GRUPO FINANCIERO

URUGUAY MONTHLY COMMENT

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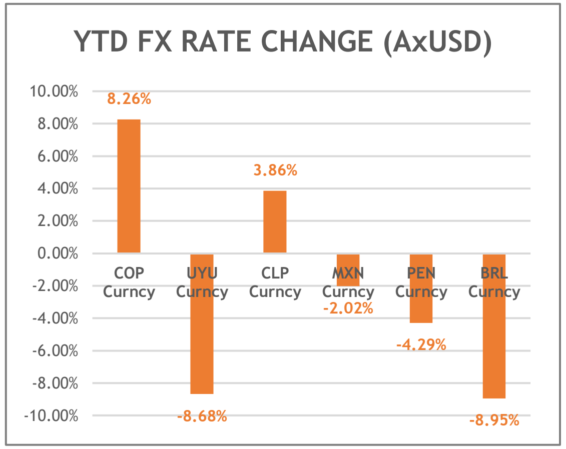
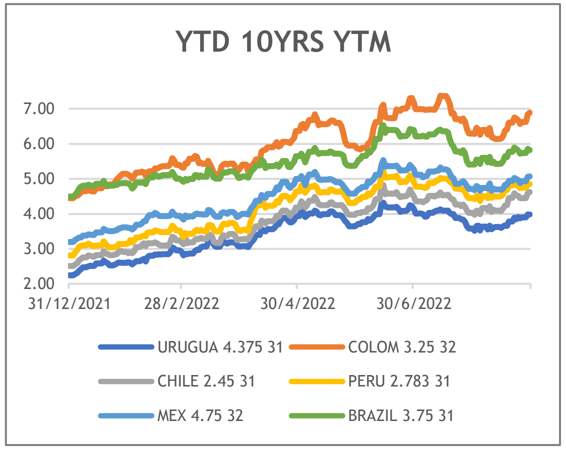
“We are in a better position to deal with the adjustments that lie ahead” (Paul Volker – 1979)

Most Latin-American currencies -including the UYU- appreciated against the US dollar in August while the price of 10yr USD sovereign bonds dropped between 2.5% and 4% mainly due to the increase of risk-free interest rates. Nonetheless, Uruguay’s HC bond due 2031 still offers the lowest yield to maturity (4.0%) among South American issuers even though the country’s credit rating (BBB-) is worse than Chile’s (A) and Peru’s (BBB). Why? As we suggested in the preceding monthly comments, as we see it, international investors are positively valuing Uruguay’s institutional strength in a very unstable region in which political and social polarization has grown heavily, weakening economic prospects. Furthermore, as Moody’s indicated in a report issued in mid-August, “prudent fiscal management is supporting strengthening fiscal policy credibility”.

Although annual inflation picked up in July -from 9.29% to 9.56%- we still believe that this administration will succeed in bringing down mid-term expectations by increasing key interest rates and reducing the fiscal deficit; the fact that both the job market and economic activity have recovered in the recent months gives space to the Central Bank and the Government to pursue more contractive fiscal and monetary policies.





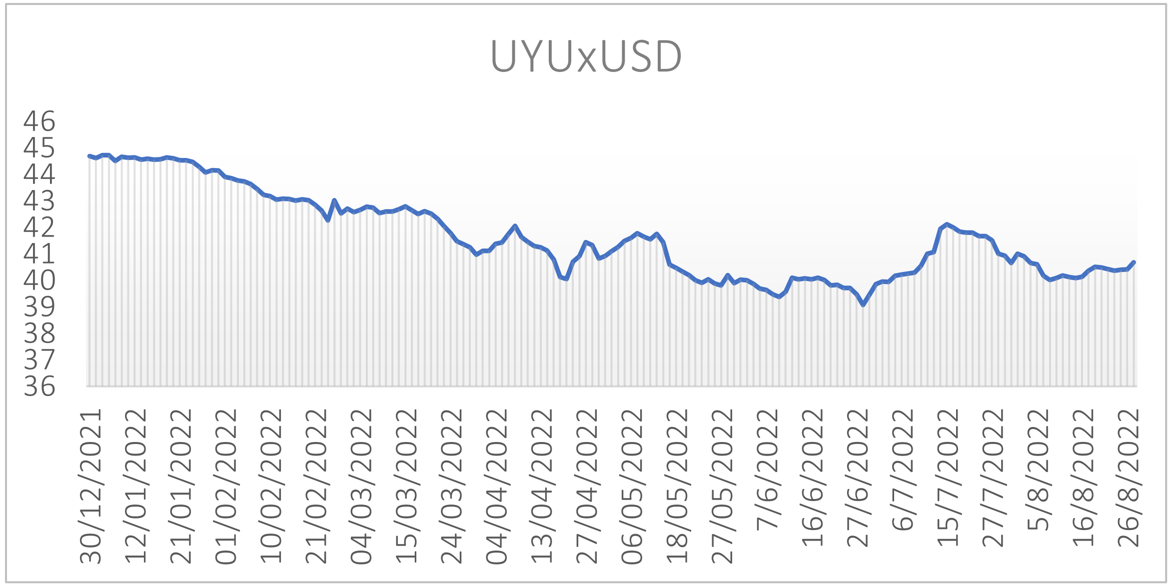
“It's a long way to the top if you wanna rock 'n' roll” (AC/DC)

