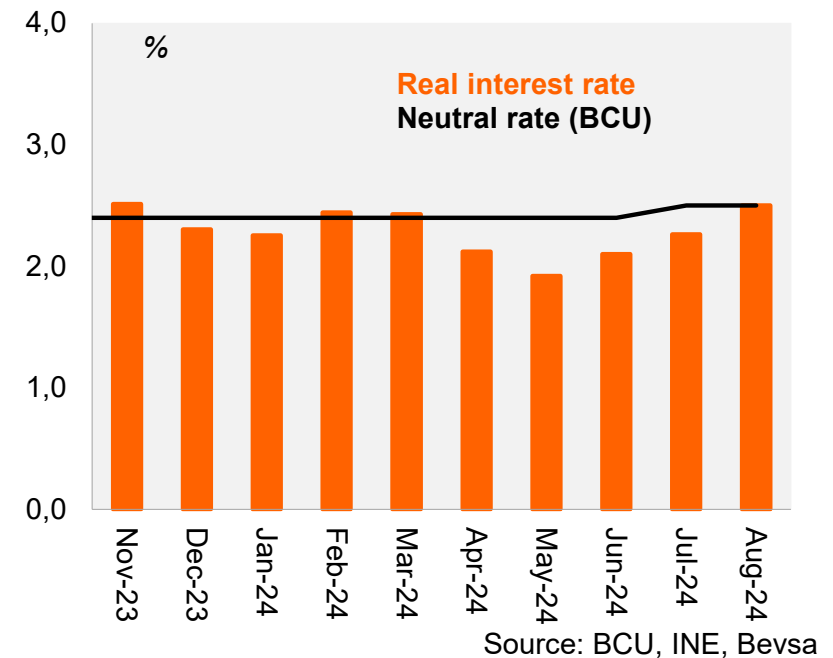
The BCU maintained the monetary policy rate unchanged since April.

- The Central Bank's Monetary Policy Committee decided in July, as widely expected, to keep the policy rate at 8.50%.
- We estimate that the ex-ante real policy rate stands at 2.5% (using expectations for the monetary policy horizon), in line BCU's estimate of the neutral real rate.
- We see no room for further rate cuts this year, as inflation expectations remain above the target range.

Policy interest rate



Ex-ante real interest rate

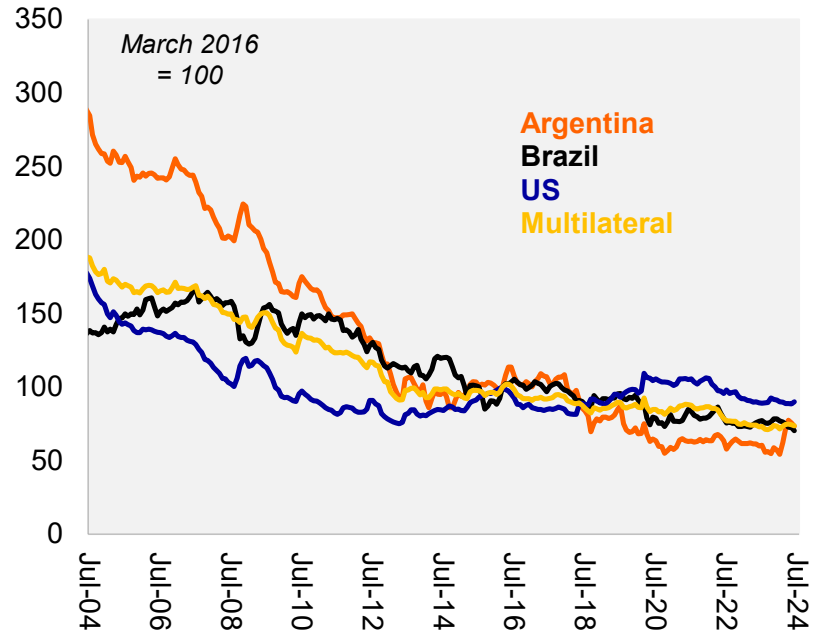


4. Weaker UYU

The UYU has recently depreciated in line with other currencies in the region.

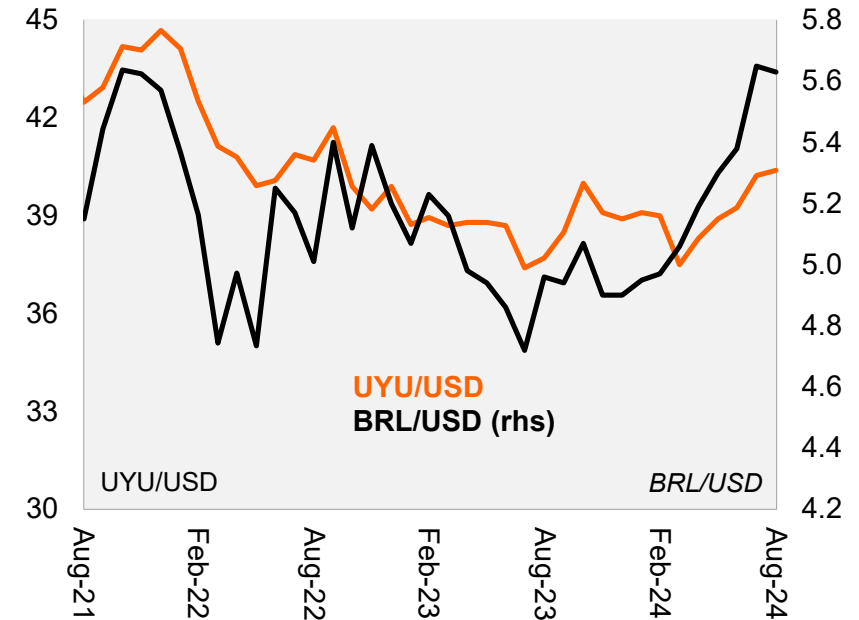
- We revised our YE24 nominal exchange rate forecast to 40.5 UYU/USD from 40.0 UYU/USD in our previous scenario, due to a still stronger global USD and our expectation of a weaker BRL.
- However, we do not see a depreciation in real terms supported by our new scenario of higher FED rate cuts.

