# Uruguay Economic Outlook

1H20

Creating Opportunities

# Key messages

- In addition to the cost in human lives, the spread of COVID-19 is causing a downturn in the global economy as a result of containment measures. Global GDP will fall by 2.4% in 2020 (previously +3.20%) to recover to 4.8% in 2021.
- In Uruguay, the economy will be affected by a combination of a strong negative external demand shock and a slowdown in domestic activity due to containment measures designed to avoid widespread contagion. We revised GDP growth downward to a fall of 3.1% in 2020 (previously +1.2%) with a rapid recovery to 3.3% in 2021 (previously 1.8%).
- Unemployment will show a sharp decline during Q2 2020, in line with the expected greater fall in activity, and will improve marginally toward the end of the year, although it will remain in double digits.
- The external deficit will increase due to lower demand for Uruguayan products and the imports that UPM2 requires to build its pulp plant. The current account deficit is expected to be 1.5% of GDP in 2020 and 3.1% in 2021.
- The fiscal deficit will deteriorate to 6.6% of GDP as a result of the decline in revenues due to lower activity and the fiscal cost of the measures adopted to mitigate the impact of the pandemic on the most vulnerable sectors and on the chain of payments.
- The BCU (Central Bank of Uruguay) approved the floating exchange rate policy, moderating volatility. The dollar will close Dec 2020 at 47 given the weakness of trading partners' currencies. The risk indicators show a positive differentiation for Uruguay.
- Inflation will reach 9.7% as a result of the rise in the exchange rate. The Central Bank launched several measures to mitigate the effect of the pandemic without neglecting the inflationary target, and declared its intention to correct the target range to lower levels.

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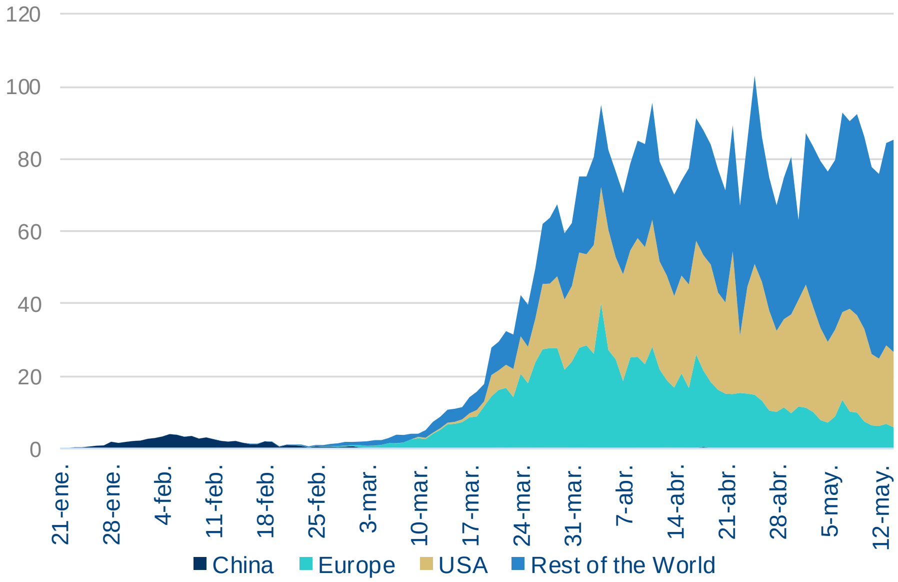
# 01

# Global Economic Outlook

Creating Opportunities

# In addition to the cost in human lives, the expansion of COVID-19 from east to west entails a recession for the world economy

## DAILY CASES OF COVID-19(*)
(THOUSANDS OF PEOPLE)



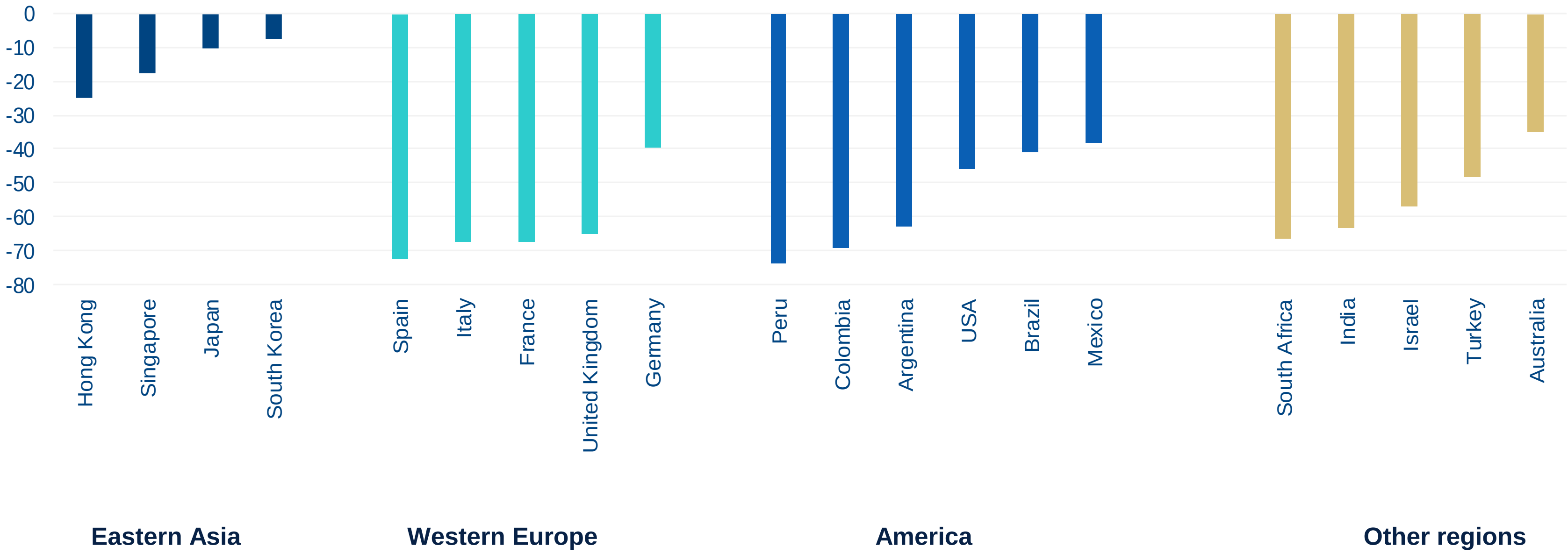

(*) Europe includes Italy, Spain, Germany, France and the United Kingdom.
Source: BBVA Research based on data from Johns Hopkins University

- COVID-19 has directly affected more than 5 million people since its outbreak in China in mid-January.
- In Asia, the initial spread is currently under control
- In Europe, it has advanced with intensity and is currently in the remission phase
- America is the focal point right now, especially USA, where the outbreak seems to be reaching a peak.

# Confinement measures are helping to control the epidemic, but they are slowing down economic activity

## INDICATOR OF MOBILITY TRENDS TO PLACES OF WORK

(VARIATION IN % BETWEEN APRIL 5 AND THE PERIOD FROM JANUARY 3 TO FEBRUARY 6)

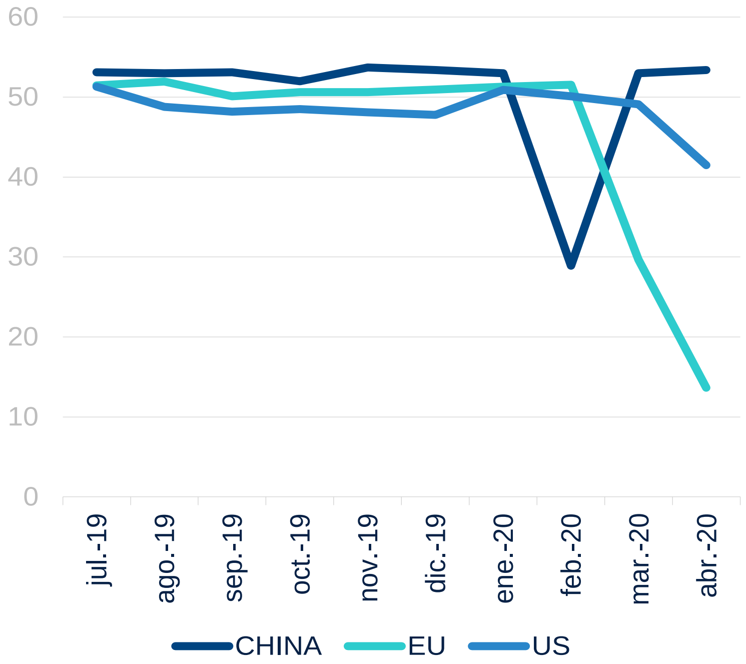



Source: BBVA Research based on Google Data (COVID-19 Community Mobility Reports)

