

Uruguay Economic Outlook

1H21

Key points



The global economy continues to recover despite the uncertain epidemiological context. Global GDP growth is expected to reach 5.9% in 2021, driven by a very good performance in China and the US.



The deteriorating health situation in Uruguay is affecting economic activity, with lower growth in 2021 than was forecast: GDP is set to rise by just 2.7% compared with the 4% that we had previously expected, driven by UPM and Central Railway investment and increased growth in exports.



Unemployment remains high (9.7% of the EAP) as reduced job creation runs alongside a sense of despondency among people who have stopped actively looking for work. Restrictions have led to an increase in remote working, which is now here to stay.



Although we expect tax revenue to start increasing following a growth in activity, the package of measures implemented by the government (USD 900 million) to counter the effects of the pandemic will result in a fiscal deficit of 5.4% of GDP in 2021 (previous forecast: -4.6%). Financing a larger deficit has an impact on debt growth.

Key points



We expect a deterioration in the current account deficit to 2.3% of GDP in 2021. The surplus in the trade balance is reduced as the capital goods imports required for the UPM project exceed the increase in exports that will be favored by commodity prices. There has been practically no international tourism in Uruguay this year.



The monetary authority retains its stance of allowing the peso to float and containing volatility. The exchange rate is set to reach UYU/USD 46 by December 2021.



The Central Bank will maintain the expansionary tone of monetary policy until activity shows signs of recovery in 3Q21. However, inflation will slow down to 7.2% in 2021 due to a depreciation in the exchange rate and reduced demand pressure on account of the weak employment and wages situation.



Getting started on a sustainability agenda is key to attracting investments that will further reduce the use of polluting energy sources.

01

Global Economic Outlook

The global economy continues to recover despite the still complex epidemiological context

2020



Beginning and expansion of the pandemic, lockdowns, and vaccines developments



Massive fiscal and monetary stimuli



Sharp rise in financial volatility, followed by a gradual normalization



Incomplete and heterogeneous GDP rebound after the initial crash

Start of 2021



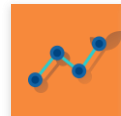
Start of vaccination, at different paces



Reinforced stimuli (fiscal packages in the US)



Increase of long term yields in the US and dollar appreciation

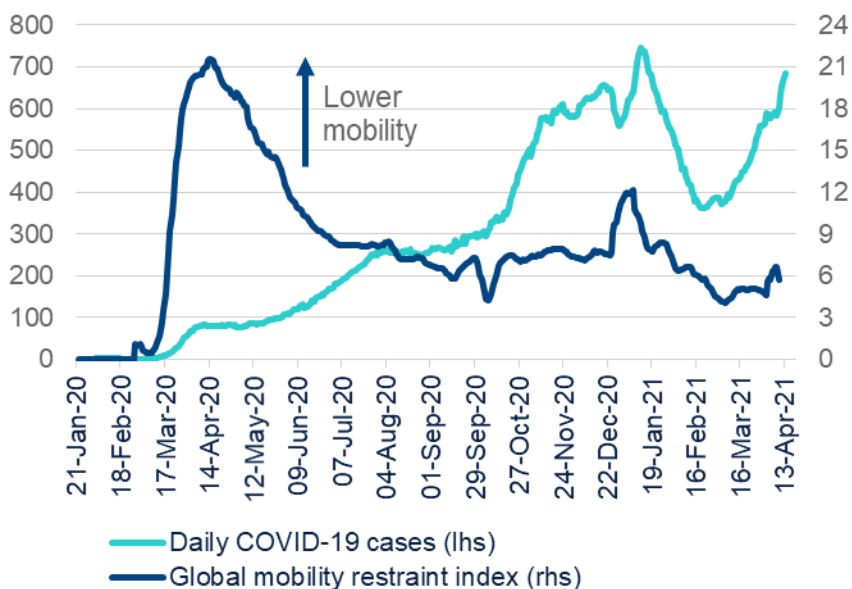


Recovery at different paces, depending on vaccination and stimuli

COVID-19 infections have increased again, following a sharp decrease at the start of the year, but mobility remains relatively high

WORLD DAILY COVID-19 CASES AND GLOBAL MOBILITY RESTRAINT INDEX (*)

(CASES: THOUSANDS OF PEOPLE , 7-DAY MOVING AVERAGE)



- Recent augment in infections in the US and, mainly, in Europe and Latin America, which have been forced to consider new restrictions.
- Virus mutations facilitate its spread.
- Less severe restrictions have limited the effect of contagions on mobility and on economic activity.

(*) The mobility restraint index reflects changes with respect to the period of reference (January 3 to February 6 2020). Higher values represent lower mobility. BBVA Research based on data from John Hopkins University and Google.

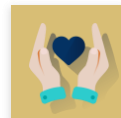
Reinforced recovery prospects on stimuli and vaccines rollout; inflation and financial stress to remain contained, despite risks

Rest of 2021

2022



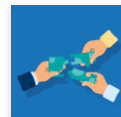
Mass vaccination
with high heterogeneity across countries



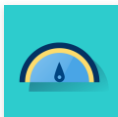
“New normal”



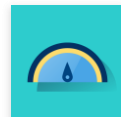
Reinforced fiscal stimulus
and unchanged rates in G3



Reinforced fiscal stimulus, unchanged rates
in G3 and start of Fed tapering



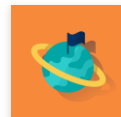
Limited risk aversion, only a gradual rise of long
term rates and a slightly dollar depreciation



Limited risk aversion, only a gradual rise of long
term rates and a slightly dollar depreciation

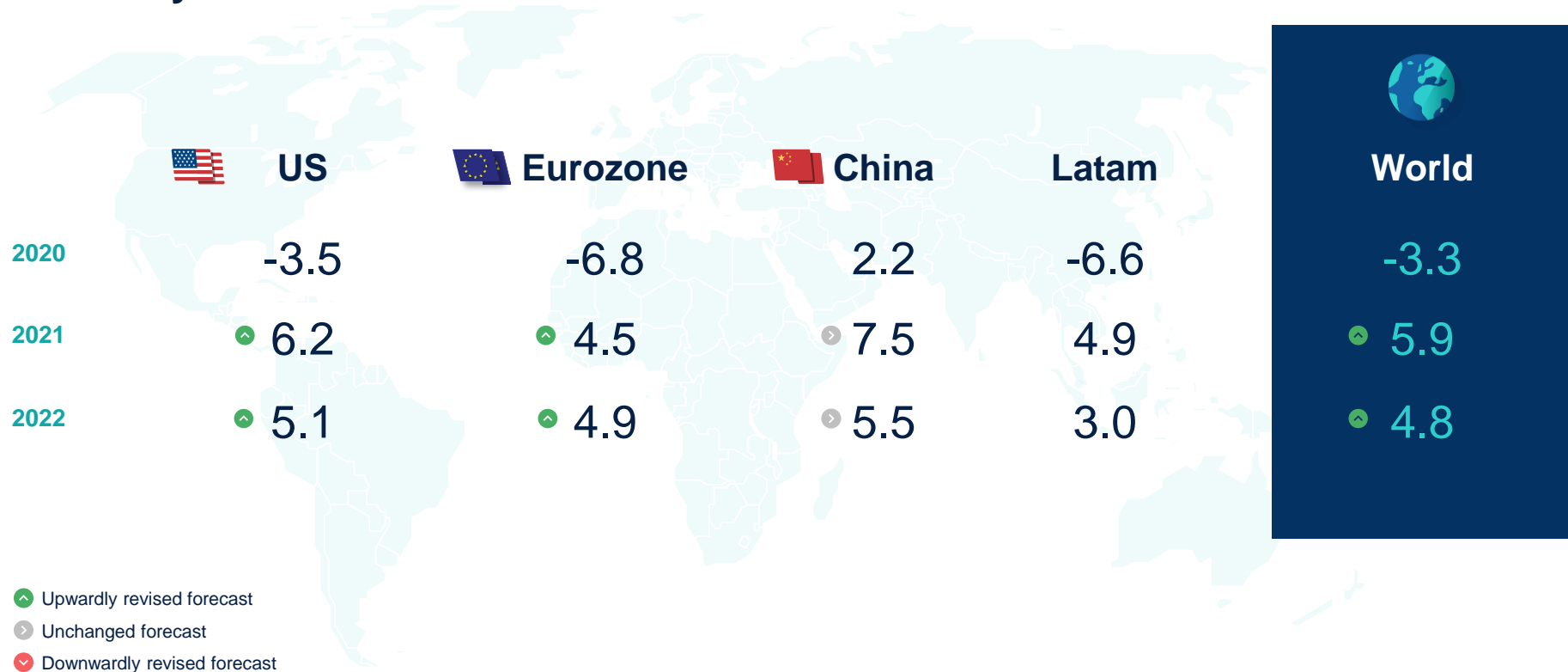


Global recovery,
led by the US and China



Global recovery,
including in Europe and emerging markets

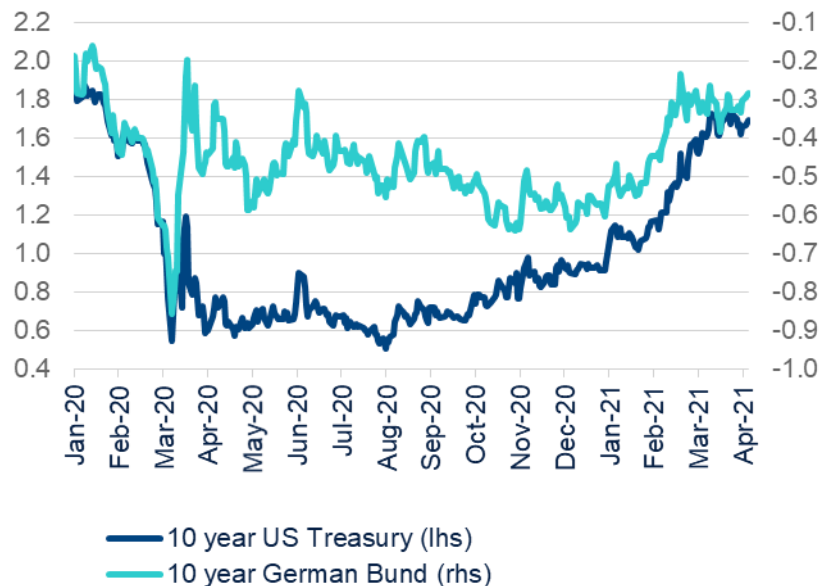
Global growth will be higher than previously forecast and it will be led by the US and China



