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GRUPO FINANCIERO

URUGUAY MONTHLY COMMENT

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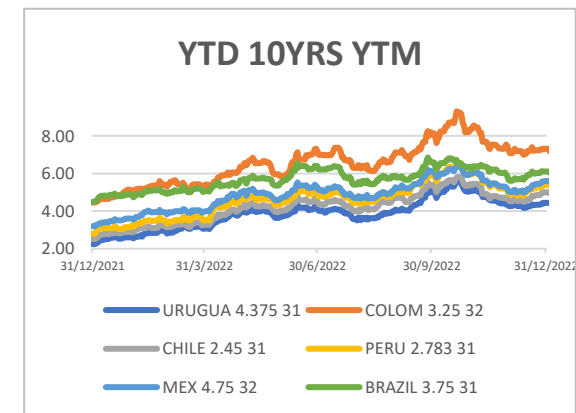
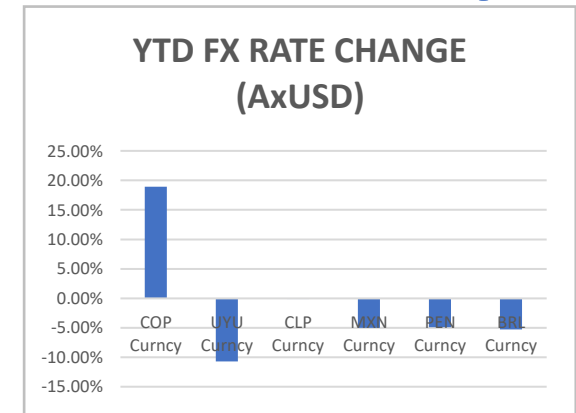


January 5, 2022

“When LT inflation expectations are contained, the Central Bank has a lot of short-term policy leeway” (Robert Barro)

As we anticipated in our last report, most of the price increases registered in September finally reverted and the annual inflation rate reached the lowest level since January (8.29%) while inflation expectations for the next 12 and 24 months diminished 10 bps and 20 bps, respectively. We believe that if the Central Bank continues to tighten its monetary policy in the coming meetings -no matter the economic consequences- and the government further reduces the fiscal deficit, the annual inflation rate could enter the target range sooner than expected (Q4 2023 – Q1 2024).

Although the GDP remained unchanged during the third quarter, the economic activity will almost certainly expand between 5.0% and 5.5% in 2022; far more than what the government and private analysts expected earlier this year and above LATAM countries' average growth rate. Thanks to this and the fiscal and monetary discipline, the UYU has been one of the best performers among EM currencies whereas spreads (USD bonds) have reached the lowest level in many years and are still the lowest among Latin American issuers.