# The activity indicators already show the highly contractive effects of COVID-19 on the main geographical areas

## PMI INDICATORS

(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



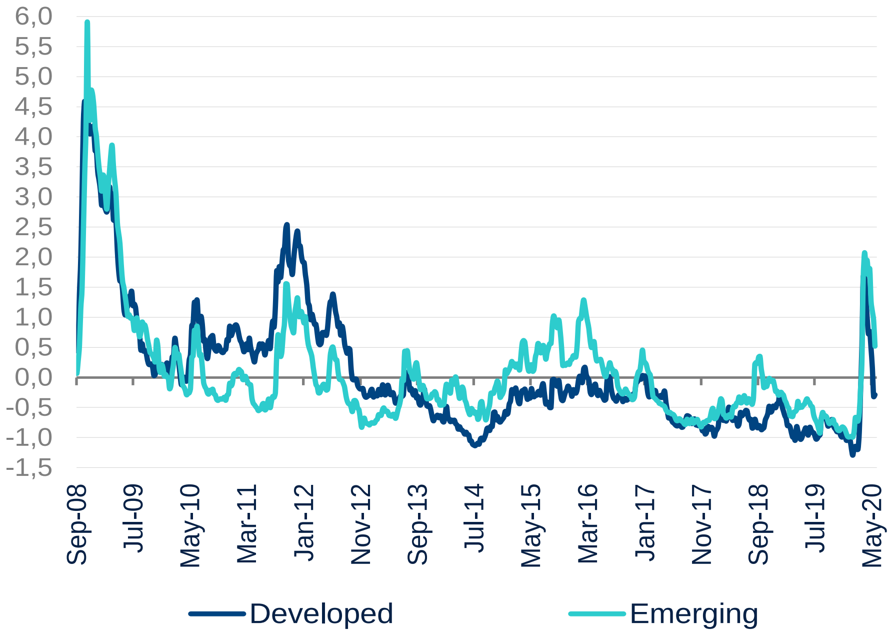

Source: BBVA Research based on data from Haver.

- The supply shock due to confinement is the main channel of impact in the very short term
- Other channels:
  - Demand (confidence, social consumer goods)
  - Financial (cost of financing, loss of financial wealth)
  - Other supply shocks (global value chains)
- The confidence and employment indicators present a very severe impact in 2Q20
- In China, there are already signs of a rapid recovery of activity

# Financial tensions have quickly escalated, but there are signs of moderation after central bank actions

## BBVA RESEARCH INDEX OF FINANCIAL TENSIONS

(AVERAGE SINCE 2006 = 0)




Source: BBVA Research

- Sharp and widespread financial tensions without reaching 2008 levels:
  - Stock market falls from very high levels
  - Volatility at record levels
  - Shortage of US dollars
  - Rally of corporate risk (especially speculative grade debt)
  - EMs: currency depreciations, rebound in risk premia, capital outflows.
  - Enlargement of peripheral risk premia
- This time, unlike the 2008-09 crisis, the banking system has not been a source of specific concerns
- The rapid and aggressive action of central banks has limited the financial impairment

# High uncertainty: we anticipate a deep recession with a rapid, but incomplete emergence

## Main assumptions of our economic scenario

### EXPANSION OF COVID-19

**China, Italy, and Spain** as a benchmark for the evolution of new cases

**No new cycles of widespread contagion**

### CONFINEMENT MEASURES

**About 6 to 8 weeks**

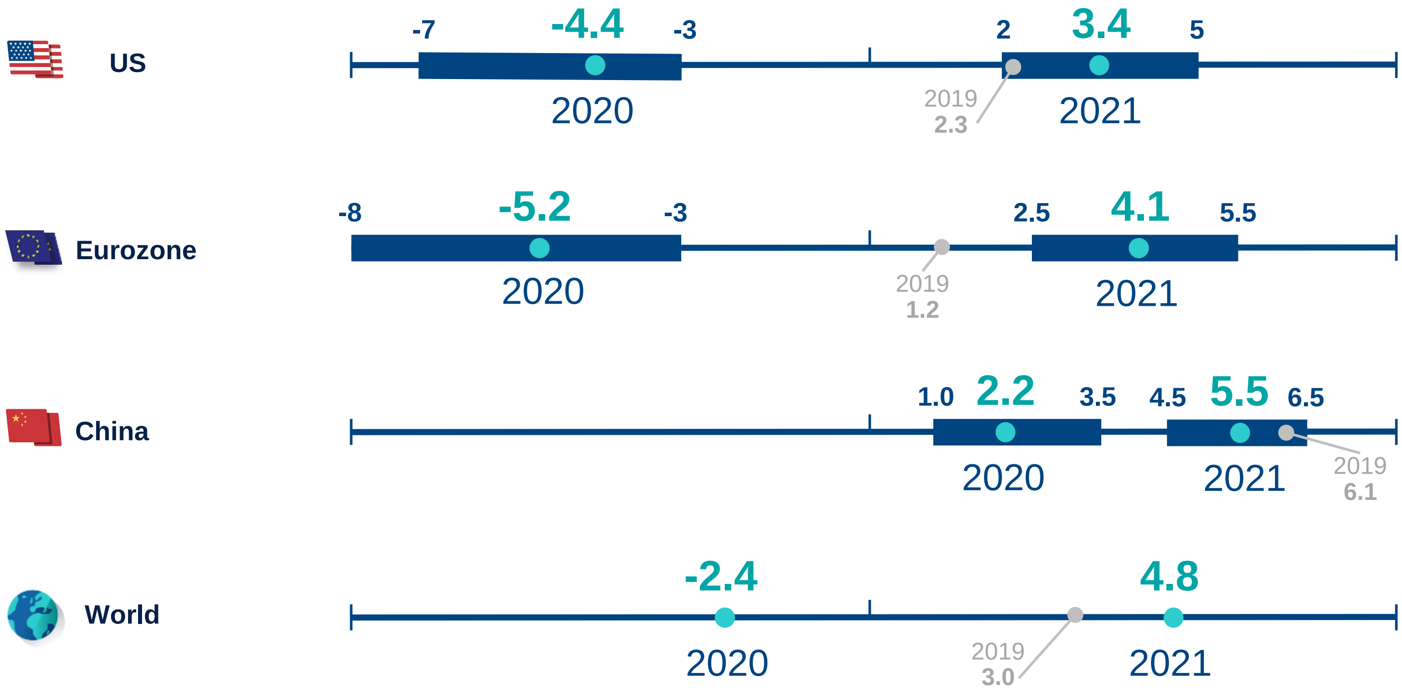
**Gradual reversal**

### ECONOMIC STIMULI

**They will be maintained or expanded**

**High effectiveness** (real and financial)

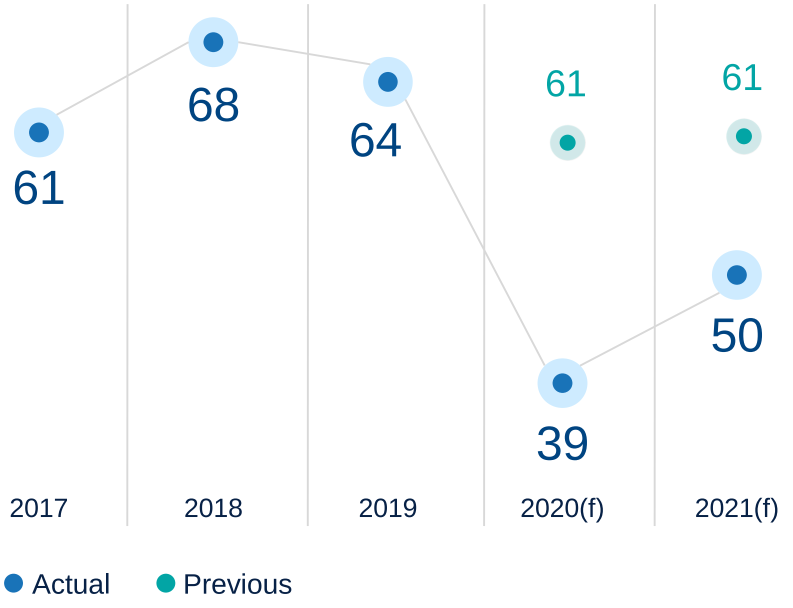
# Growth forecasts: a global recession in 2020, followed by a partial recovery in 2021