Fast vaccination and the fiscal impulse in the US have triggered a rise in long term yields and a dollar appreciation

10-YEAR BOND YIELDS

(%)



- Fiscal measures in the US have reinforced growth and inflation prospects.
- Markets have brought forward their forecasts for the withdrawal of monetary stimuli.
- Long term debt yields have significantly increased in the US, and at a lower degree in Europe.
- Equity markets have exhibited volatility episodes.
- The dollar has appreciated and emerging markets assets have suffered losses amid diminished capital inflows.

Risks will remain significant, mostly on the downside, but a positive scenario with an even faster recovery cannot be dismissed



EPIDEMIOLOGICAL RISKS



Virus mutations



Slow vaccination



New waves of infections



ECONOMIC-FINANCIAL RISKS



Inflation



Savings
evolution



Financial
stress



Flows into
EMs



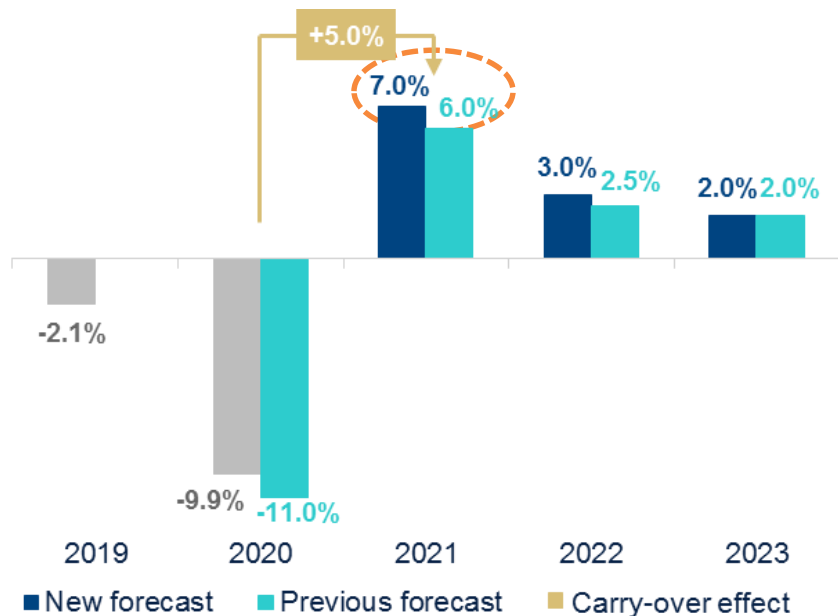
Corporate
bankruptcies



Public debt
sustainability

2H20 in Argentina saw a rebound in activity that was more pronounced than expected, creating a stronger starting point for 2021 but with no gain in momentum

ANNUAL GDP GROWTH (CHANGE % Y/Y, CONSTANT ARS)



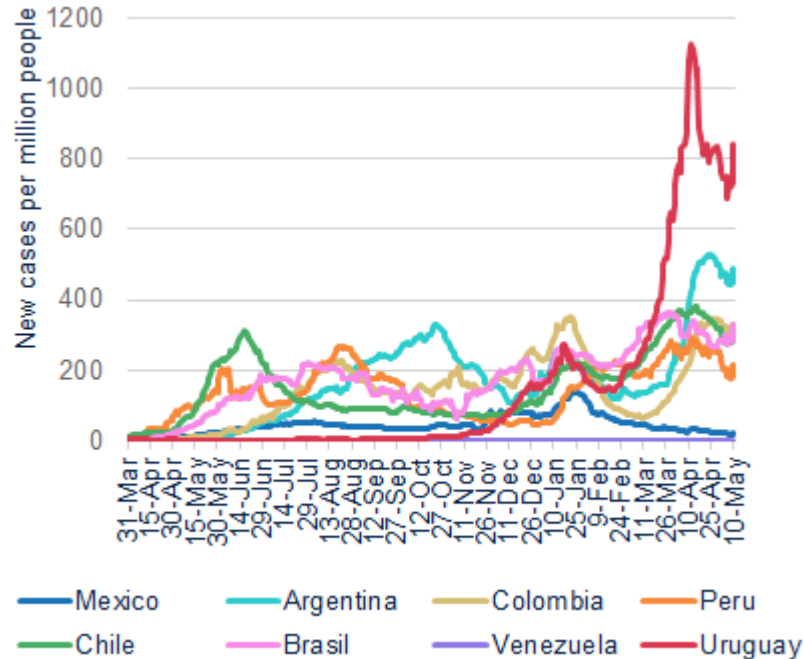
- We expect growth of 7% in 2021 as a result of the post-lockdown rebound in 2020, as the rate of recovery will slow down in the coming quarters due to the implementation of stricter health measures.
- The fiscal deficit will fall to -4% of GDP due to reduced COVID aid and increased wealth and export tax revenues.
- Inflation will remain high (~50%), given the monetary imbalance and lax monetary policy, moderated only by containment of the exchange rate.
- Exports will continue to be supported by high global prices and imports following the recovery in activity, although this will be limited by exchange-rate controls.
- Progress is yet to be made on the design of the new program with the IMF. We expect news in the last two months of the year at the earliest.

02

Uruguay in the COVID era

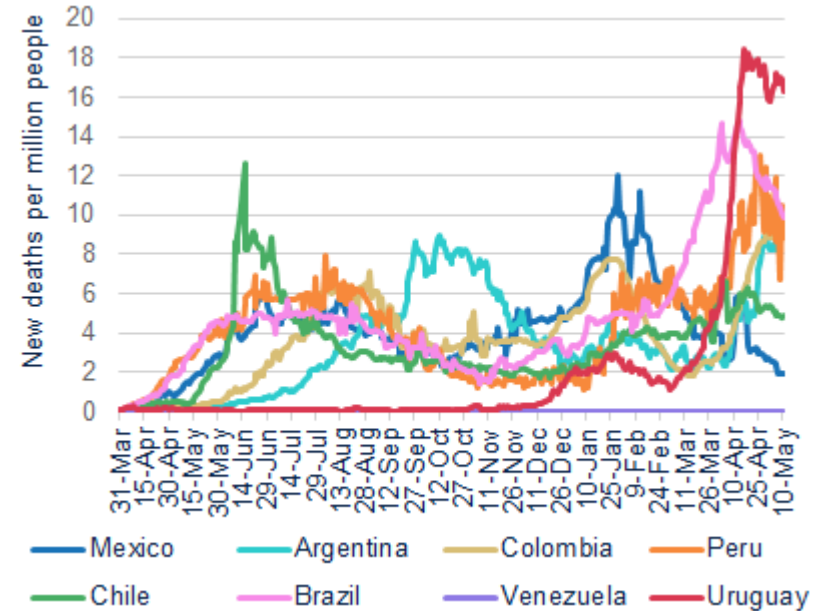
Pandemic: Uruguay's complicated situation is evident when we look at cases per million inhabitants

CONFIRMED CASES IN URUGUAY AND THE REGION PER MILLION INHABITANTS 7D MOVING AVERAGE



Source: BBVA Research.

DEATHS FROM COVID IN URUGUAY AND THE REGION PER MILLION INHABITANTS 7D MOVING AVERAGE

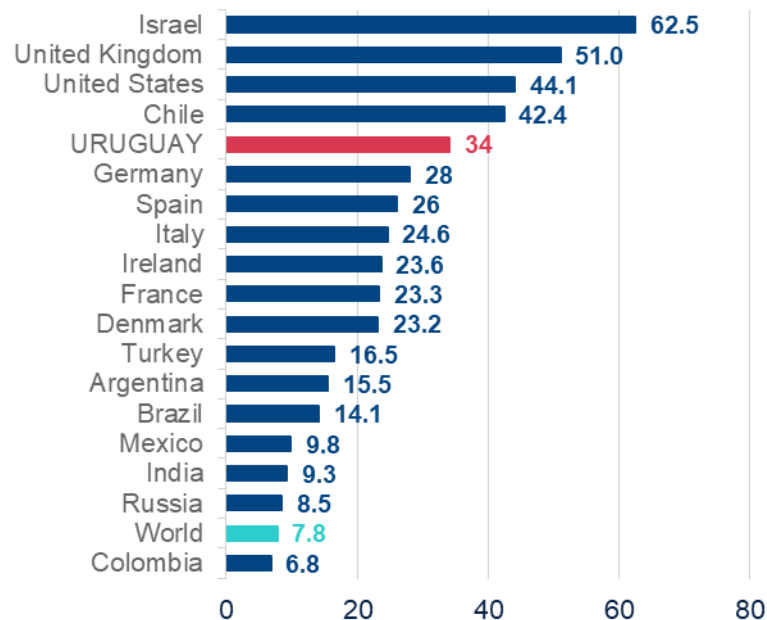


Source: BBVA Research.