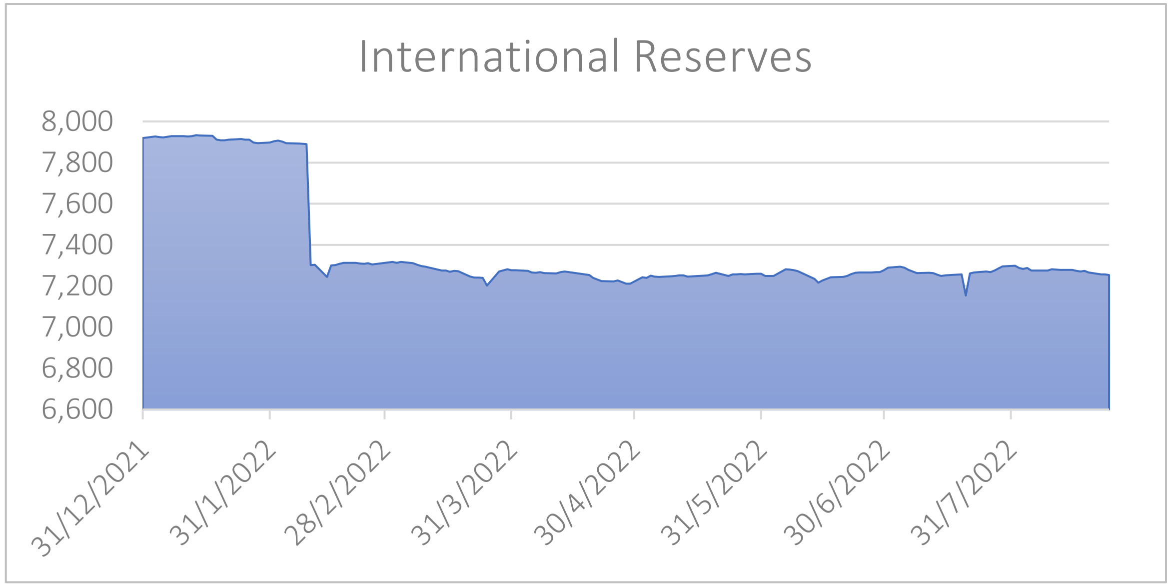
President Luis Lacalle Pou submitted a draft of the project to reform the pension system to the other members of the ruling coalition and the opposition. Among other things, the proposal includes an increase in the retirement age -from 60 to 65- the convergence of the several schemes that exist nowadays and the possibility to keep working during retirement; all these changes will be implemented progressively during the next 20 years and won’t affect the workers who already retired. Both the trade union center PIT-CNT and the left-wing party Frente Amplio criticized the plan arguing that the workers would “lose rights” and see their “benefits reduced” but asserted that they would take some time to further examine the consequences of the reform.

We welcome the determination of the actual administration to deal with a problem that has grown over the past decades and endangers the sustainability of public finances; nevertheless, we believe it’s vital for the wellbeing of our political system and the economy that the political parties discuss this matter seriously and peacefully and, ultimately, reach an agreement that reconciles the different views. In fact, according to a survey conducted by pollster Equipos Consultores, 79% of the population believe that the Frente Amplio party should come to terms with the government. Until now, luckily, President Luis Lacalle Pou and most members of the opposition expressed their willingness to negotiate in good terms.

Macro Flash

	Δ CPI Y/Y	Δ PPI Y/Y	Unemployment Rate	CB Key Rate	Fiscal Deficit
Last	9.56%	14.19%	8.10%	10.25%	2.90%
Previous	9.29%	14.25%	8.40%	9.75%	3.30%





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