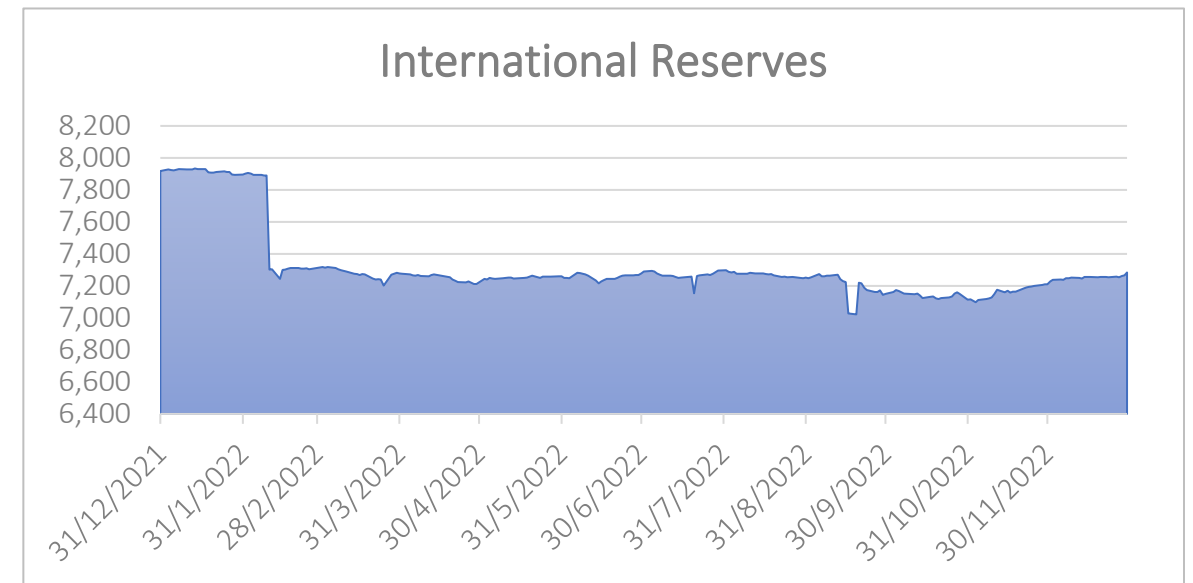
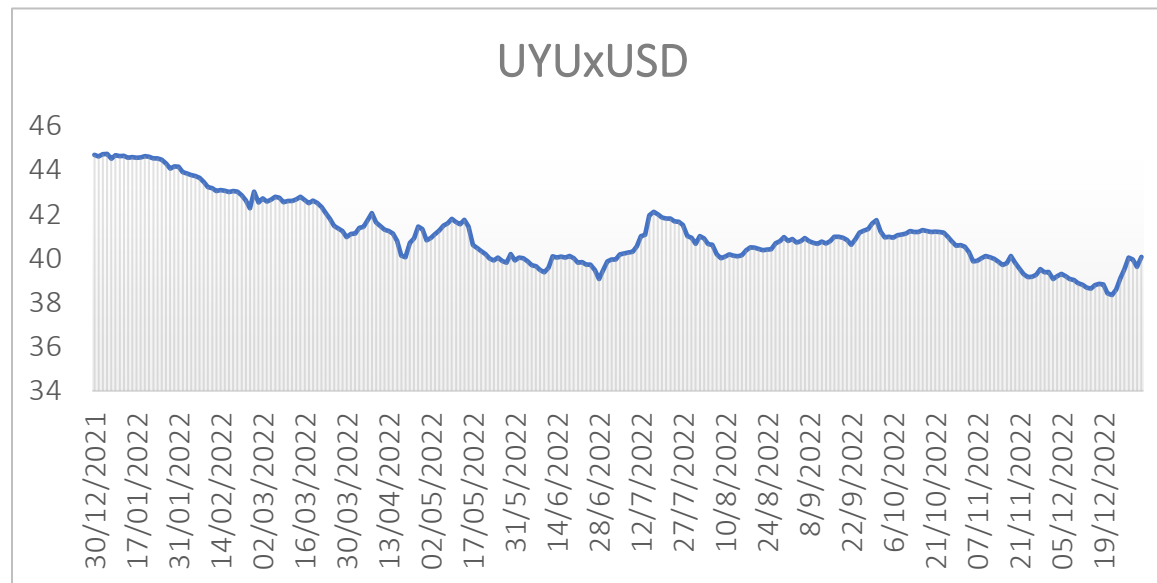


“Hey scandal, they're gonna turn our lives into a freak show” (Scandal - Queen)

This administration has faced several challenges since Luis Lacalle Pou took office in 2020: the COVID-19 pandemic between 2020 and 2022, the referendum on the Urgent Consideration Law (LUC) held on March 2022 and, more recently, the arrest of the President's head of security. We -and most of the population- think that first two matters were handled successfully; (1) despite our country took less restrictive measures and increased government spending by less than most countries in the region, the results were better (less deaths and better economic performance) (2) the population voted against the derogation of the LUC even though the left-wing party (Frente Amplio) and the National Trade Union Center (PIT-CNT) mounted a tough campaign to abolish the new legislation. However, in our view, this administration didn't approach the last matter properly and, consequently, lost credibility and transparency. President Luis Lacalle Pou's claims were not convincing and his own co-religionaries failed to persuade the press and the population about his innocence. Even though the justice hasn't proved anything nor convicted anyone yet, this episode will certainly damage the government's reputation and could, eventually, hurt the possibilities of the ruling coalition in the next presidential election. What is more, it could delay some of the reforms that were planned for the coming years should the process extend over time.

Macro Flash

	Δ CPI Y/Y	Δ PPI Y/Y	Unemployment Rate	CB Key Rate	Fiscal Deficit
Last	8.29%	-1.88%	7.80%	11.50%	3.10%
Previous	8.46%	-0,94%	7.83%	11.25%	2.80%



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