Uruguay is making rapid progress in the vaccination against COVID-19, ranking very highly among countries in the region

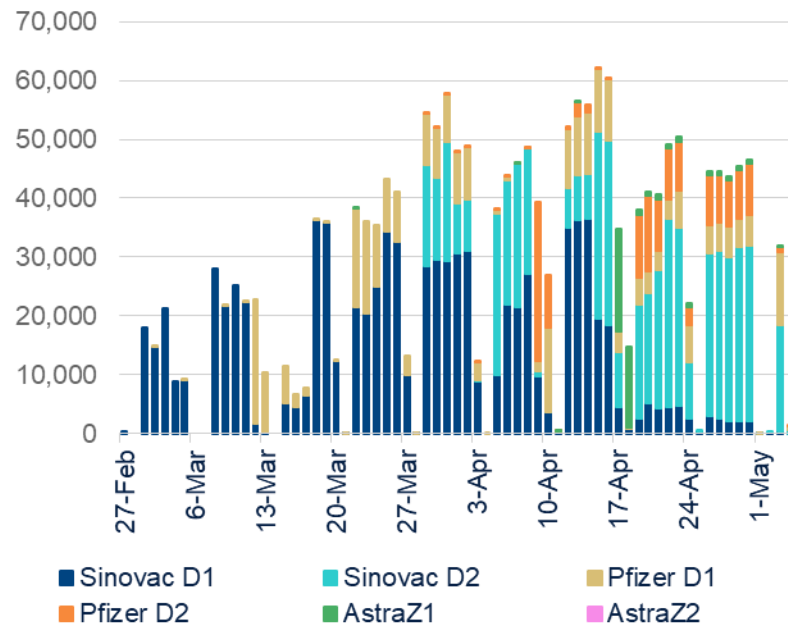
GLOBAL COVID-19 VACCINATION CAMPAIGN

% OF POPULATION HAVING HAD AT LEAST ONE DOSE (AS OF MAY 10)



Source: BBVA Research based on data from Our World in Data.

COVID-19 VACCINATION CAMPAIGN IN URUGUAY

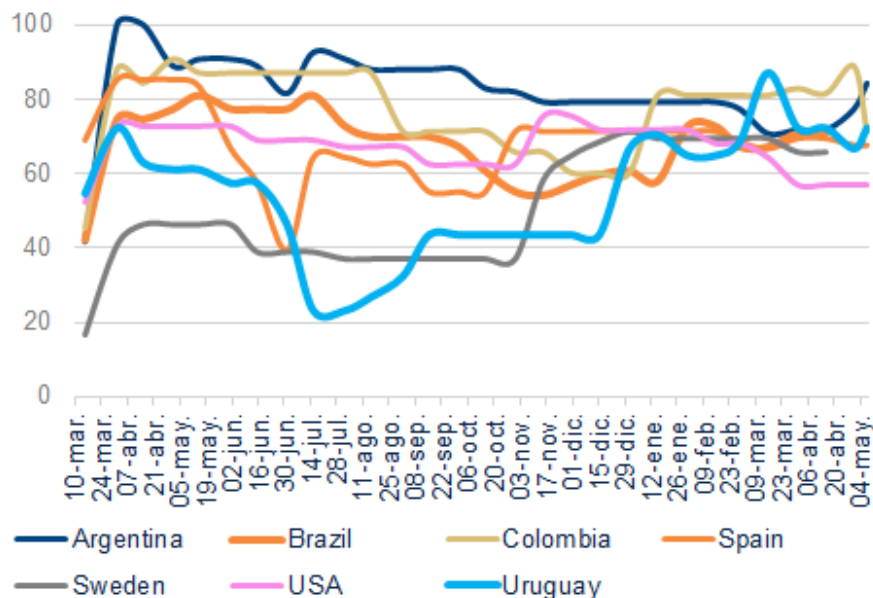


Source: BBVA Research and the Uruguay Ministry of Health.

The year of living in danger: lockdowns and reduced mobility

LOCKDOWN STRINGENCY INDEX

(LEVELS FROM 0 TO 100)

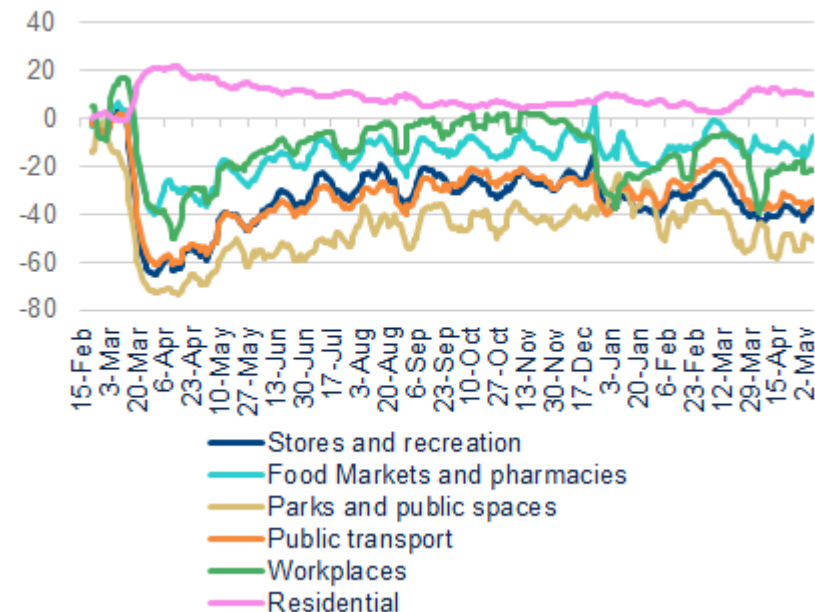


The Oxford Stringency Index is an indicator that measures lockdown severity in different countries at any given time based on the measures they implement to address the pandemic.

Source: BBVA Research and Oxford University.

MOBILITY IN URUGUAY

COMPARED WITH PRE-PANDEMIC LEVELS

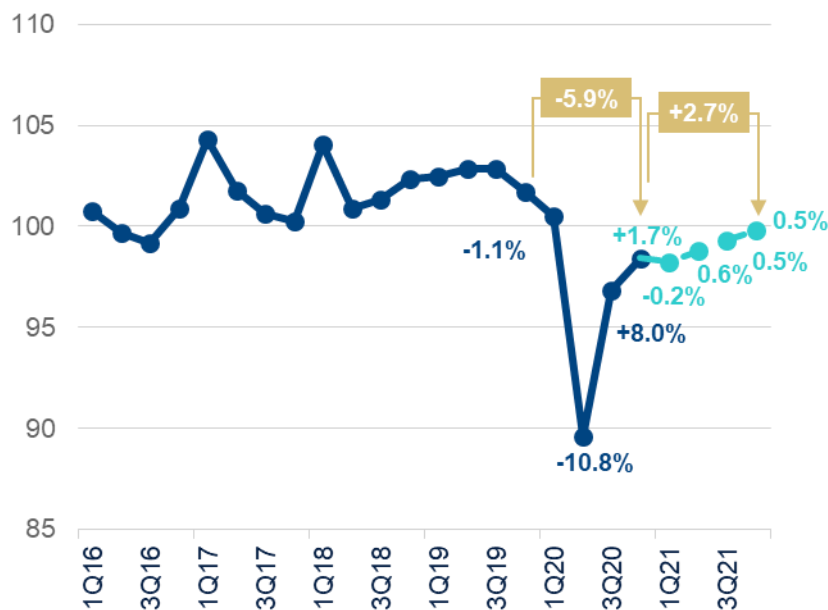


Source: BBVA Research on data from Google.

2020 activity: what COVID took...

SEASONALLY ADJUSTED QUARTERLY GDP

% CHANGE, Q/Q

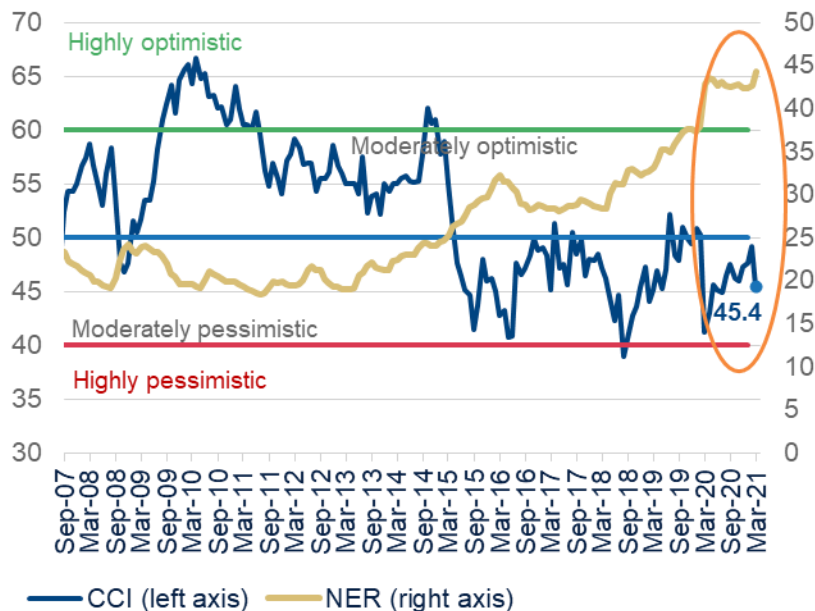


- 2020 closed with a fall of 5.9% in comparison with 2019 (4Q20 -2.9% y/y). GDP recovery in 3Q20 and 4Q20 was not sufficient to counter the large fall in 2Q20 at the very start of the pandemic.
- Domestic demand fell 3.8% y/y in 2020 due to the collapse of private consumption (-6.2% y/y) in the context of restrictions on mobility, which was not offset by the increase in investment (+8% y/y) linked to works on the third pulp mill and the Central Railway.
- External demand also made a negative contribution to growth (-2.1% y/y) on account of the sharp fall in exports (-16.2% y/y), which exceeded the fall in imports (-10.8% y/y).