GDP growth in %. Forecasts for 2020 and 2021.
Source: BBVA Research

# The global recession is dragging down oil prices, despite the recent supply-reduction agreement

**OIL: BRENT**
(DOLLARS PER BARREL, ANNUAL AVERAGE)

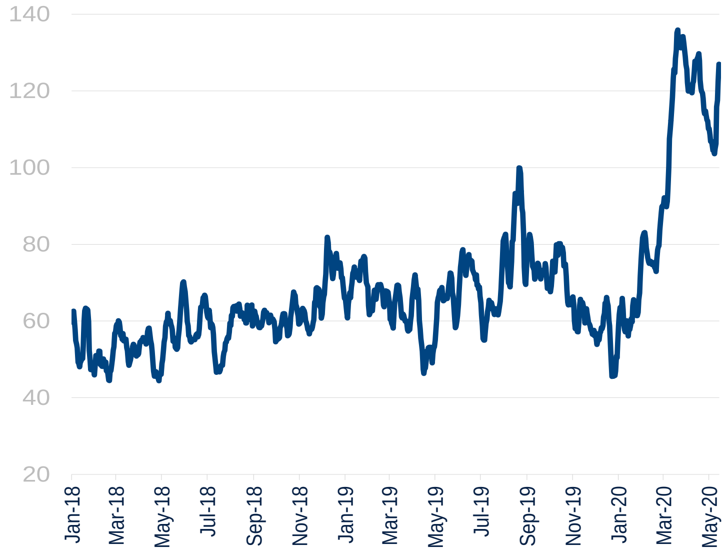



(f) Forecast.
Source: BBVA Research

- OPEC has agreed to reduce production by ending the price war between Russia and Saudi Arabia.
- Still, prices remain very low due to the collapse of global demand.
- However, they are expected to recover as global growth accelerates and supply is adjusted.
- This low-price environment is particularly damaging to countries that export commodities.

# Uncertainty is exceptionally high and the balance of risks is biased downward

## ECONOMIC UNCERTAINTY INDEX (*)
(AUGUST 21, 2019 = 100)




(*) Weighted average tone of news in the media where the topics of the "economy" and "uncertainty" appear as associated, and it is weighted by the coverage of such news.
Source: BBVA Research based on data from GDELT

### Epidemiological uncertainty:
- Pandemic control deadlines
- Speed of the "opening" process
- Possible new waves of infection
- Availability of a vaccine or treatment

### Economic uncertainty:
- Stimulus effectiveness
- Effect on public and private debt levels

### Financial uncertainty:
- Rebound of financial tensions
- Systemic crisis risk.

The pandemic raises many questions about the long term

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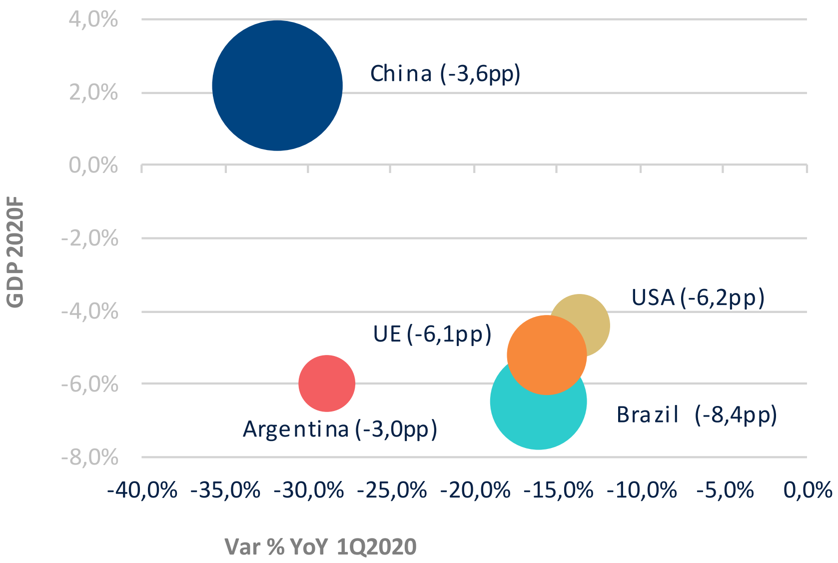
# 02

# Uruguay is facing a simultaneous supply and demand shock

# The global recession is leading to a significant drop in Uruguayan external demand

## ESTIMATED GDP 2020 AND VARIATIONS IN EXPORTS 1ST QUARTER FOR MAIN PARTNERS




The size of the bubble indicates the weighting in Uruguayan exports and the number in parentheses indicates the recent growth revision.

Source: BBVA Research & BCU

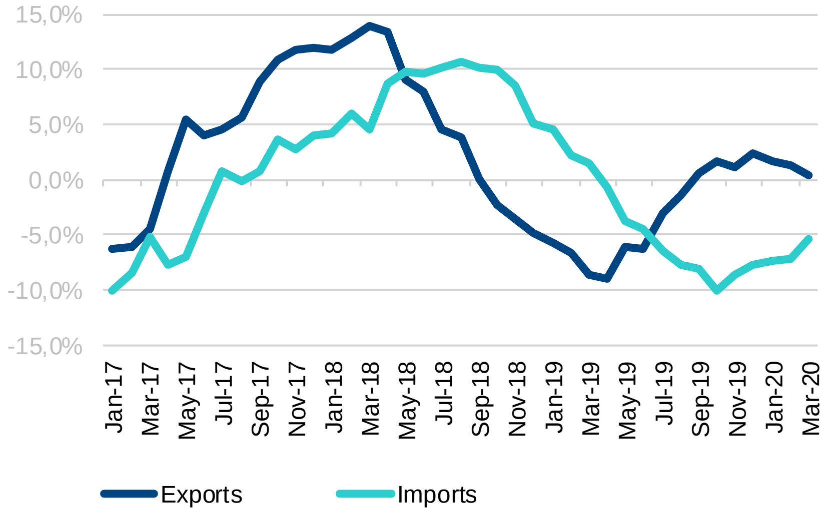
- The five main destinations of Uruguayan products account for almost 60% of goods exports.
- Falls in Uruguayan placements in 1Q20 reach 14% y/y, but in these destinations the falls vary between 14% and up to 32% y/y. According to Uruguay XXI in April, export requests fell 23% y/y.
- High concentration of the 3 main exported products (>60% in 3 destinations)

| Partner | Main Products | | |
|---|---|---|---|
| China | Soy | Meat | Cellulose |
| UEM | Cellulose | Meat | Wood |
| Brazil | Malt | Plastics | Dairy |
| USA | Meat | Cellulose | Wood |
| Argentina | Auto parts | Cellulose | Plastics |

