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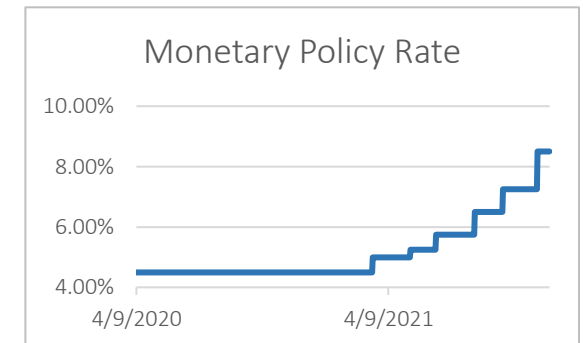
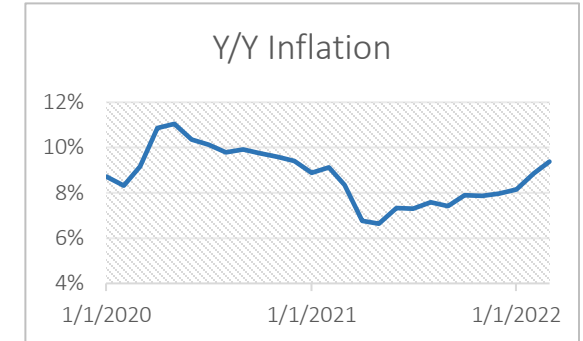
URUGUAY MONTHLY COMMENT

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“Inflation is always and everywhere...” (Milton Friedman)

Nobel prize winner Tom Sargent once said: “without decreasing the budget deficit, combating inflation with monetary policy is like entering a heavyweight championship competition with one hand tied behind your back”. Despite the pandemic, the government succeeded in reducing the fiscal deficit, as promised during the presidential campaign, while the Central Bank showed a strong commitment to lowering inflation; in fact, the Monetary Policy Committee increased the key interest rate by 275 bps in 2022 -from 5.75% to 8.50%. However, on the 20th of April, President Luis Lacalle Pou unexpectedly announced an increase in pensions and public employees’ wages; although it’s a one-time measure that will have little impact on public accounts, most analysts raised a yellow flag. Why? Because, in their opinion, it signals a permanent change in government’s policy that could undermine the Central Bank’s efforts to tame inflation in a very complex time –due to the conflict between Ukraine and Russia and high inflation in developed markets.



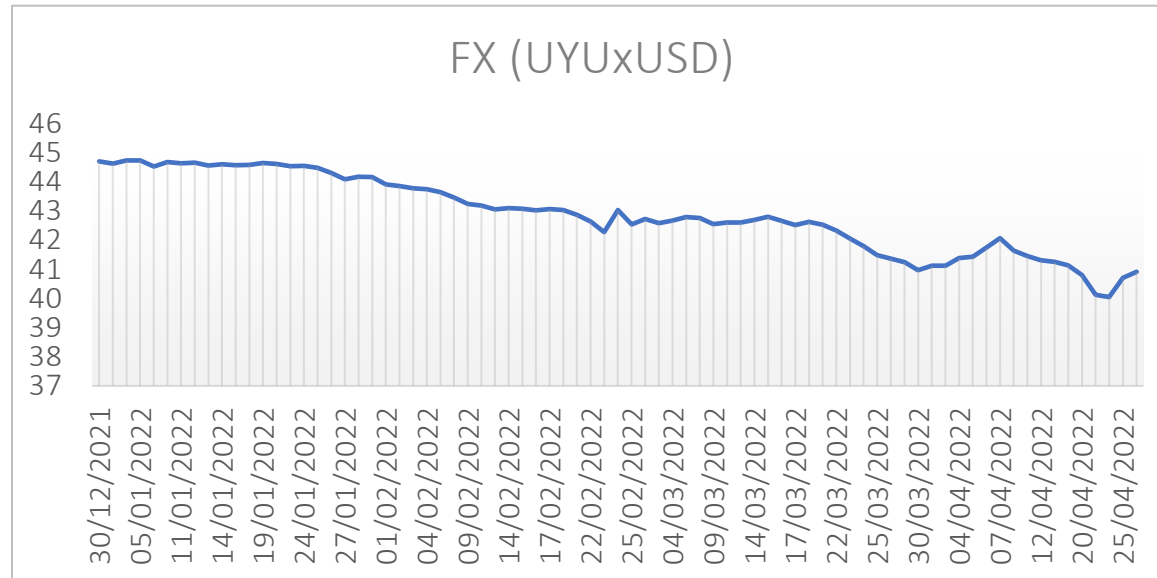
Our view is a little bit more optimistic; we believe the government gained popularity and avoided potential conflicts with unions and the opposition that could have a much higher cost to the actual administration. Moreover, we think that the Central Bank will continue to tighten its monetary policy in the coming meetings and, once the conflict between Russia and Ukraine is over and the international pressures on prices weaken, inflation will converge to the target.

“It's just not right when every night I'm all alone” (The Beatles)

President Luis Lacalle Pou faces a difficult task since the start of his mandate: balancing the divergent thoughts and ideas of this heterogeneous ruling coalition. Until now he has been effective; he won a tough referendum (LUC) with full support of all the members of the coalition and maintained almost all the ministers proposed by the different parties. His popularity is one of the highest among Latin American presidents -although it has dropped circumstantially due to price increases- and has a very good reputation in international markets. What could go wrong? In our view, there's too much power concentrated in one person's hands. President Luis Lacalle Pou is, by far, the most emblematic figure of the coalition; should he make any wrong decision, the government could seriously weaken, and the coalition fall apart. Besides, we can't find any emerging figure inside his party -nor in the coalition- capable of winning the next presidential election; Alvaro Delgado's name sounded loud during the pandemic, but then faded away. The left-wing Frente Amplio, on the other hand, is still the strongest party in the country and has at least two popular figures that could eventually lead the party to the victory in 2024. One of the figures, Major of Montevideo Carolina Cosse, recently couldn't reach the votes needed in the Departmental Board to approve a 25- year loan from the Inter-American Development Bank (IDB) for USD 70 million; nevertheless, one of the members of the multicolor coalition, the Colorado Party, voted in favor of it, another sign of the fragility of the ruling block.

Macro Flash

	Δ CPI Y/Y	Δ PPI Y/Y	Unemployment Rate	CB Key Rate	Fiscal Deficit
Last	9.38%	22.94%	7.30%	8.50%	3.80%
Previous	8.85%	21.32%	7.40%	7.25%	3.90%



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