

# Adcap

GRUPO FINANCIERO

## URUGUAY MONTHLY COMMENT

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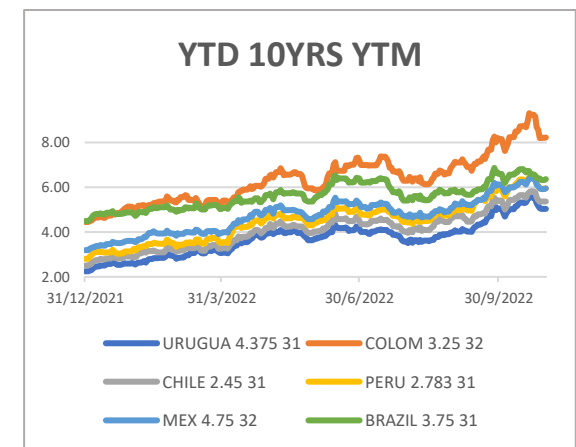
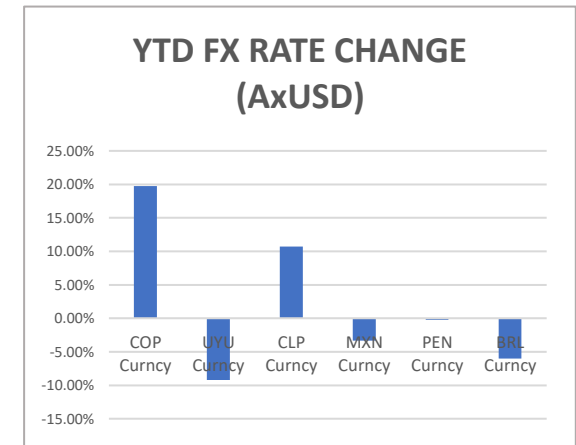


November 3rd,  
2022

# “Almost never does high inflation come down fast” (Lawrence H. Summers)

Although annual inflation reached the highest level since July-2020 (9.95%) we believe that most of the price increases -especially fruits and vegetables- will soon revert, and, as a result, will not affect mid-term expectations; in fact, analyst surveyed by the Central Bank during September left unchanged their inflation estimates for the next 12 and 24 months - at 7.5% and 7.0% respectively- while the monetary authority is still confident that annual inflation will enter the target range (3%-6%) by the end of 2024, once the “transitory shocks” dissipate. Meanwhile, the fiscal deficit continued to diminish -from 2.7% to 2.6% of the GDP-, industrial production rose by 9.3% (Y/Y) and both the employment rate and the participation rate increased.

On Thursday October 20th, the government sold its first dollar-denominated sustainability-linked bond (due 2034); the amount issued totaled USD 1.5 billion -approximately- while the yield to maturity at issuance was 5.94%. The Sovereign Debt Management Unit (Ministry of Economy and Finance) highlighted the “strength of the demand” in spite of “recent global uncertainty” and assured that the transaction “contributed to increase the visibility of the country’s climate action strategy”.