Source: BBVA Research and Uruguay XXI

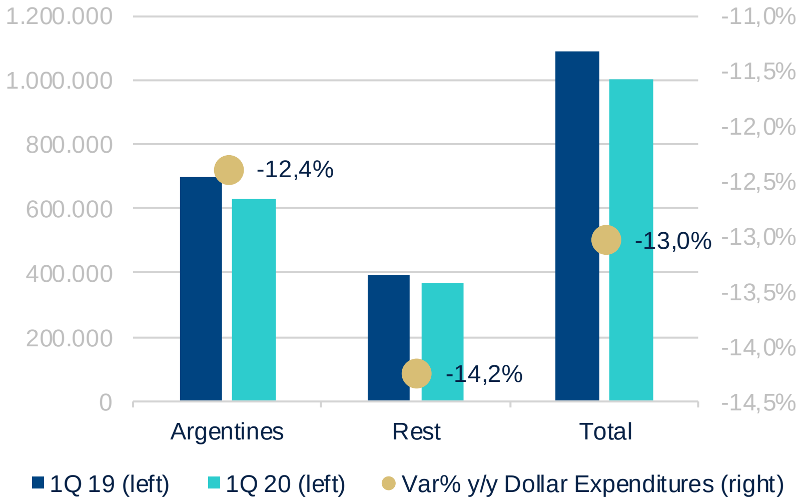
# Lower trade surplus and a strong adjustment in services (tourism) in the first quarter of the year

## EXPORTS AND IMPORTS VARIATION IN % Y/Y, LAST 12 MONTHS




Source: BBVA Research & BCU

## NUMBER OF TOURISTS AND EXPENDITURE IN CURRENT DOLLARS (VARIATION IN % Y/Y)



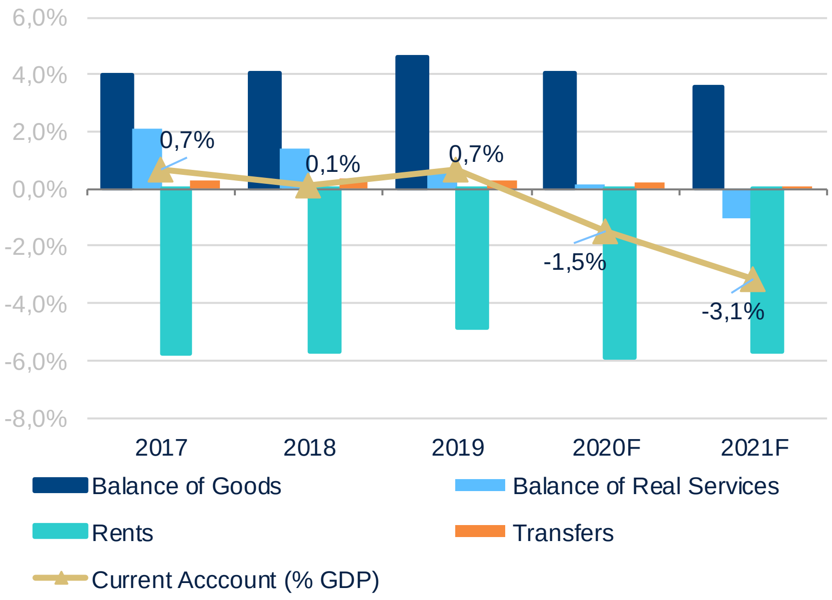

Source: BBVA Research and the Ministry of Tourism of Uruguay

The consequences of the pandemic are being felt in exports, while imports are cutting its rate of decline.

Social isolation and border closure affected tourism in 1Q20 and will continue to do so throughout the year. Foreign exchange income fell 13% y/y over the period.

# The current account deficit is widening due to UPM2's higher imports and the fall in exports

## CURRENT ACCOUNT AND MAIN COMPONENTS (% OF GDP)



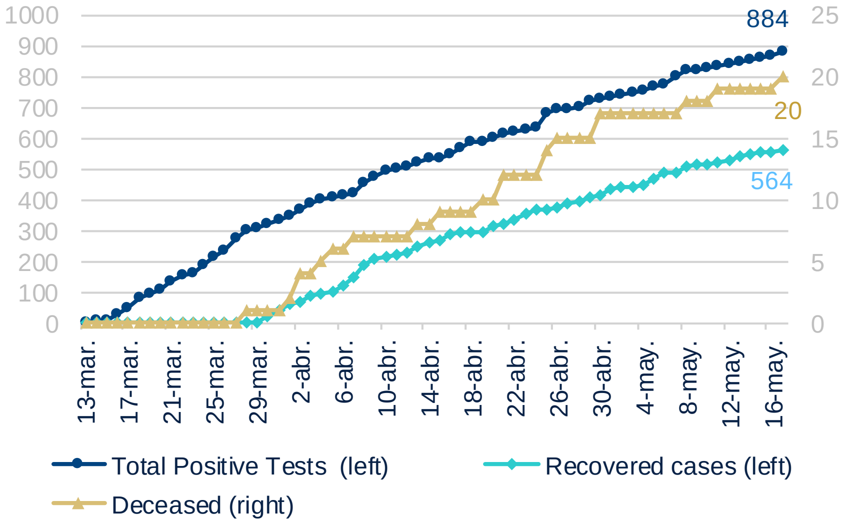

Source: BBVA Research & BCU

- While exports will decline this year (-11% y/y), imports will start to pick up toward the second half of the year due to the construction of UPM2, although they will still fall by about 5% y/y.
- Real services, led by tourism, will not have a good year.
- Falling GDP and exchange rate depreciation increase ratios

# The outbreak of Covid-19 has left Uruguay with weak foundations in terms of employment and activity

**COVID-19 STATISTICS IN URUGUAY**

POSITIVE CASES, RECOVERIES AND DEATHS



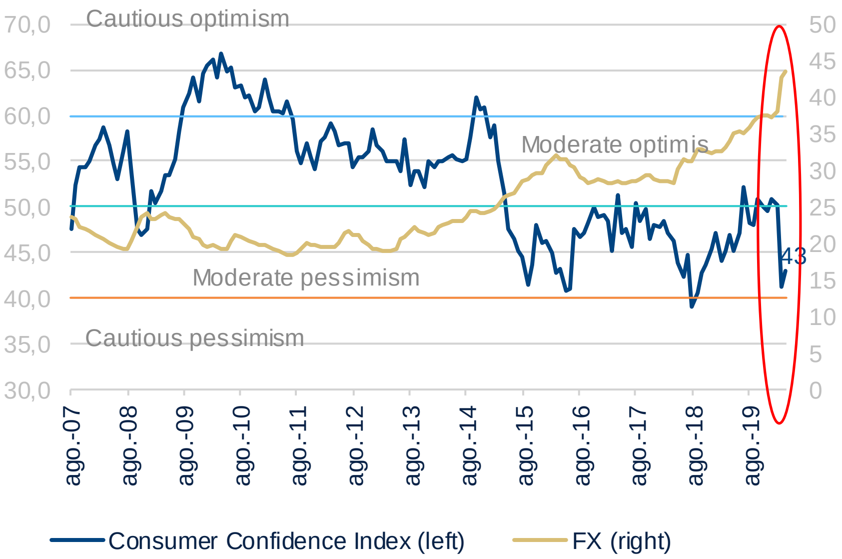

The difference between the number of total positive tests and positive cases indicates that a person may be tested more than once. Last May 17

Source: BBVA Research based on data from the Ministry of Health

- The Government declared a health emergency on March 13 when the first positive (imported) cases of the disease were reported and preventive measures were taken to avoid contagion.
- Since the declaration of the emergency, the government decided to declare responsible social isolation, which means that Uruguay is in a state of partial quarantine.
- The latest situational report indicates that there are 859 positive cases in Uruguay of which there have been 565 recoveries and 20 deaths.
- 66% of the cases occurred in the capital, Montevideo.

