

Macro scenario - Uruguay



July 17, 2024

Activity improving as elections loom

- ▶ The primary elections on June 30 defined the candidates for the first-round presidential election to be held in October. Yamandú Orsi (Frente Amplio), Álvaro Delgado (Partido Nacional) and Andrés Ojeda (Partido Colorado) will be the main contenders.
- ▶ We are slightly raising our YE24 exchange- rate forecast to 40 UYU/USD from 39.5 in our previous scenario, in line with the stronger global USD and a weaker BRL.
- ▶ We maintained our year-end 2024 inflation forecast at 5.5%, while we do not expect changes to the monetary policy rate during the rest of the year.

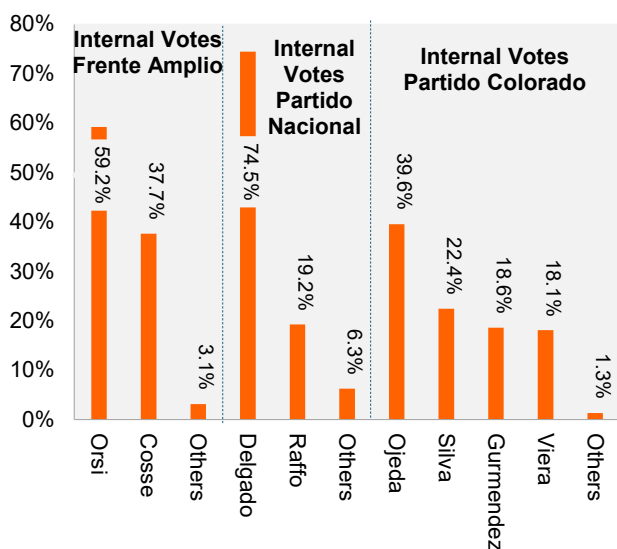
On the road to elections

The outcome of the primaries was in line with the polls. 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, the likeliest scenario according to the polls.

Inflation on the rise

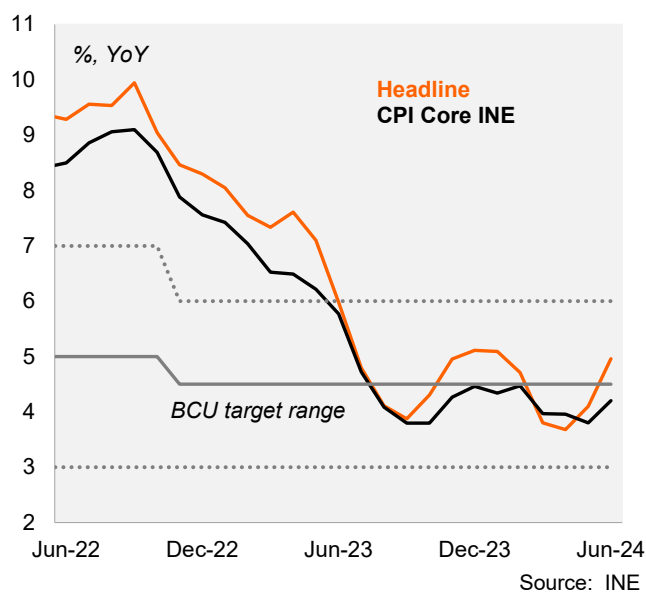
Headline inflation rose by 0.36% mom in June (from -0.46% a year ago and a 5-year median figure of 0.30%). The headline figure reflects the increase in recreation (1.40% mom), driven by higher prices in tourism packages, transport (0.43% mom) and food prices, in particular dairy products and meat (0.51% mom and 0.36% mom, respectively). Core inflation (excluding fruits & vegetables and fuel prices) increased by 0.41% mom, from 0.05% mom in the same month one year ago. On an annual basis, headline inflation rose to 4.96% from 4.10% in May, while core inflation accelerated to 4.18%, from 3.81% in the previous month. Despite the increase in annual inflation across both readings in June, they remain within the Central Bank's inflation target range (3%-6%).