Real Exchange Rate



Source: BCU

FX market

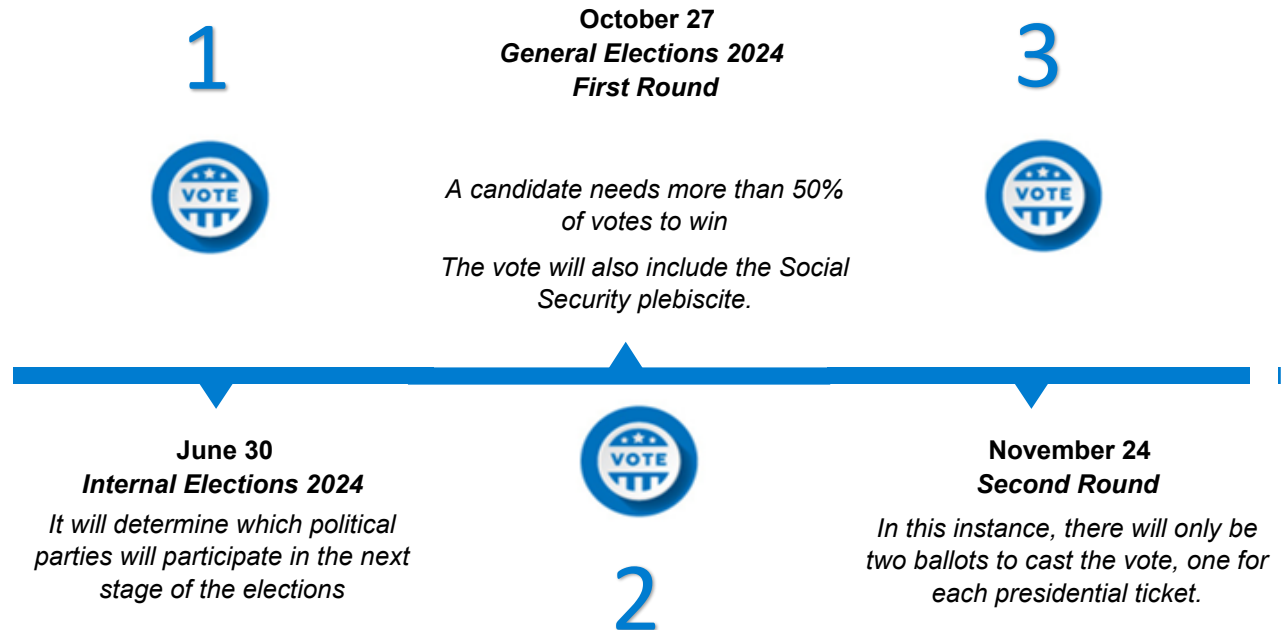


Source: Bloomberg

5. Elections are coming up

The general election is scheduled for October 27.

- The elected candidates of the June 30 primaries were Álvaro Delgado (Partido Nacional), Yamandú Orsi (Frente Amplio), and Andrés Ojeda (Colorado Party).
- The general election is scheduled for October 27, in which a runoff (November 24) would take place if none of the candidates achieves a simple majority, which polls show is the most likely scenario.
- Uruguayans will also vote in a plebiscite on a proposal to overturn the social security reform enacted in 2023. A 50% + 1% voting majority is needed to repeal the reform. Our base case scenario assumes that the repeal will be rejected, so we do not expect any economic impact from this initiative (see election calendar below).



Source: Electoral court

Scenario – Uruguay

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	0.7	-6.3	5.3	4.9	0.4	3.5	3.5	3.0	3.0
Nominal GDP - USD bn	62.1	53.7	61.4	71.3	77.3	82.6	82.4	85.8	85.8
Population (millions)	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6
Per Capita GDP - USD	17,650	15,221	17,324	20,058	21,665	23,076	23,020	23,907	23,909
Unemployment Rate - year avg	8.9	10.4	9.3	7.9	8.3	8.0	8.0	7.8	7.8
Inflation									
CPI - %	8.8	9.4	8.0	8.3	5.1	5.5	5.5	5.5	5.5
Interest Rate									
Reference rate - eop - %	8.57	4.50	5.75	11.50	9.00	8.50	8.50	8.00	8.00
Balance of Payments									
UYU / USD - eop	37.35	42.35	44.69	39.9	38.9	40.5	40.0	42.5	42.0
Trade Balance - USD bn	-0.1	-0.2	0.0	-0.8	-2.5	1.0	1.0	1.0	1.0
Current Account - % GDP	1.2	-0.8	-2.5	-3.9	-3.6	-1.0	-1.0	-1.0	-1.0
Foreign Direct Investment - % GDP	2.2	1.9	2.4	4.5	5.5	2.0	2.0	1.5	1.5
International Reserves - USD bn	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	-4.0	-5.8	-4.2	-3.0	-3.3	-3.1	-3.1	-2.9	-2.9
Gross Public Debt Central Gov. - % GDP	45.1	48.0	61.2	58.5	58.3	56.0	56.0	55.0	55.0

Source: FMI, Haver, Bloomberg, BCU, Itaú.

(*) Excludes extraordinary inflows to the Social Security Trust Fund.

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