# High-frequency indicators already show the impact of Covid-19 on the local economy

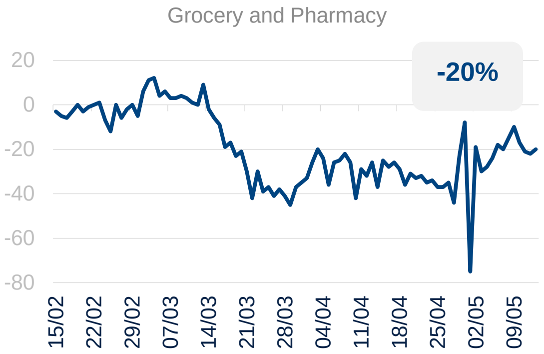
## CONSUMER CONFIDENCE AND EXCHANGE RATE
(LEVEL AND $/USD)



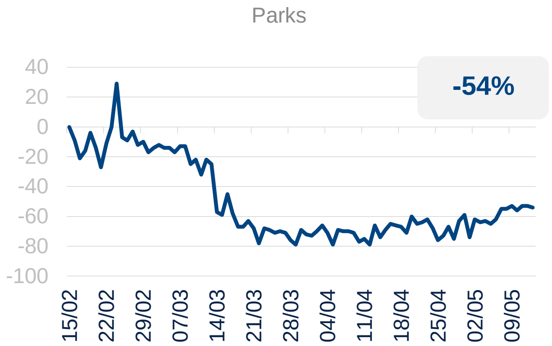

Source: BBVA Research based on data from UCU (Catholic University of Uruguay)

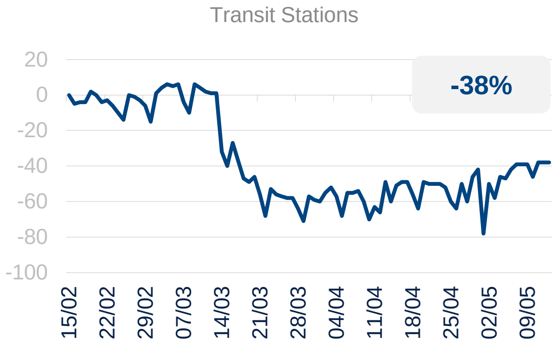
- Global economic uncertainty and a sharp rise in the exchange rate led to a sharp contraction in confidence in March, the largest since this index was last measured (-17.9% m/m). In the April measurement, it recovered 4%, but it is still modestly pessimistic.
- Among the sub-indices measured, Willingness to Purchase Durable Goods was the one that showed the greatest deterioration (-24% with respect to February) precisely because of the close inverse correlation with the exchange rate devaluation. In April it manages to recover 6 points with respect to March.

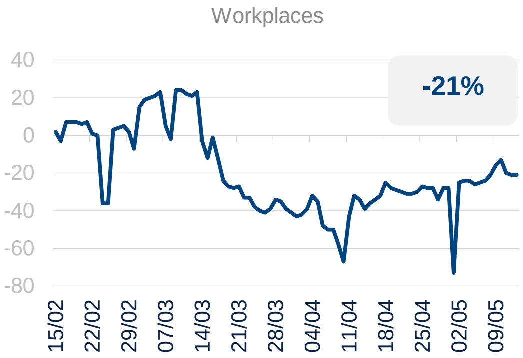
# Impact of Covid-19 on mobility according to Google for the whole country

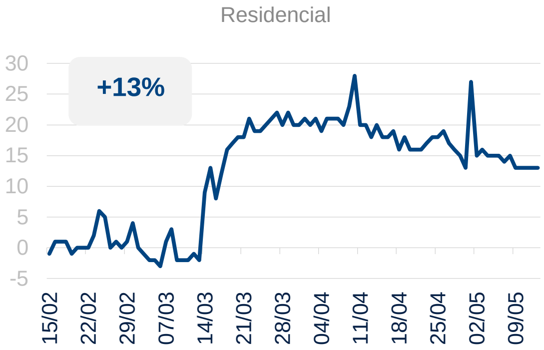






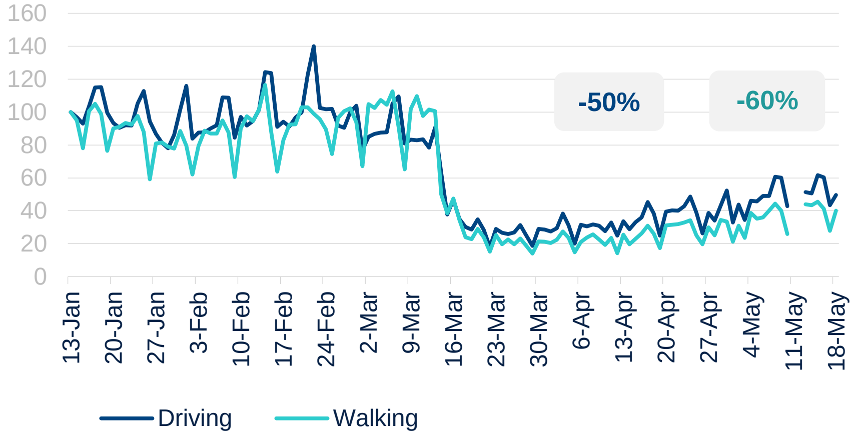



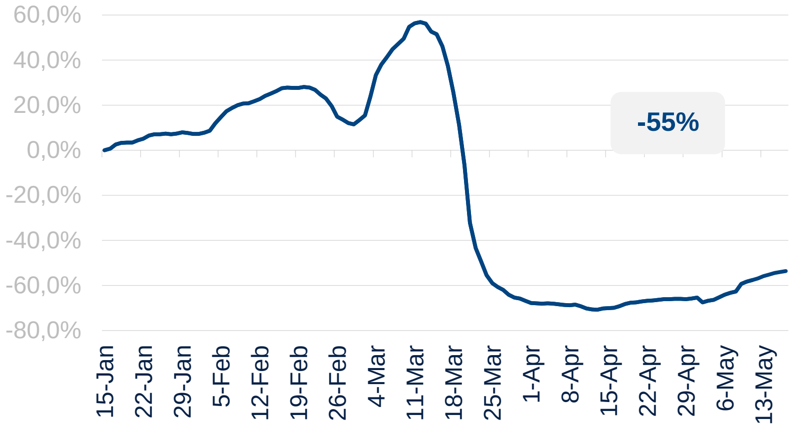



# The impact of Covid-19: Other Apple and Moovit mobility indicators

## APPLE MOBILITY INDICATORS




## MONTEVIDEO PUBLIC TRANSPORTATION. MOOVIT APP USAGE

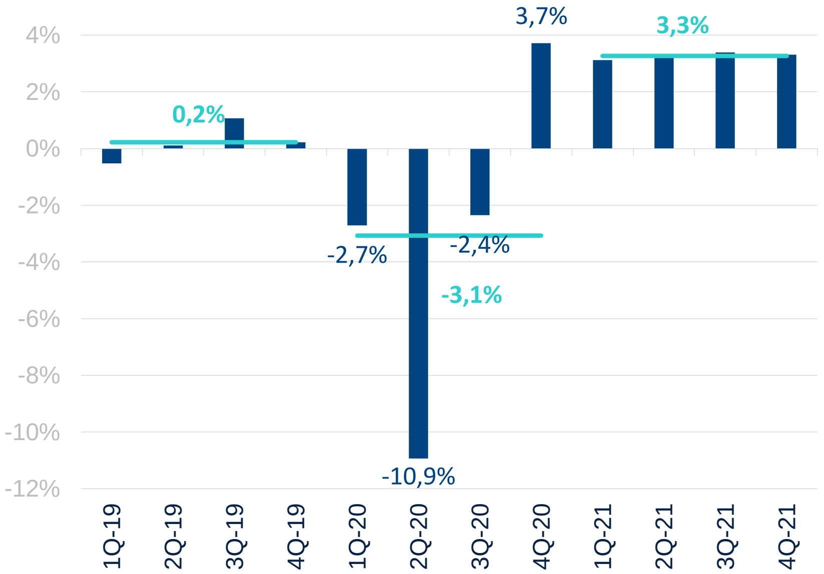



- The drop in transportation and mobility also has an impact on fuel sales: a sharp fall of 70% in gasoline, while in diesel it is 35% (as a result of the sugar cane harvest).
- Sales of brand-new cars plummeted in April (-57.3% y/y), coming off an already significant drop in March (-25% y/y). In the fourth quarter the year-on-year fall was 22.9%.

