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# URUGUAY MONTHLY COMMENT

**Agustín Caticha, CFA** (Head Trader) & **Patrizio Drago, CFA** (Institutional Sales and Strategist)

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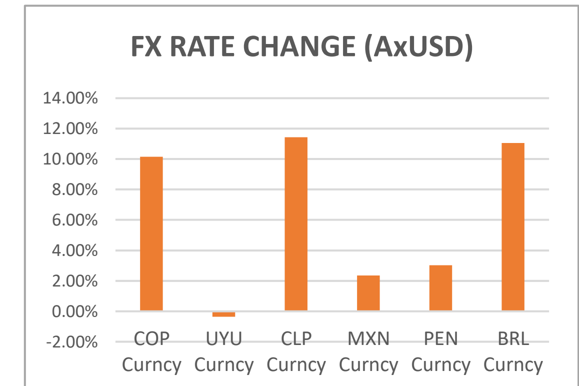
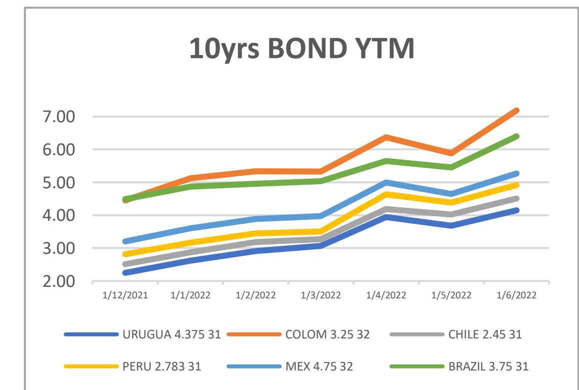
# “So close and yet so different” (Why Nations Fail)

Uruguay continued to outperform the rest of Latin America -both in FX and FI markets- in June; the Uruguayan Peso was the only currency that didn’t depreciate against the US dollar during the sixth month of the year while the 10-yrs USD benchmark bond dropped less than its pairs (-3.0%) and still offers the lowest yield to maturity (4.1%).




As we stated in the previous comment, in our view, the behavior of the UYU is not explained by monetary policy tightening -as most Latin-American Central Banks sharply increased the key rate during the first half of the year to tame growing inflation- but by the commitment the government has shown to reduce the fiscal deficit and, more importantly, political and social stability and legal certainty -not very common features among South American countries these days. Fitch made this point clear in its last Rating Action Commentary: “Uruguay's 'BBB-' rating is supported by (…) strong governance indicators and institutional strength. (…) The government is committed to policies to improve these credit weaknesses but faces challenges in advancing these.”




We believe our country could further attract international investors in the coming months should the economy continue to strengthen; this would, inevitably, put downward pressure on the FX rate and credit spreads.

# “Travel my way, take the highway that is best” (Route 66)

Finally, President Luis Lacalle Pou submitted the budget proposal to the congress. The plan includes an increase in government spending of USD 226 million in 2023, most of which will be allocated to education, public security, science, and health; at the same time, the authorities raised the GDP growth forecast for 2022 -from 3.8% to 4.8%- and reiterated their commitment towards reducing the fiscal deficit to 3.5% of the GDP by the end of the year.

We would like to highlight three things about this proposal and the aftermath: (1) despite the pandemic, the executive branch has managed to accomplish, at least partially, the promises made during the presidential campaign (2) the increase in spending is neither too much austere nor too much lax, as many analysts have predicted (3) Until now, the criticism of the opposition, trade unions and the other members of the coalition haven’t been as aggressive as one might have thought. Naturally, things could change during the parliamentary debate; the Frente Amplio party will certainly adopt a more bellicose stance to mark the differences with the ruling coalition, with special emphasis in the loss of workers’ purchasing power, the small portion of the budget assigned to education and a series of non-economic reforms included in the document.