The first high-frequency leading indicators for 1Q21 do not show clear growth

CONSUMER CONFIDENCE

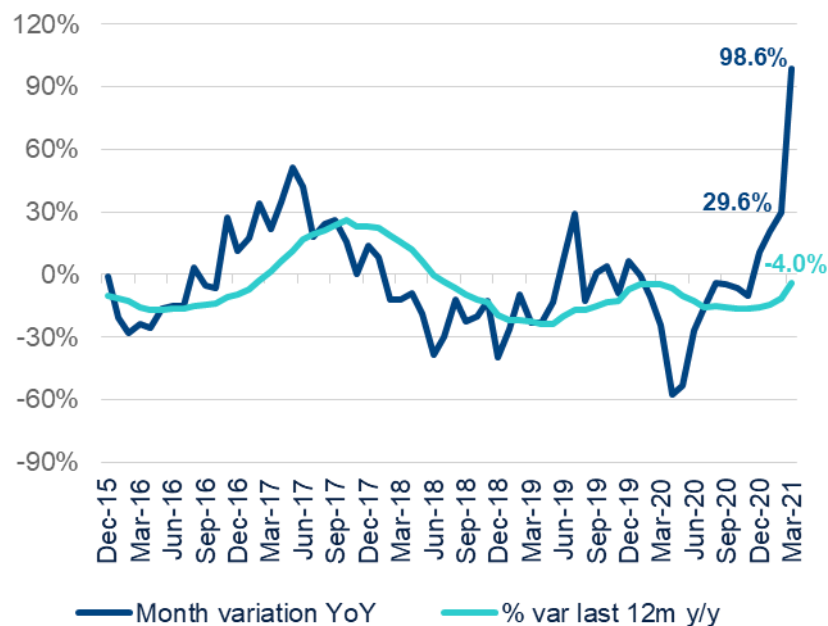
(LEVEL AND \$/USD)



Source: BBVA Research based on data from the Economics Dept. at UCU (Universidad Católica del Uruguay - Catholic University of Uruguay)

AUTOMOBILE SALES

% CHANGE, Y/Y

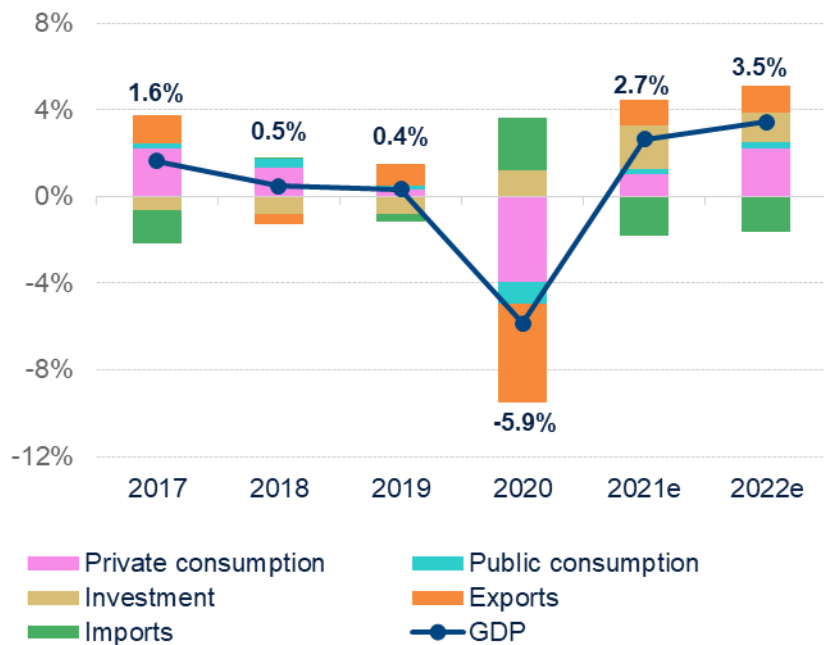


Source: BBVA Research based on data from ACAU (Asociación del Comercio Automotor del Uruguay - Uruguay automotive trade association).

We have revised estimated growth for 2021 down to 2.7% (previously 4.0%) but this will remain conditional on how the pandemic evolves.

GDP AND ITS COMPONENTS

% CHANGE, Y/Y



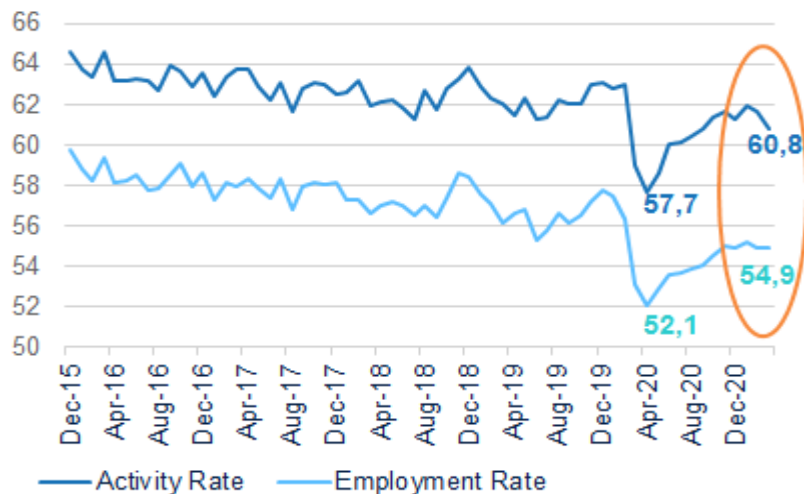
- Our scenario considers a situation in which the pandemic is controlled with **the progression of vaccination**.
- The greatest boost will come from investment, plus consumption will recover in part.
- External demand remains unable to contribute to growth and is set to continue with a negative contribution this year.

Y/Y change	2019	2020	2021 f	2022 f
Total consumption	0.6%	-6.2%	1.6%	3.2%
Private consumption	0.5%	-6.2%	1.7%	3.5%
Public consumption	1.1%	-6.4%	1.3%	2.1%
Investment	-5.2%	8.0%	11.7%	7.3%
Domestic demand	-0.3%	-3.8%	3.3%	3.9%
Exports	3.6%	-16.2%	4.7%	4.8%
Imports	1.5%	-10.8%	8.3%	7.3%
Balance of trade	0.7%	-2.1%	-0.6%	-0.4%
GDP mp (2016 prices)	1,769,071	1,665,426	1,709,571	1,768,594
GDP (% change y/y)	0.4%	-5.9%	2.7%	3.5%

The lower growth expected for this year also has an impact on the labor market, which is unable to return to pre-pandemic levels

EMPLOYMENT-TO-POPULATION RATIO AND EMPLOYMENT RATE

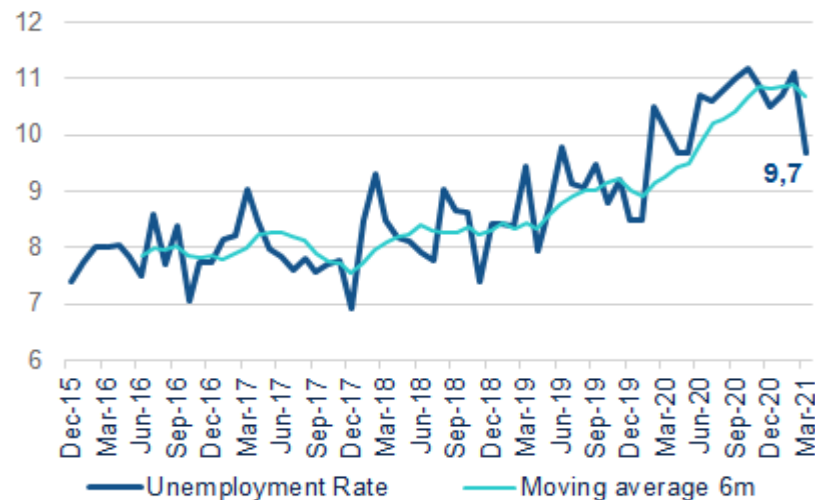
(IN % OF EAP, LAST DATA MAR 21)



Source: BBVA Research based on data from INE (Instituto Nacional de Estadística - national institute of statistics).

UNEMPLOYMENT RATE

(IN % OF EAP, LAST DATA MAR 21)



Source: BBVA Research based on data from INE (Instituto Nacional de Estadística - national institute of statistics).