# The drop in activity will hit hard in 2Q20, but the recovery will be relatively fast and strong

## QOQ GDP

VARIATION IN %, Y/Y

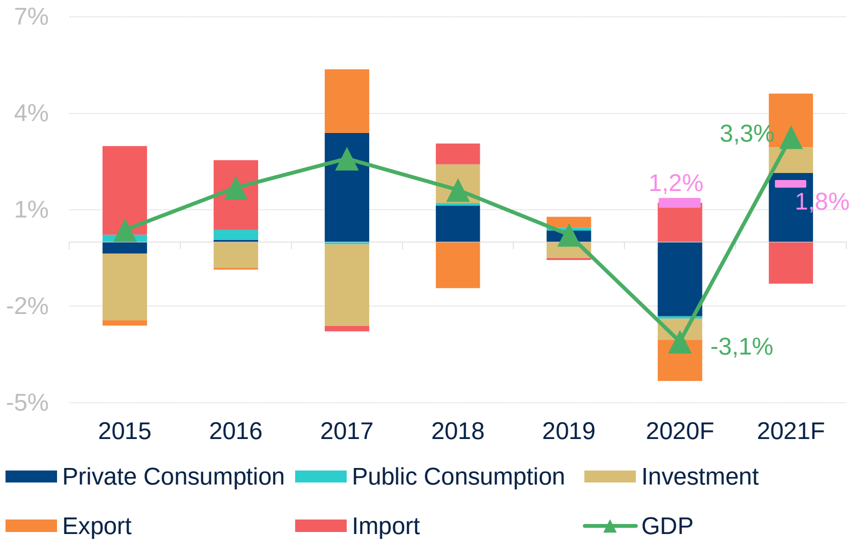



Source: BBVA Research based on data from BCU

- Isolation and restrictive measures on some activities will partially impact the GDP in 1Q20 but will be fully implemented in 2Q20 and most likely in 3Q20.
- We expect that both the UPM2 project and the Central Railway project will boost the economy in the latter part of the year; however, this investment may lag behind the original plans due to the high uncertainty or worsening health situation not only in Uruguay but also globally.
- We expect activity to pick up in the last quarter of the year as the health emergency comes to an end and activity gradually returns to normal.

# Falling revenues are driving down domestic demand and negatively impacting GDP for 2020

**GDP AND ITS COMPONENTS**
VARIATION IN %, Y/Y

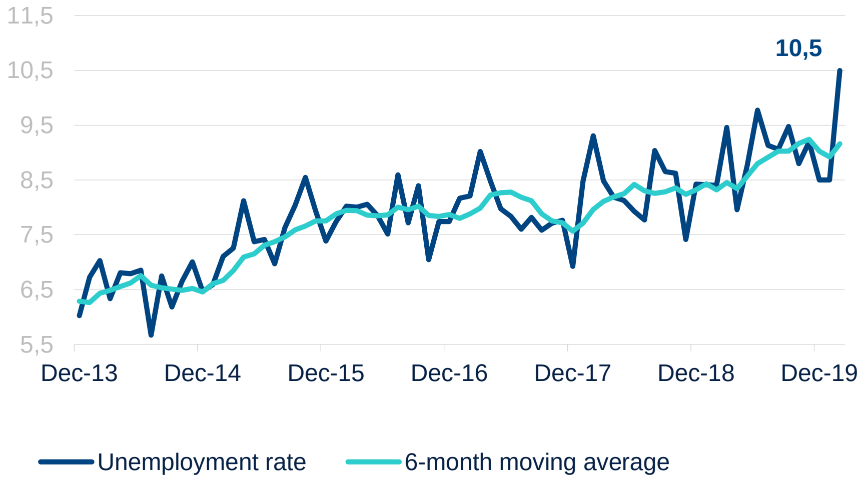



Source: BBVA Research based on data from BCU

- Consumption will fall by around 3%, primarily due to the effect of isolation measures and the fall in income (due to the temporary closure of stores and industries).
- Investment will also fall this year, but will not be higher thanks to the projects pending in the year (UPM2 and Central Railway).
- We expect a drop in exports of goods and services as well as in imports. In this regard, the closure of borders in both Uruguay and other countries will affect trade and services.
- We anticipate that there will be a relatively rapid exit, although it is difficult to say for sure given the great uncertainty surrounding the evolution of the health crisis in Uruguay and the rest of the world.

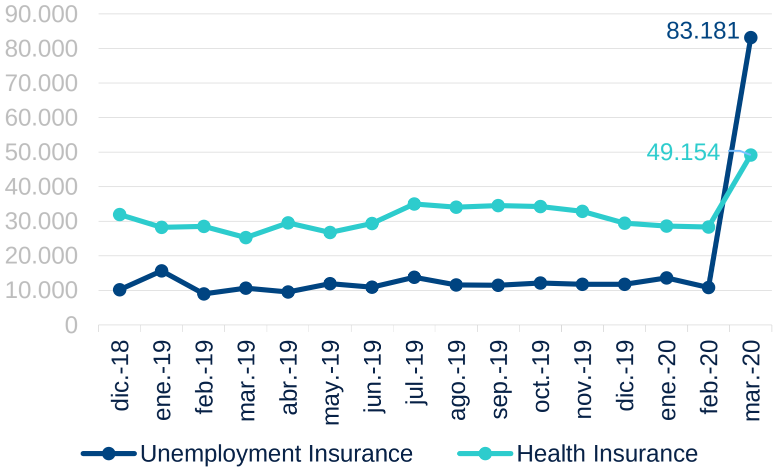
# Complicated labor market: rising unemployment with a drop in real wages

## UNEMPLOYMENT RATE
(% OF THE EAP)




Source: BBVA Research based on data from INE (National Statistics Institute)

## UNEMPLOYMENT AND HEALTH INSURANCE
(REQUESTS)




Source: BBVA Research based on data from BPS

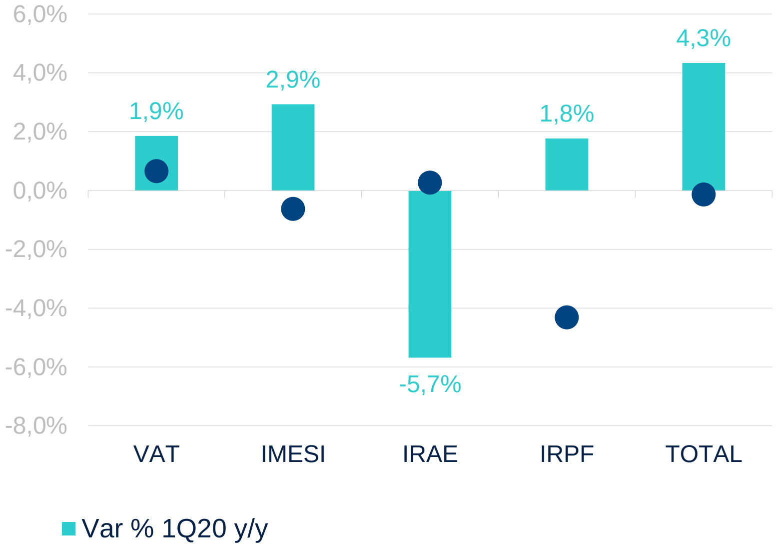
Before the health crisis, unemployment had already reached 10.5% of the EAP, and the slump in subsequent activity will have a negative impact on employment levels. The fragility of the labor market in the current context could placate wage demands in an attempt to retain jobs.

# The health crisis struck Uruguay at a time when tax revenues were beginning to show some improvement

## TOTAL REVENUE OVER LAST 12 MONTHS
(VARIATION IN % Y/Y IN REAL TERMS)


Source: BBVA Research based on data from MEF (Ministry of Economy and Finance) and INE

## TAX COLLECTION
(VARIATION IN % Y/Y IN REAL TERMS)



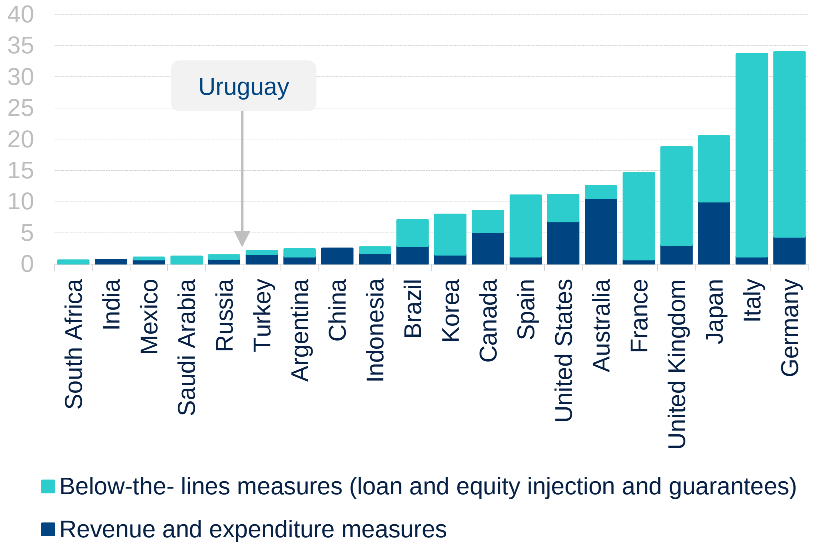

Source: BBVA Research based on data from MEF (Ministry of Economy and Finance) and INE