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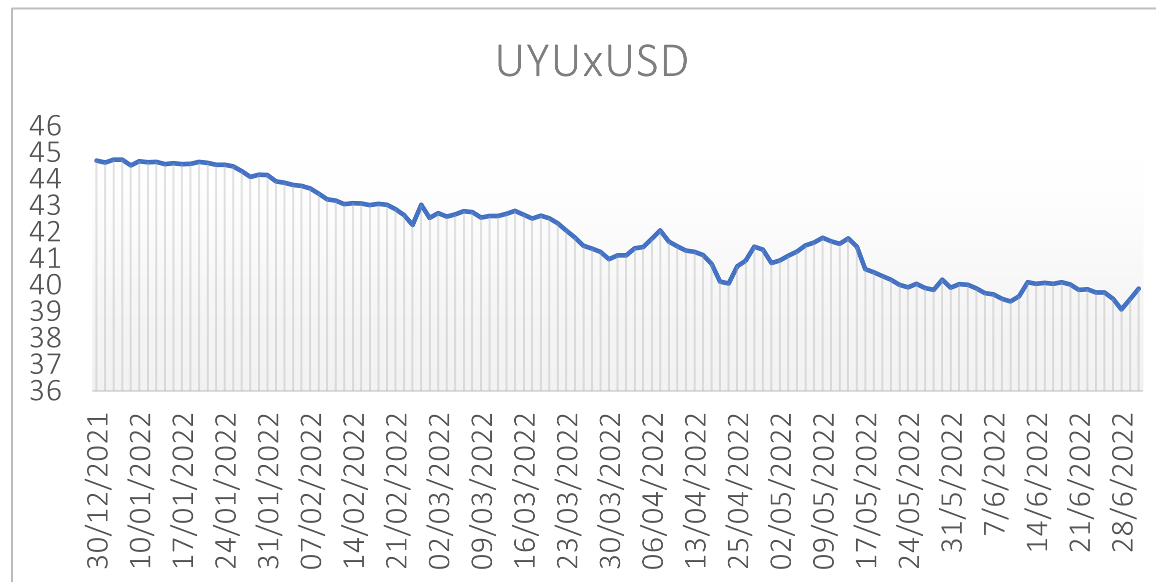
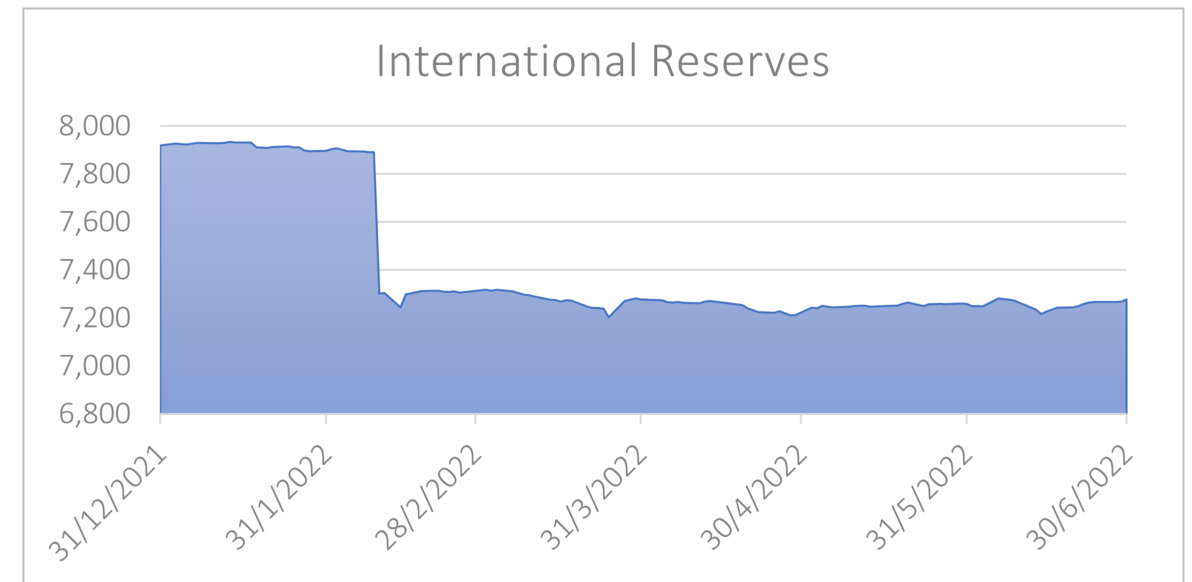
# Macro Flash

| | Δ CPI Y/Y | Δ PPI Y/Y | Unemployment Rate | CB Key Rate | Fiscal Deficit |
|---|---|---|---|---|---|
| Last | 9.37% | 14.25% | 8.10% | 9.25% | 3.30% |
| Previous | 9.37% | 21.77% | 7.70% | 9.25% | 3.50% |



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