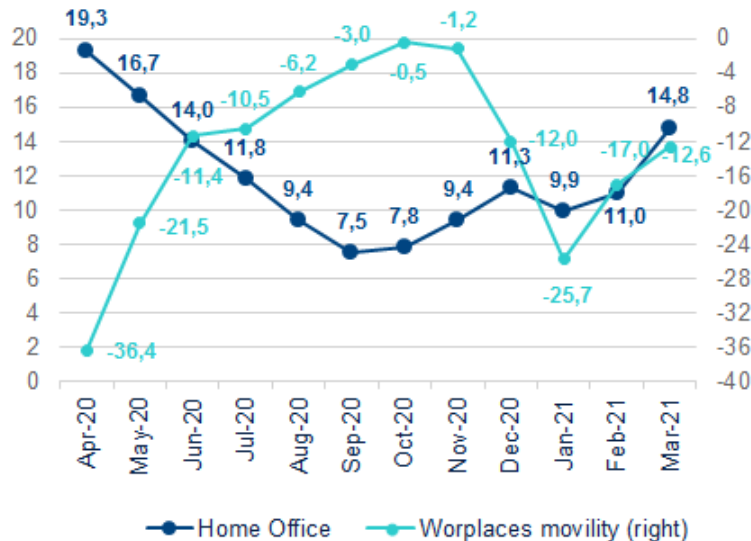
The employment-to-population ratio and the employment rate are recovering slowly but remain a long way off pre-pandemic figures. In March, the employment-to-population ratio fell again.

We do not expect a significant recovery in the unemployment rate this year. Our forecast for the end of 2021 is 9.8% of EAP.

The pandemic changed working practices, but also excluded many people from the labor market

REMOTE WORKING

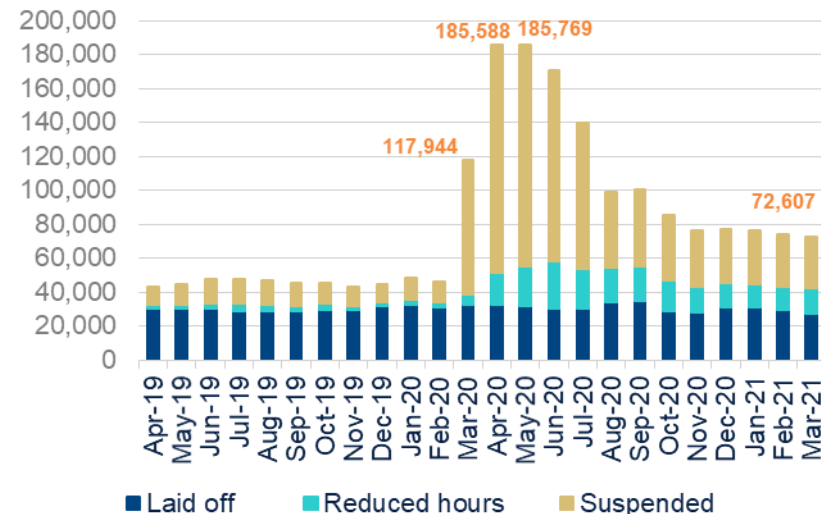
(IN % OF PEOPLE IN WORK)



Source: BBVA Research, INE and Google.

BENEFICIARIES OF UNEMPLOYMENT INSURANCE

(BY REASON)



Source: BBVA Research based on data from BPS (Banco de Previsión Social — the state social security institute).

As a result of the restrictions imposed by the pandemic, many people have to carry on working from home.

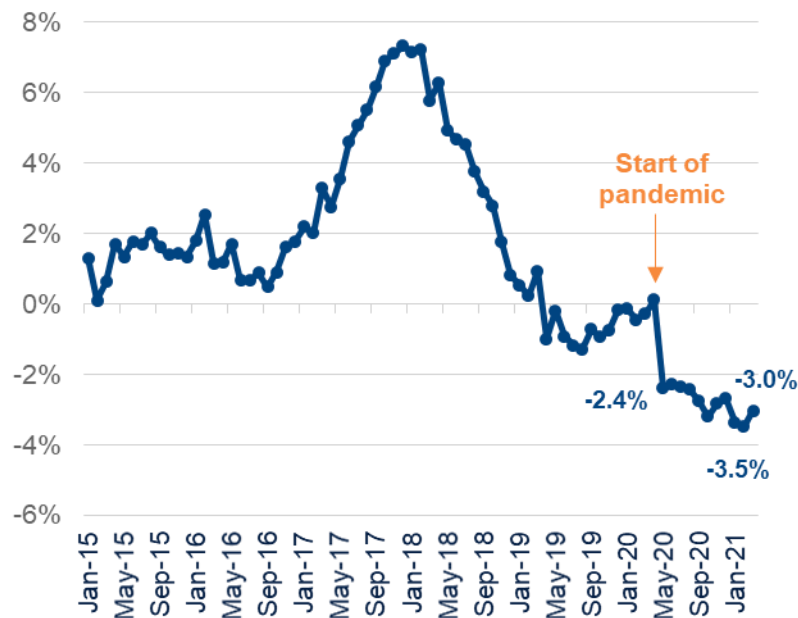
[Remote working is here to stay.](#)

The number of beneficiaries of unemployment insurance soared from March 2020, peaking in April and May. Numbers have been falling since then but remain high.

Tax revenue continues to be affected by restrictions and a lower level of activity

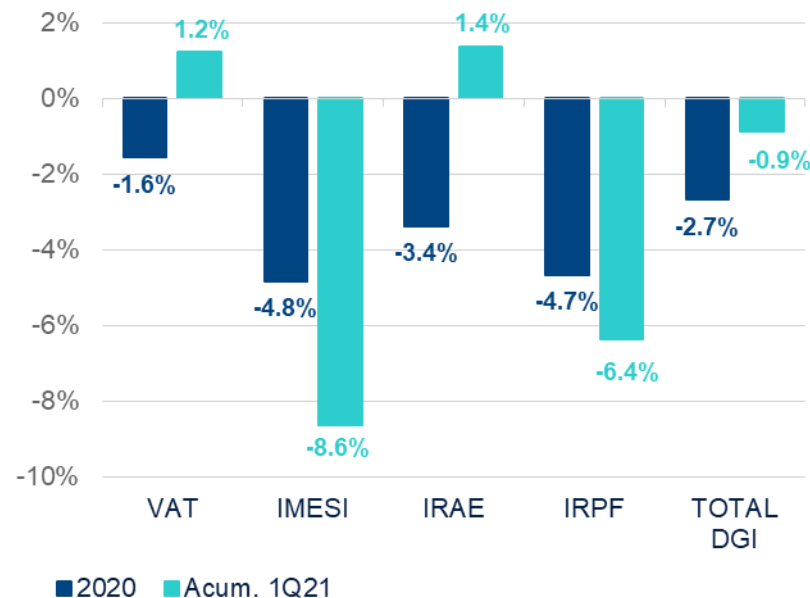
TOTAL REVENUE OVER LAST 12 MONTHS

(% CHANGE Y/Y IN REAL TERMS)



REVENUE BY TAX

(% CHANGE Y/Y IN REAL TERMS)



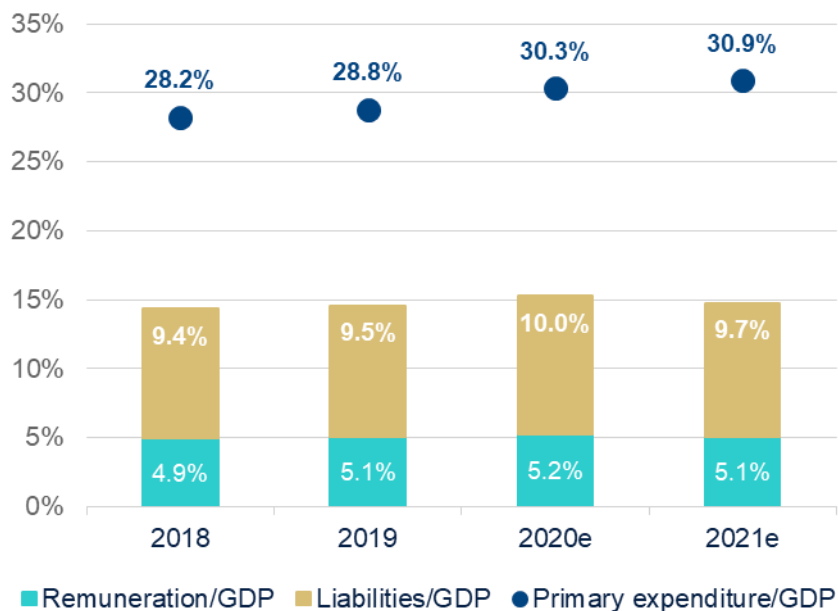
Source: BBVA Research based on data from MEF (Ministerio de Economía y Finanzas - Peruvian Ministry of Economy and Finance) and INE.

Source: BBVA Research based on data from MEF (Ministerio de Economía y Finanzas - Peruvian Ministry of Economy and Finance) and INE.