Internal election



Source: Corte Electoral

Annual inflation



No more rate cuts in sight

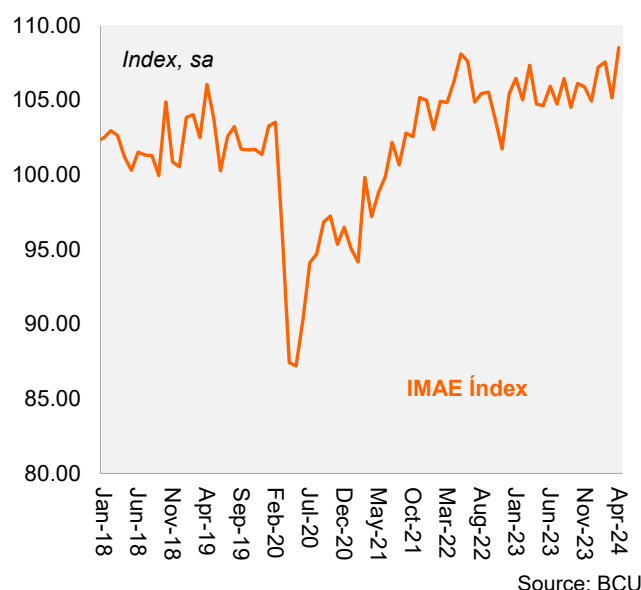
On hold for the rest of the year. At its most recent meeting on July 16, the Central Bank’s Monetary Policy Committee decided to keep the policy rate at 8.50%, as widely expected, unchanged since April. The average of inflation expectations stood at 6.1%, lower than the previous quarter. Thus, we estimate that the real ex-ante policy rate stands at 2.3% (using expectations for the monetary policy horizon), slightly below the BCU’s neutral real rate estimate of 2.4%, keeping the monetary policy towards expansionary territory as inflation expectations remain above the inflation target. We believe the Monetary Policy Committee is likely to keep the policy rate at its current level to ensure inflation expectations continue to converge to 4.5%, the center of the BCU’s 3-6% target range.

Good signs of activity in 2Q24

Activity expanded at the beginning of 2Q24. The central bank’s monthly GDP proxy (IMAE) expanded by 4.2% YoY in April, leading to a 1.6% expansion in the quarter ended in that month (0.5% YoY in 1Q24). On a sequential basis, the index rebounded by a solid 3.2% mom/sa in April, after falling 2.2% in March. Thus, the IMAE expanded 1.0% qoq/sa in the quarter ended in April, essentially unchanged from the 0.9% qoq/sa in 1Q24. The leading activity indicator published by think tank Ceres rose by 0.2% mom/sa in June, the ninth consecutive monthly

sequential expansion. However, the diffusion index (the number of sectors that evolved favorably) fell to 70% in June, from 73.7% in May. In our view, the solid labor market (employment rose by 1.1 pp yoy and real wages expanded 4.1% yoy in the quarter ended in May) and greater domestic tourism expenditures, in turn mainly reflecting spillovers from the appreciation of the parallel exchange rate in Argentina, are the primary drivers of the favorable activity performance.

Activity Index



Fiscal accounts deteriorate slightly

The central government’s twelve-month nominal fiscal deficit rose to 4.4% of GDP in May, from a deficit of 4% in March. This fiscal balance excludes extraordinary income from the social security agency (asset transfers from individuals switching from the private pension system to the public pension system). Total revenues increased 2% YoY in real terms in the quarter ending in May, in line with better activity. Moreover, primary expenditures rose 6.8% yoy in real terms in the same period, led by pension, payroll, and investments.

Weaker currency amid a more challenging global scenario

Our GDP growth forecast remains at 3.5% for 2024. The agriculture sector is still recovering from last year’s severe drought, while the labor market is strong. A high statistical carryover from latest GDP proxy figures (2.4%) also supports our call.

We revised our YE24 nominal exchange rate forecast to 40 UYU/USD from 39.5 UYU/USD in our previous scenario, due to stronger global USD and a weaker BRL.

We maintain our year-end 2024 inflation forecast at 5.5%. In our previous scenario we saw downside risks to our call, but those appear to have dissipated due to the upside surprise in June and our projections of a slightly weaker UYU.

We maintained our YE24 monetary policy rate forecast of 8.50%. The central bank will meet again on August 16, and we do not expect further rate cuts, yet the BCU could cut again later in the year if inflation remains well behaved and inflation expectations continue to gradually correct toward the BCU's inflation target.

We revised our forecast for the nominal fiscal balance in 2024 to -3.1% of GDP, from -3.0% in the previous scenario. The revision is in line with changes to the Ministry of Finance's forecast for 2024.

**Andrés Pérez M.
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Uruguay | Forecasts and Data

	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	82.4	84.4	85.8	91.7
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	23,020	23,589	23,909	25,550
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	40.0	39.5	42.0	41.5
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	-3.0	-2.9	-2.7
Gross Public Debt Central Gov. - % GDP	45.1	48.0	61.2	58.5	58.3	56.0	55.2	55.0	53.4

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

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

Macro Research – Itaú

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