# Main measures taken to mitigate the effects of the pandemic: increased funding and tax extensions

- The government launched a range of measures whose main objective is to provide liquidity to preserve the chain of payments.
- Flexible credit lines to support employment and small- and medium-sized enterprises. The Bank of the Eastern Republic of Uruguay (BROU) will provide around USD 50 million in addition to the sum of multilateral credit organizations to provide these lines of credit.
- An expansion of the credit guarantee fund of the National Development Agency (ANDE) so that financial institutions can increase credit by up to USD 2.5 billion.
- Business loans to companies affected by the pandemic at a rate subsidized by the MEF.
- BPS: extension of March and April contributions by sole proprietorships and partnerships - with up to 10 employees - (industry and commerce).
- DGI (Tax Administration Department): Company payments (Section E) are deferred from the minimum VAT.
- The BCU has authorized financial intermediaries and credit management institutions to extend the maturity of loans granted by 180 days.
- The extension of the flexible unemployment insurance (for a period of less than one month) to all sectors of activity and sickness insurance for the elderly.
- A reinforcement in consignments for those Uruguayans who receive food aid programs.

# The measures adopted to mitigate the effects of the pandemic will impact the fiscal result

## TAX POLICIES IN OTHER COUNTRIES
(AS A % OF GDP)

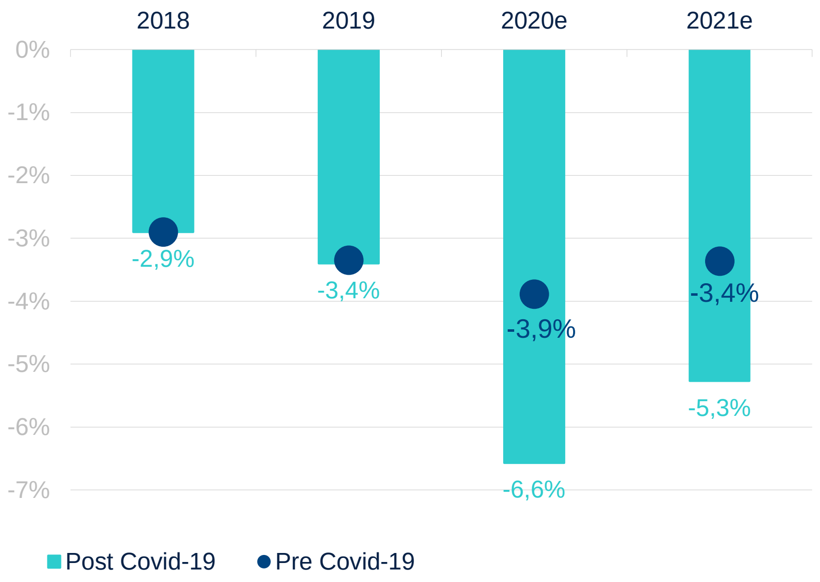



Source: BBVA Research based on data from IMF

- The cost of the fiscal measures adopted by Uruguay at present ranges between 1.2% and 1.5% of GDP, depending on the evolution of the health emergency.
- In comparison with other countries, for example those of the G20, the package of measures adopted by Uruguay is among the weakest.
- This reflects the fact that Uruguay is not in the same situation as the more complicated countries in terms of the health emergency, but it also reflects the fiscal constraint that results from a situation of fairly high imbalance.

# The time has come to use reserves...

## CONSOLIDATED FISCAL RESULT
(AS A % OF GDP)

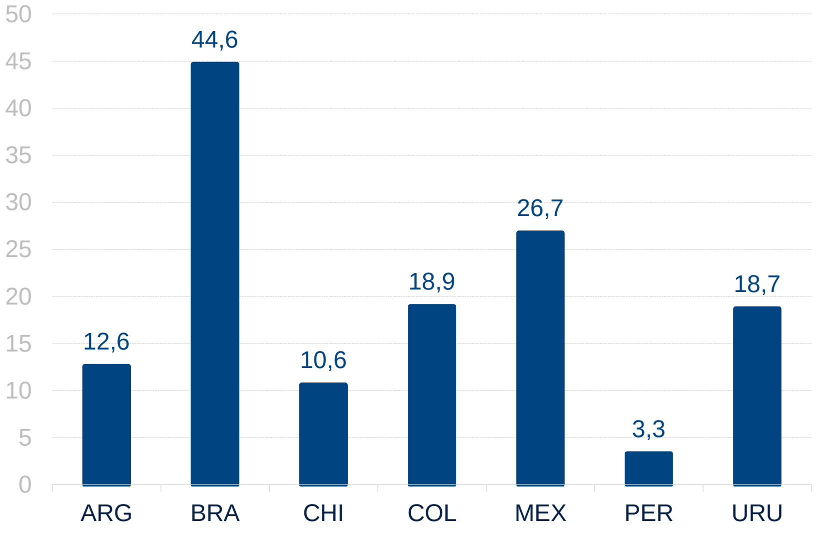



Source: BBVA Research

- Uruguay is facing a shock of such magnitude that the government, even with little room for maneuver in terms of fiscal policy, will be able to tolerate a larger deficit this year in order to assist the most vulnerable sectors.
- This larger deficit will come from a combination of a drop in revenue and an increase in expenditure that implies implementing the measures announced by the government to mitigate the effects of the pandemic.
- The deficit will increase significantly but only temporarily: -6.6% of GDP, (7.5% if the exceptional revenue of the 50s Trust is excluded).
- To cover this greater deficit, it will be possible to make use of the contingency lines of multilateral credit organizations that Uruguay has had for years.

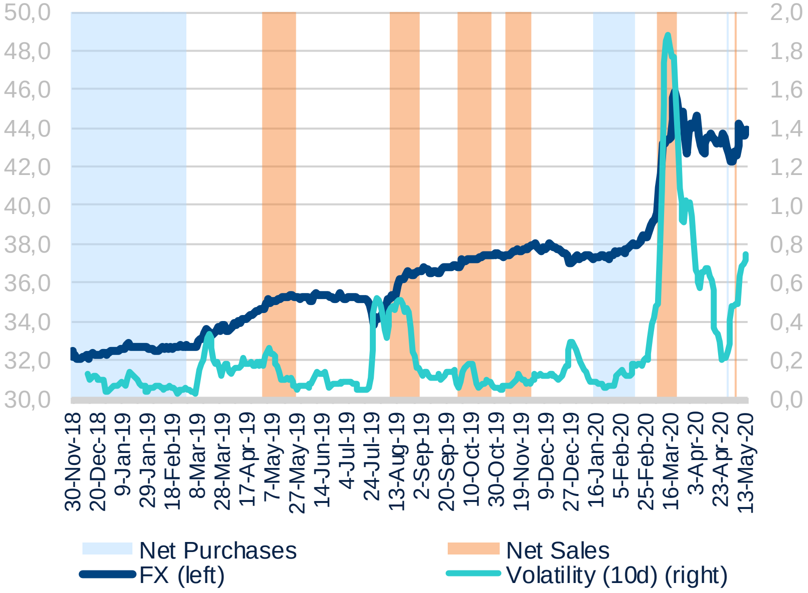
# The Central Bank with new powers, but the same policy