The fiscal deficit will be 5.4% of GDP in 2021. The new outbreak of COVID cases forced the government to extend the aid package, increasing expenditure

PRIMARY EXPENDITURE

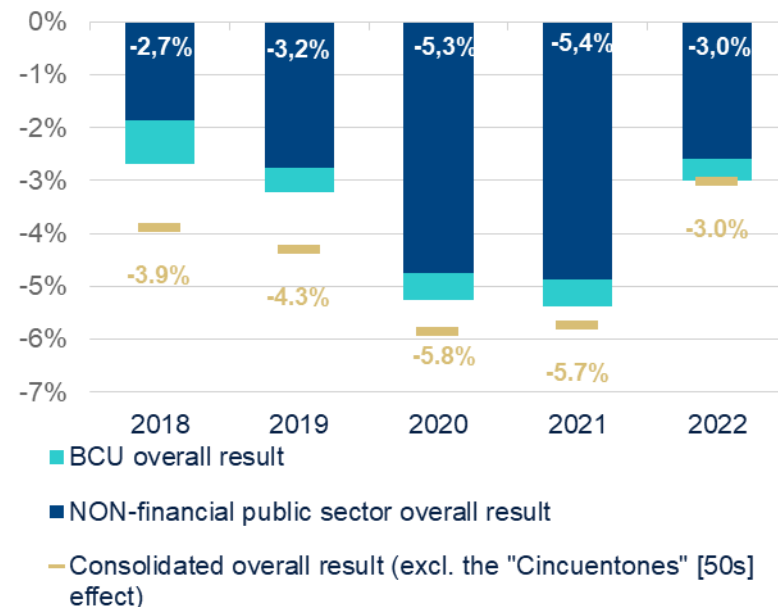
(AS A % OF GDP)



Source: BBVA Research and MEF.

CONSOLIDATED FISCAL RESULT

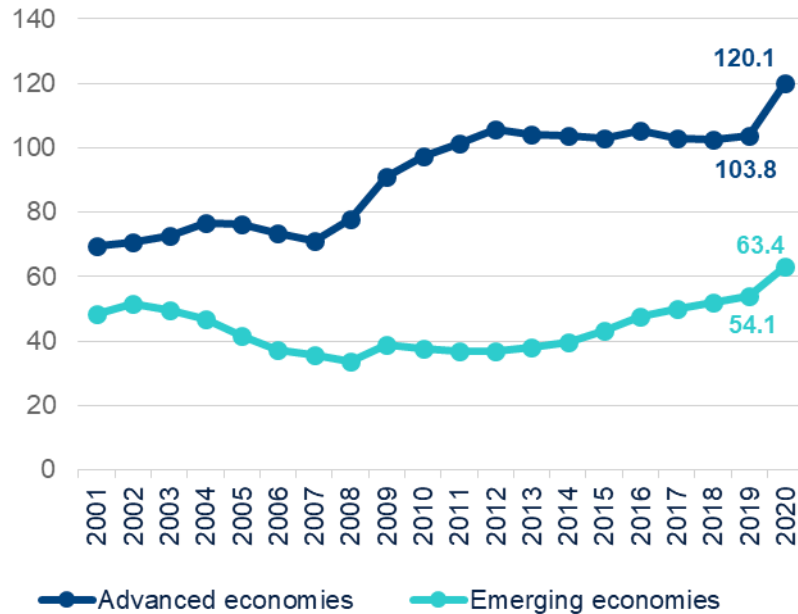
(AS A % OF GDP)



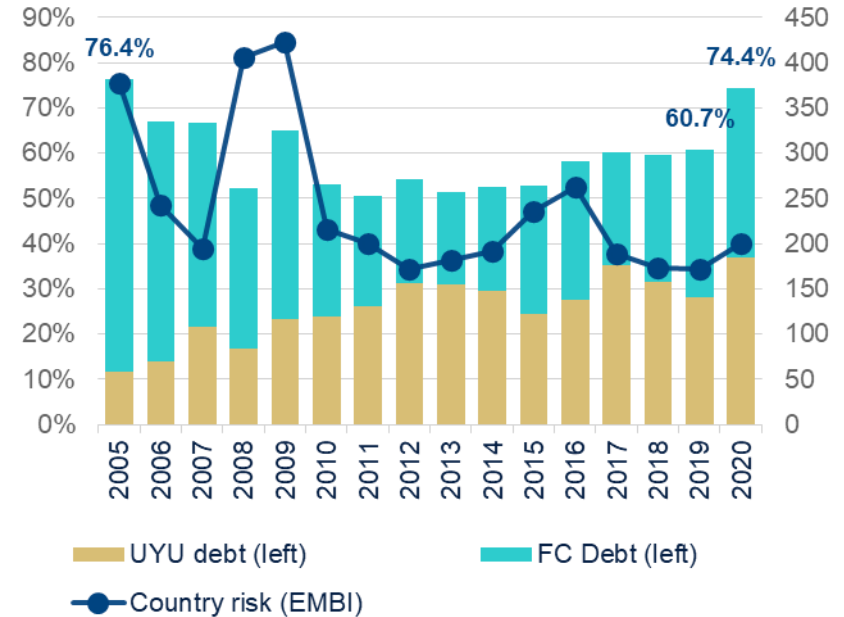
Source: BBVA Research and MEF.

Like most countries in 2020, Uruguay increased its public debt to finance the increase in fiscal deficit

GLOBAL PUBLIC DEBT (AS A % OF GDP)



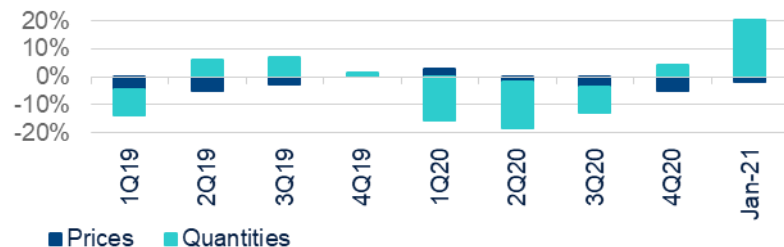
GLOBAL PUBLIC SECTOR DEBT AND EMBI (AS A % OF GDP AND BP)



Trade in goods was badly hit by the pandemic but there was some improvement around 4Q20, which intensified in 1Q21

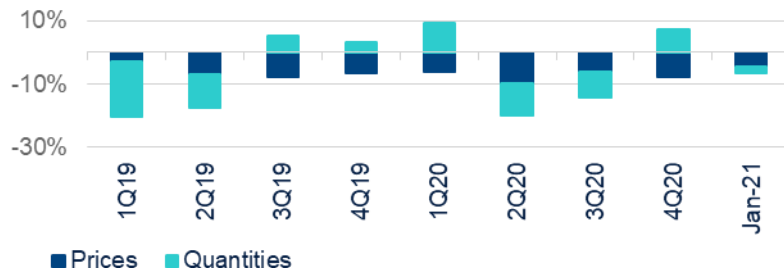
EXPORTS

% CHANGE Y/Y, PRICES AND QUANTITIES



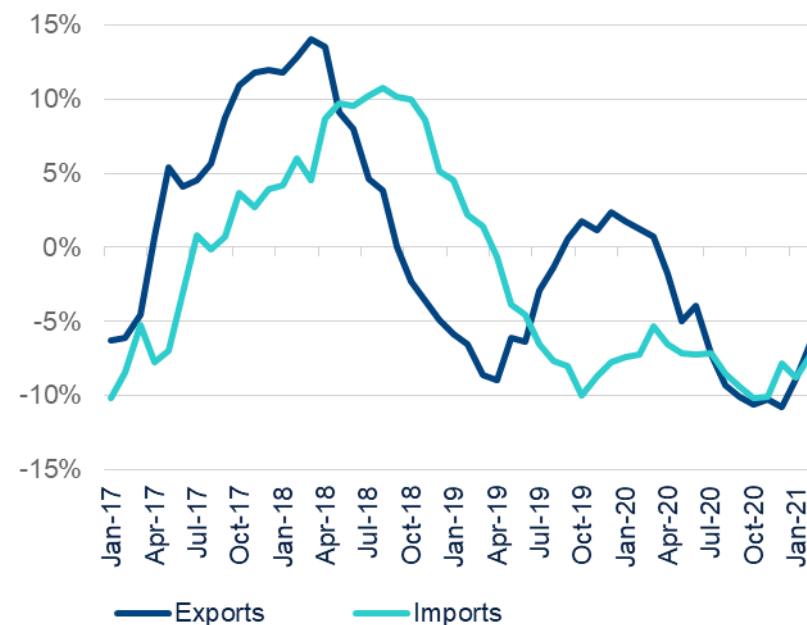
IMPORTS

% CHANGE Y/Y, PRICES AND QUANTITIES



IMPORTS AND EXPORTS

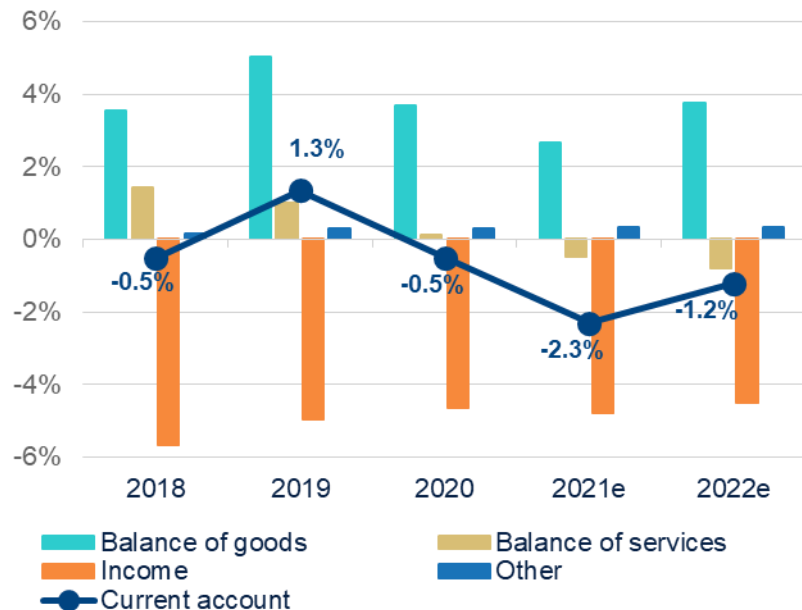
% CHANGE Y/Y, LAST 12 MONTHS



The current account deficit is widening due to the increase in imports for UPM2 and the fall in exports