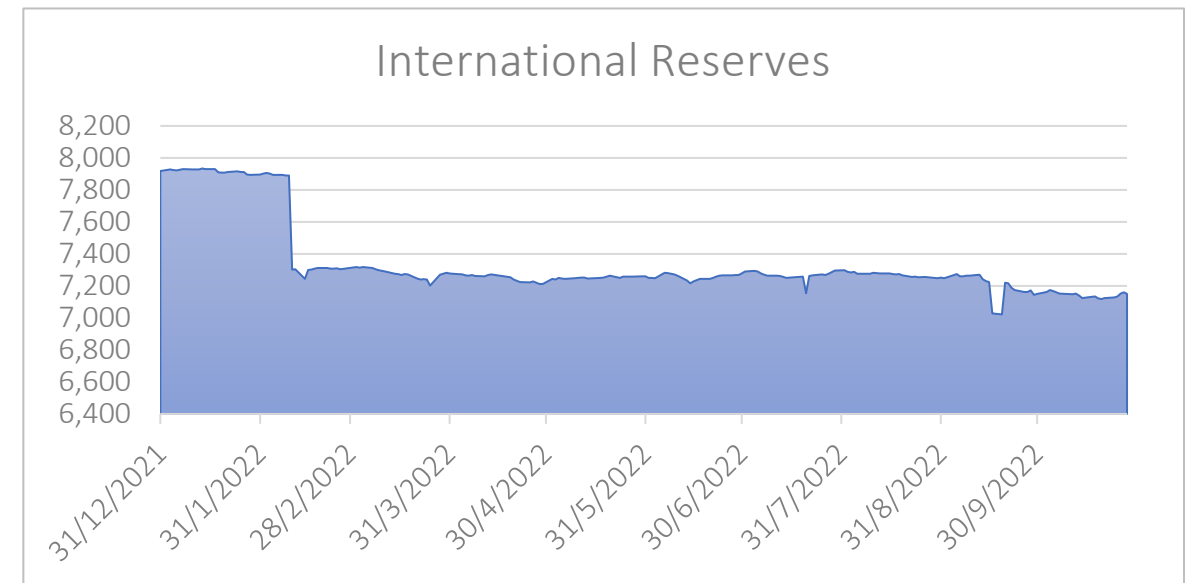
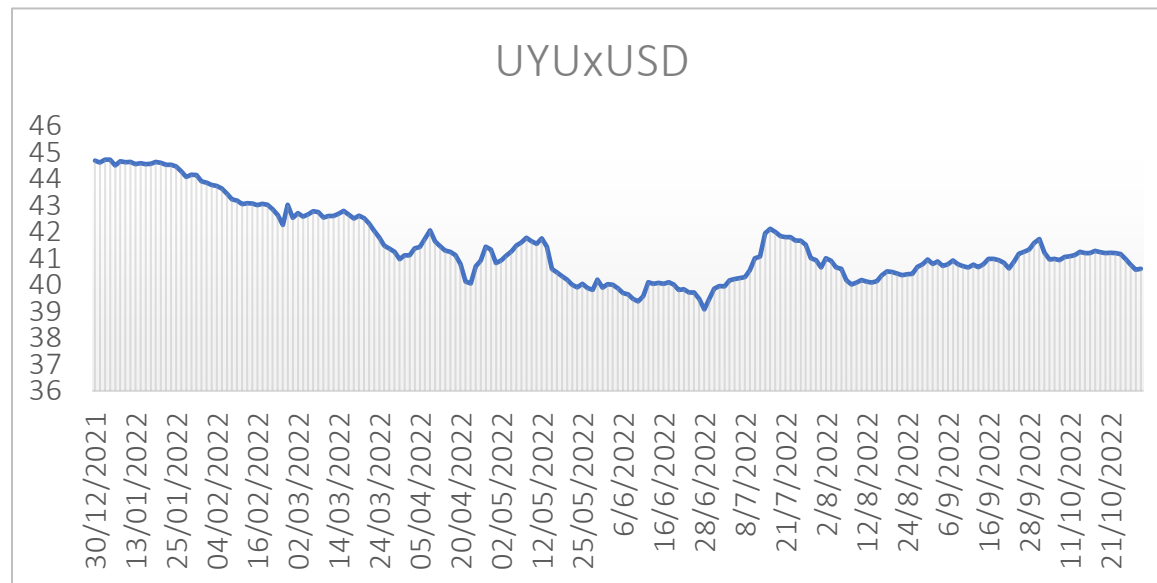
## “None of us can afford to underestimate the seriousness of the problems facing Social Security” (Ronald Reagan)

Finally, the executive branch submitted to the congress the bill to reform the pension system; President Luis Lacalle Pou emphasized on the need to approve the proposal as quickly as possible and underlined the strength and commitment of the members of the ruling coalition during all the process. In the meantime, the Frente Amplio party and some representatives of the National Trade Union Center (PIT-CNT) expressed their disapproval and announced a tour around the country to “explain their position” to the entire population. According to the left-wing party, the reform is “neither deep nor fair” as “workers will retire at a higher age, with a lower income”.

We already knew that different points of view would arise in such a delicate matter; however, we deeply value the fact that both sides had expressed their concern about the sustainability of public finances and social stability. In our view, it’s of vital importance that both blocks agree on the need to carry out a reform that reflects the changes that happened in the labor market during the last decades and the increase in life expectancy. Ultimately, this transformation, along with fiscal discipline, will improve Uruguay’s credit rating and reduce the cost of debt.

# Macro Flash

	$\Delta$ CPI Y/Y	$\Delta$ PPI Y/Y	Unemployment Rate	CB Key Rate	Fiscal Deficit
Last	9.95%	-0.13%	8.30%	10.75%	2.60%
Previous	9.53%	9.73%	7.90%	10.25%	2.70%



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