## EXCHANGE RATE EVOLUTION SINCE JANUARY 01
(VARIATION IN %, GROSS)




Source: BBVA Research based on data from Haver

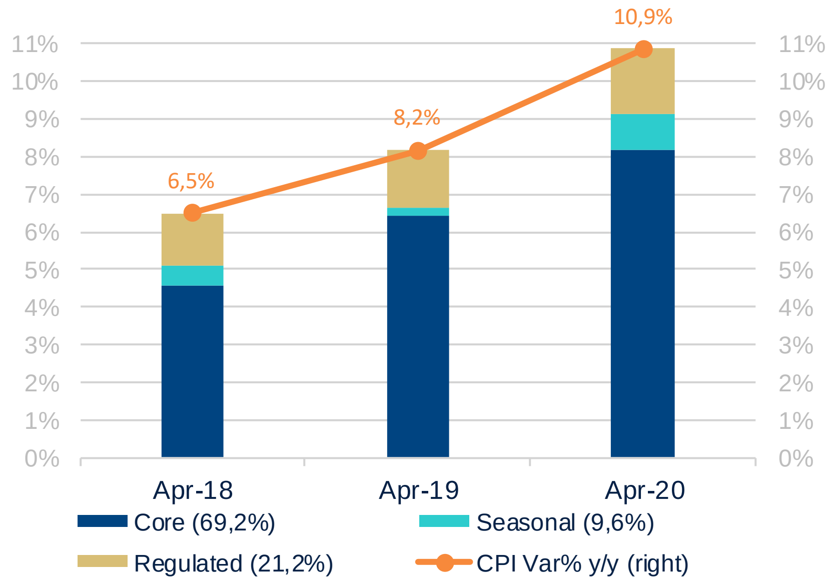
## VOLATILITY AND INTERVENTION
(VOL: DEV. EST. OF THE 10D EXCHANGE RATE, INTERVENTION IN USD MILLION)




Source: BBVA Research based on data from Haver and BCU

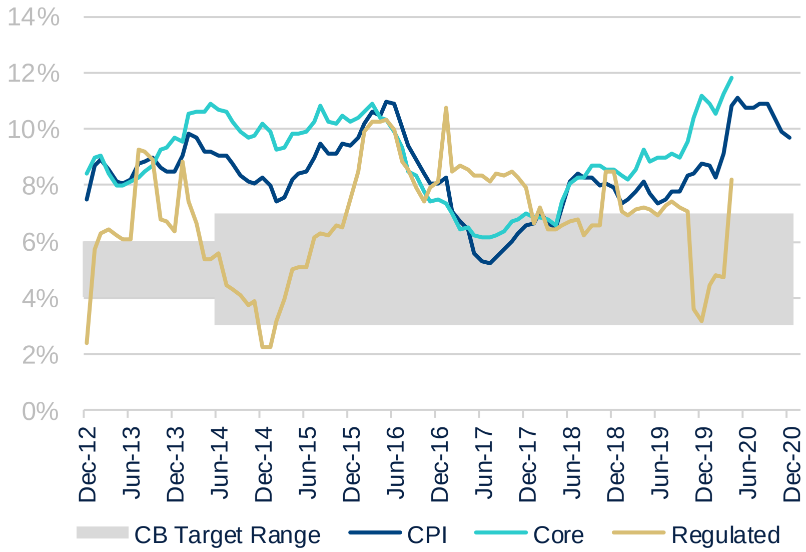
# Inflation is expected to reach 9.7%, the highest level since 2003

## CPI AND CONTRIBUTIONS
(VARIATION IN %, Y/Y)




Source: BBVA Research based on data from INE

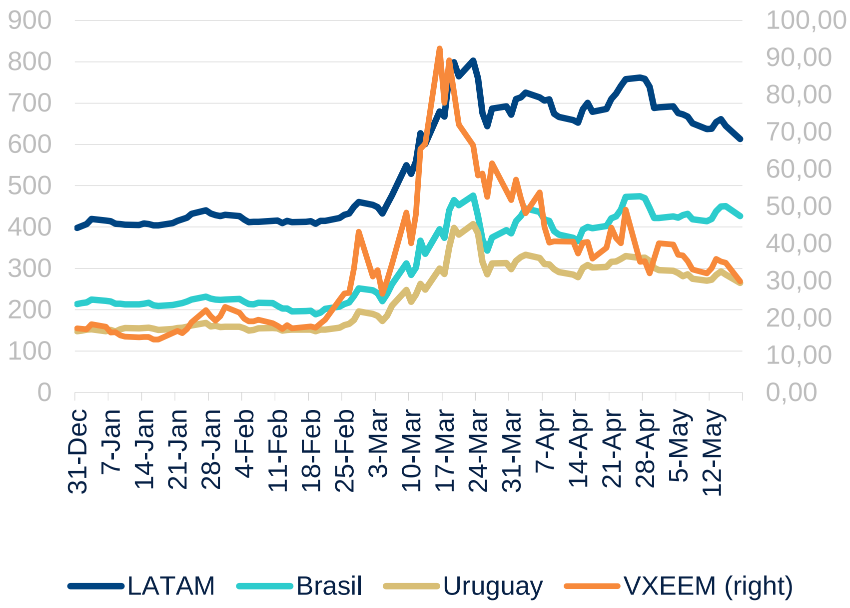
## INFLATION, GENERAL LEVEL, CORE AND ADMINISTRATED (VARIATION IN %, Y/Y)




Source: BBVA Research based on data from INE

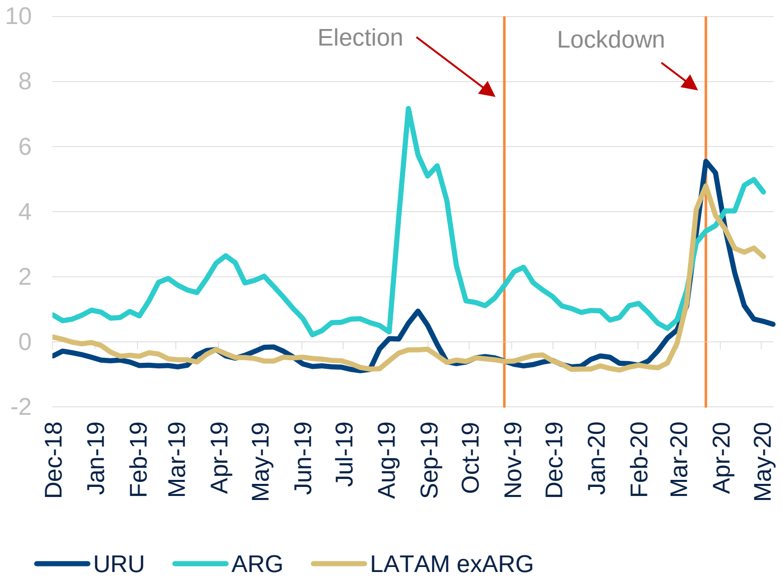
# The value of accumulated economic strengths: Positive risk differentiation in the face of global uncertainty

## RISK INDICATORS
(EMBI AND VXEEM)




Source: BBVA Research based on data from Haver

## FINANCIAL TENSION INDEX




Source: BBVA Research

# Macroeconomic forecasts

| Uruguay | | | | |
|---|---|---|---|---|
| | 2018 | 2019 | 2020 (Forecast) | 2021 (Forecast) |
| GDP (% y/y) | 1.6 | 0.2 | -3.1 | 3.3 |
| Inflation (% y/y, eop) | 8.0 | 8.8 | 9.7 | 8.0 |
| Inflation (% y/y, average) | 7.6 | 7.9 | 9.7 | 8.4 |
| Exchange rate (vs. USD, EOP) | 32.2 | 37.7 | 47.0 | 50.5 |
| Exchange rate (vs. USD, average) | 30.7 | 31.0 | 43.7 | 48.9 |
| Asset interest rates (%, average) | 19.9 | 18.3 | 19.6 | 18.1 |
| Private consumption (% y/y) | 1.5 | 0.5 | -3.1 | 2.9 |
| Public consumption (% y/y) | 0.8 | 0.8 | -0.7 | -0.5 |
| Investment (% y/y) | 7.3 | -2.9 | -3.8 | 4.8 |
| Unemployment rate (% eop end) | 8.3 | 8.9 | 11.6 | 9.8 |
| Fiscal result (% GDP) | -2.9 | -3.4 | -6.6 | -5.3 |
| Current account (% GDP) | 0.1 | 0.7 | -1.5 | -3.1 |

Source: BBVA Research

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# Uruguay
# Economic Outlook

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Creating Opportunities