CURRENT ACCOUNT AND ITS COMPONENTS

(% OF GDP)

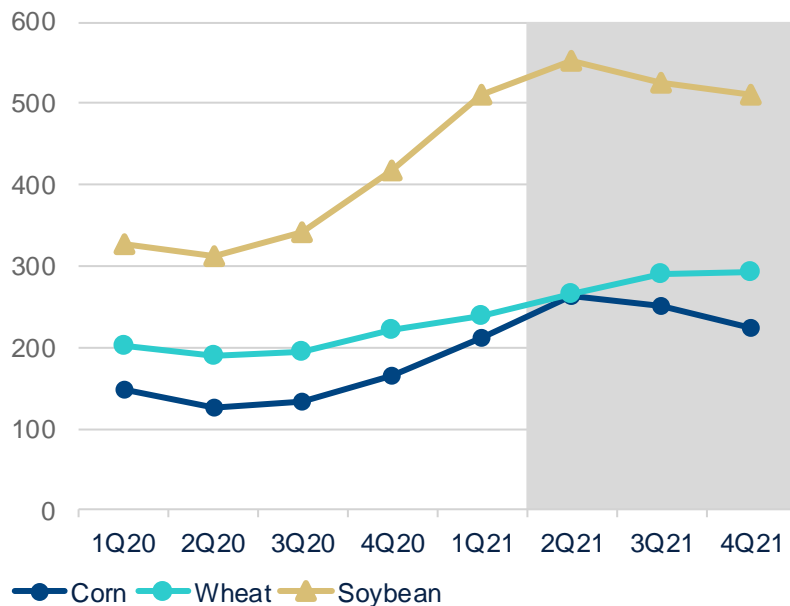


- The current account closed with a deficit of 0.5% of GDP in 2020 but we expect this deficit to widen in 2021 due to an increase in imports.
- Investments in UPM2 and infrastructure works essential to the pulp mill (such as the Central Railway works) will require imported capital goods and inputs.
- We expect an increase in imports of 11.5% while exports will increase by 7% in 2021.
- The closure of borders continues to harm the tourism industry.

Soybean prices: set to remain high and volatile for the rest of the year

PRICE OF AGRICULTURAL COMMODITIES

(USD/METRIC TON, CBOT)



■ The global market is extremely tight due to demand from China and low inventories in the US.

■ Factors driving prices:

- Short term: the 20/21 campaign leaves little global surplus.
- Medium term: demand for biofuel from the US.

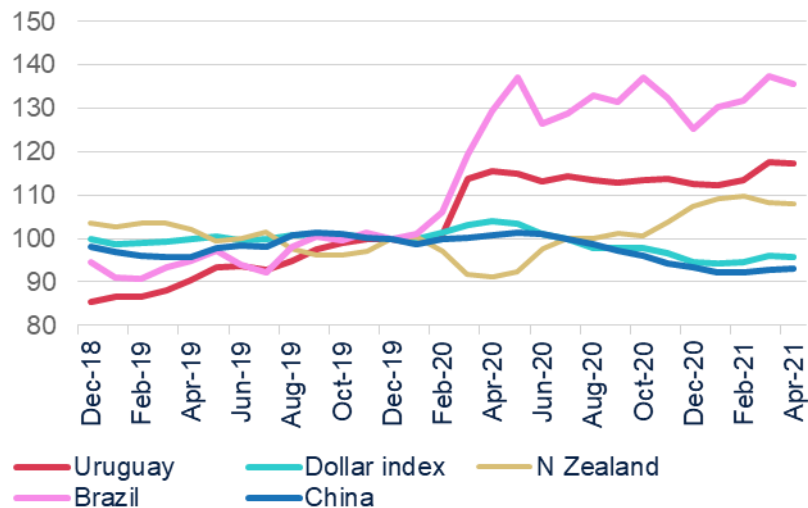
■ Risks:

- A swine flu outbreak in China could make prices fall.
- China-US relationship: increased tensions could have a negative impact.

The peso is not unaffected by the international situation and is notable for its low volatility

ER EVOLUTION

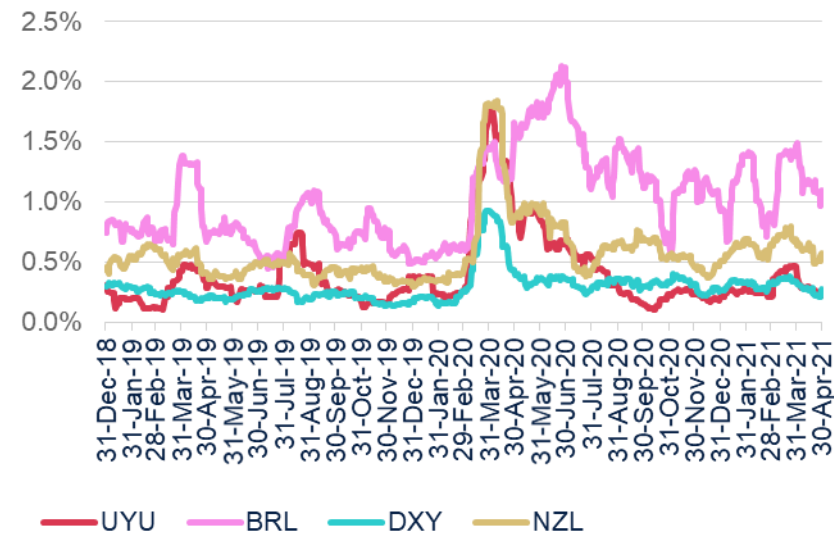
(DEC19=100)



Source: BBVA Research based on data from HAVER.

COMPARATIVE VOLATILITY

(VOL: STAND. DEV. FROM 20D ER)



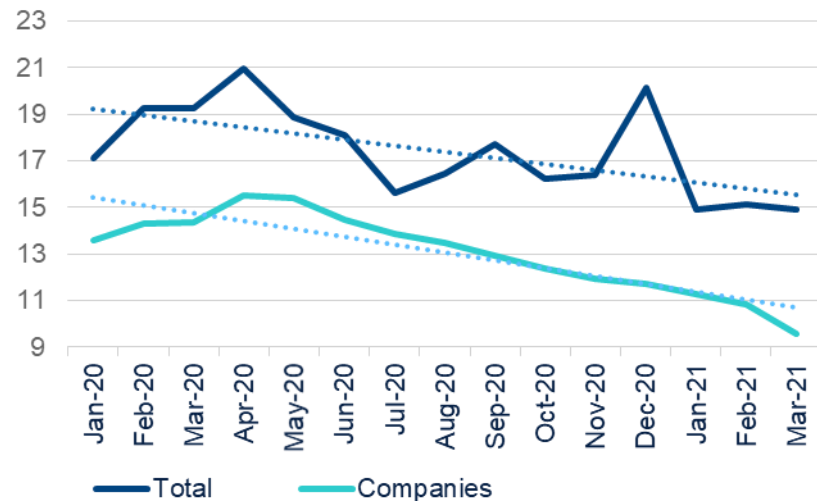
Source: BBVA Research based on data from HAVER.

From 2Q20 up until 1Q21, BCU intervened in the exchange market by issuing LRM (letras de regulación monetaria – CB bills) in USD for almost USD 1.5 billion. Volatility was lower than comparable economies. The exchange rate is set to reach UYU/USD 46 in December 2021 and UYU/USD 49 in December 2022. Abundant liquidity in pesos may be a source of risk in relation to the FX rate.

Inflation forecasts and interest rates showing good signs for monetary policy

LENDING INTEREST RATES

(%)

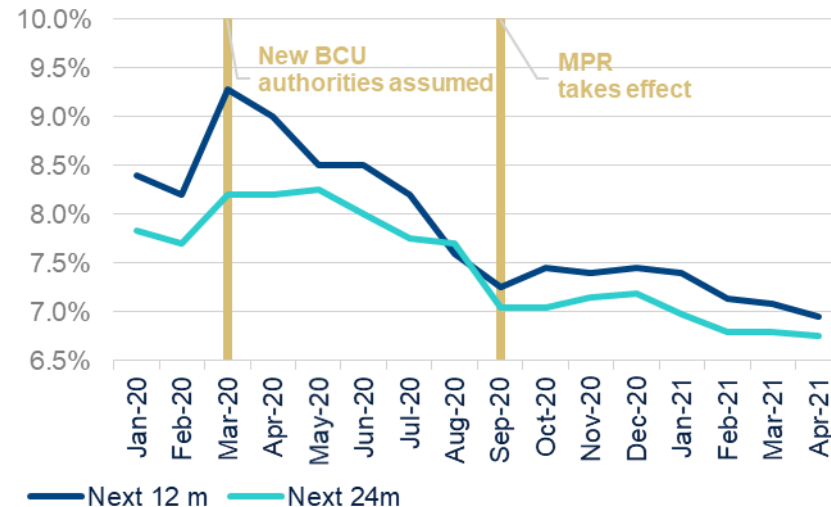


Source: BBVA Research based on data from BCU.

The interest rates are in line with the monetary policy rate. Monetary policy will remain expansionary until at least 3Q21 once the increase in activity is confirmed.

INFLATION FORECASTS

(% CHANGE Y/Y)

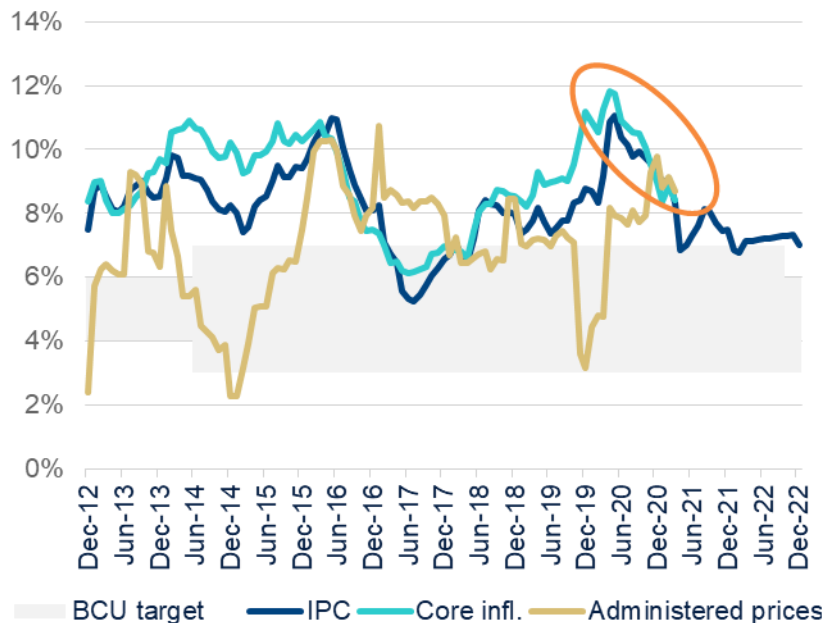


Source: BBVA Research based on data from BCU.

Inflation forecasts fell considerably. We note an improvement in the central bank's communication with the public and expect this to continue.

Inflation is falling more slowly than expected and will reach 7.2% in 2021

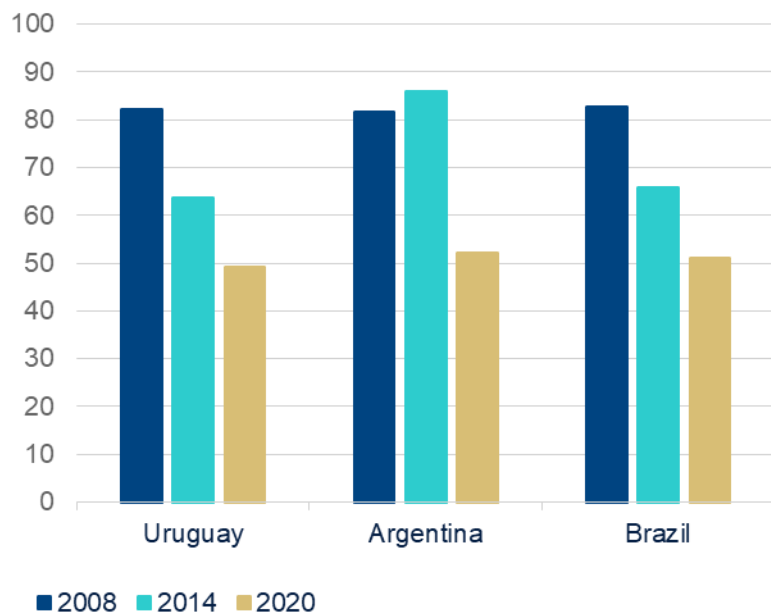
INFLATION, GENERAL LEVEL, UNDERLYING AND ADMINISTERED (% CHANGE Y/Y)



- Factors that relieve pressure on prices:
 - Labor market with high unemployment and slow recovery.
 - Wage gap agreement.
 - Global weakness of the dollar.
 - Tariff rises were more limited than expected.
- In the coming year, inflation is set to fall to 6.8%, provided that the pandemic situation improves, which will allow the monetary authority to gradually adopt a contractionary profile.

Although environmental performance is showing some signs of improvement...

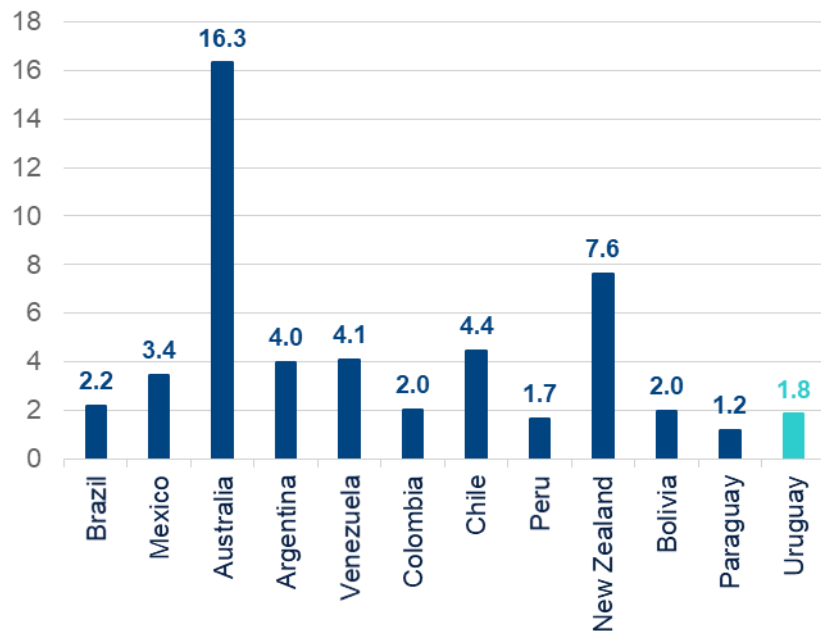
ENVIRONMENTAL PERFORMANCE INDEX



- Environmental performance (measured by Yale University) has worsened since 2008 to date, although this trend has also been seen in other countries such as Brazil and Argentina.
- Greenhouse gas emissions are the highest in South America in per capita terms.
- Uruguay does not feature among the 40 countries that are most attractive to environmental investors, according to consultancy firm Ernst & Young.
- A set of policies will need to be put in place that encourage investments in the country to further reduce emissions of gases that are harmful to health and the environment.

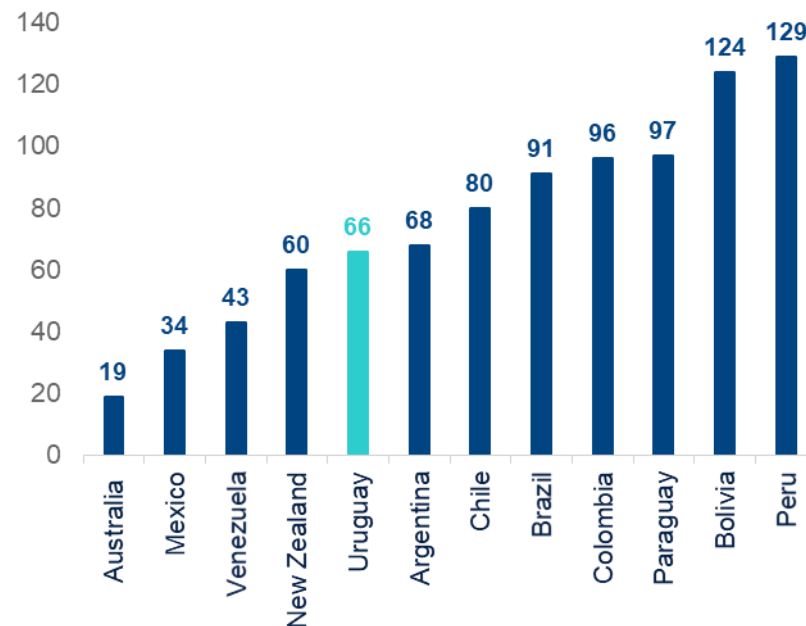
... the level of CO₂ emissions is among the lowest in the region

EMISSION OF CO₂ PER CAPITA
(METRIC TONS)



Source: BBVA Research based on data from Our World in Data.

REDUCTION IN CO₂ EMISSIONS
(GLOBAL ORDER BY GREATEST REDUCTION)



Source: BBVA Research based on the environmental performance index.

Macroeconomic forecasts

	2019	2020	2021f	2022f
GDP (% y/y)	0.4	-5.9	2.7	3.5
Inflation (% y/y, eop)	8.8	9.4	7.2	6.8
Inflation (% y/y, average)	7.9	9.8	7.7	6.7
Exchange rate (vs. USD, eop)	37.7	42.4	46.0	49.0
Exchange rate (vs. USD, average)	35.2	42.0	44.6	47.6
Private consumption (% y/y)	0.5	-6.2	1.7	3.5
Public consumption (% y/y)	1.1	-6.4	1.3	2.1
Investment (% y/y)	-5.2	8.0	11.7	7.3
Unemployment rate (% eop end)	8.9	10.4	9.8	9.2
Fiscal result (% GDP)	-3.2	-5.3	-5.4	-3.0
Current account (% GDP)	1.3	-0.5	-2.3	-1.2

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Uruguay Economic Outlook

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