

# Uruguay Economic Outlook

2022

# Main messages



## Ukraine-Russia conflict

The military conflict between Ukraine and Russia and the severe sanctions recently implemented represent a significant supply shock, with negative effects on both growth and inflation through commodities, financial volatility, confidence and supply chains channels. In this current context, in which the growth deceleration in China and the Fed's withdrawal of monetary stimuli are also of concern, uncertainty is exceptionally high.



## Activity

The global economy will slow down more than expected. After expanding 6.1% in 2021, global GDP is expected to grow 3.9% this year and 3.6% in 2023 (-0.5pp and -0.2pp, respectively, compared to previous forecasts). The downward revision of growth is significant in Europe and moderate in the rest of the geographies.



## Inflation and central banks

Inflationary pressures continue to increase, most of all due to commodity prices and supply bottlenecks. Central banks are expected to keep their focus on inflation and move forward with the withdrawal of monetary stimulus. The Fed will be more aggressive: it is expected to take interest rates to around 2.75% this year and 3.50% in 2023. The ECB, after ending the PEPP and accelerating the reduction of the APP, will start raising rates. Thus, in the Eurozone, the task of cushioning the impact of the conflict would fall on other policies (such as fiscal policy).



## Risks

A deterioration of the conflict and a further escalation of sanctions could cause a scenario of stagflation, at least in Europe. The withdrawal of monetary stimulus by the Fed, which could cause an economic recession or financial disruptions, and a hard-landing of growth in China, due to the severe Covid restrictions, are also among the main risks.

## Key messages. Uruguay



### Activity

GDP grew 4.4% in 2021 following the removal of health restrictions and the high vaccination coverage reached. 4Q21 performance (+2% q/q s.e.) left a carry-over effect of 3.6% for 2022 that, together with higher expected investment dynamism (UPM2) and strength in external demand, will result in a growth of 4.7% for this year and 3.5% for 2023.



### Russia-Ukraine conflict

Although Uruguay does not have a high volume of trade with the countries involved, the impact of the conflict in commodity prices favored the terms of trade, particularly for the agro-exporting sector, and compensated by the increase in oil prices. This will allow a positive contribution to the current account, albeit moderated by the poor performance of the tourism account.



### Fiscal Balance

The global fiscal deficit for 2021 was 4.1% of GDP, due to better revenues from more dynamic activity and adjustment in expenditure, mainly investment. For 2022 we estimate a global deficit of 3.2% due to higher revenues and dismantling of COVID-19 expenditure.



### Exchange rate

The exchange rate recovers on par with the region; at Dec22 the UYU/USD pair will reach 42.1. Adjusting for inflation, the real exchange rate will remain above the pre-pandemic level



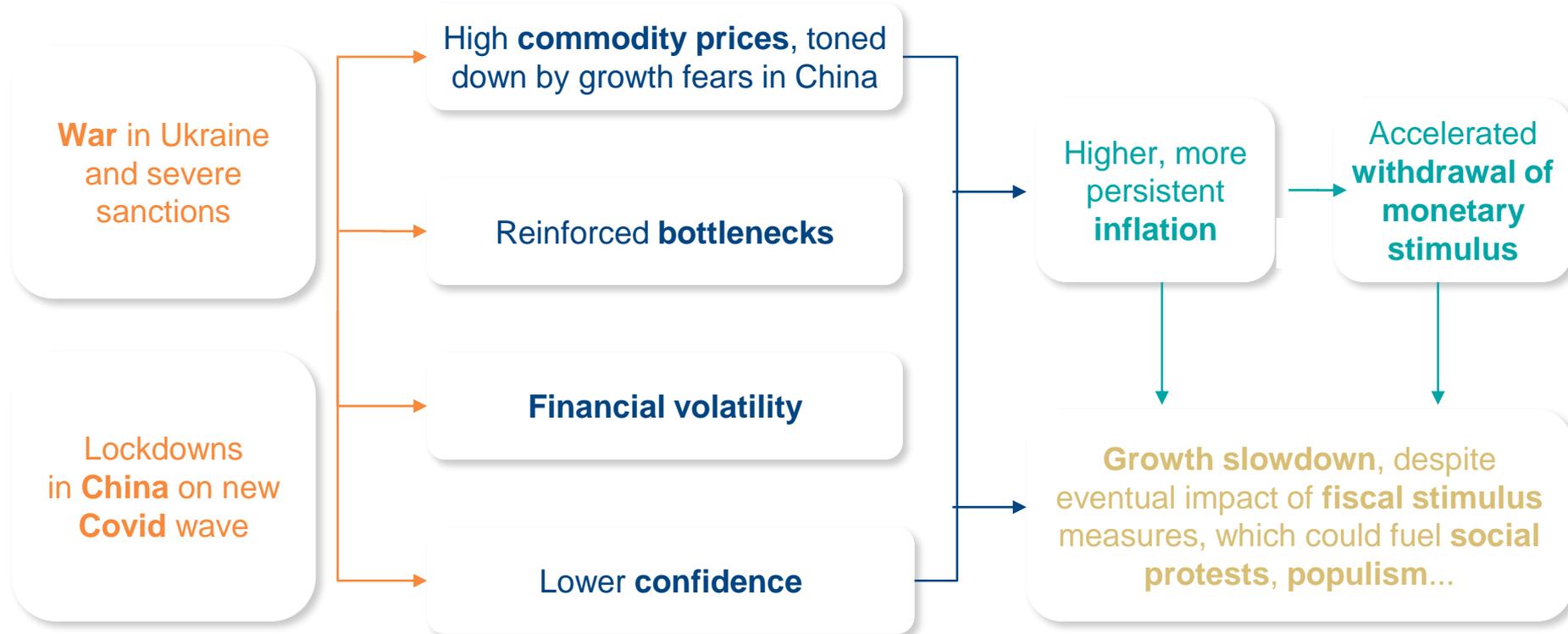
### Inflation

Inflation, which added the impact of international commodity and logistics prices, will reach 8.3% in 2022 and 7.0% in 2023. The BCU will maintain its commitment against inflation and will raise the monetary policy rate to at least 10.5%.

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## Global situation

# War in Ukraine as well as China's Covid problems reinforce both inflation (and thus the pressure on central banks) and the growth moderation trend



# Economic uncertainty remains very high, not only on the war but also on the Fed's monetary tightening and China's situation amid covid lockdowns

**BBVA RESEARCH INDEX DE ECONOMIC POLICY UNCERTAINTY**  
(INDEX FROM 0 TO 100)

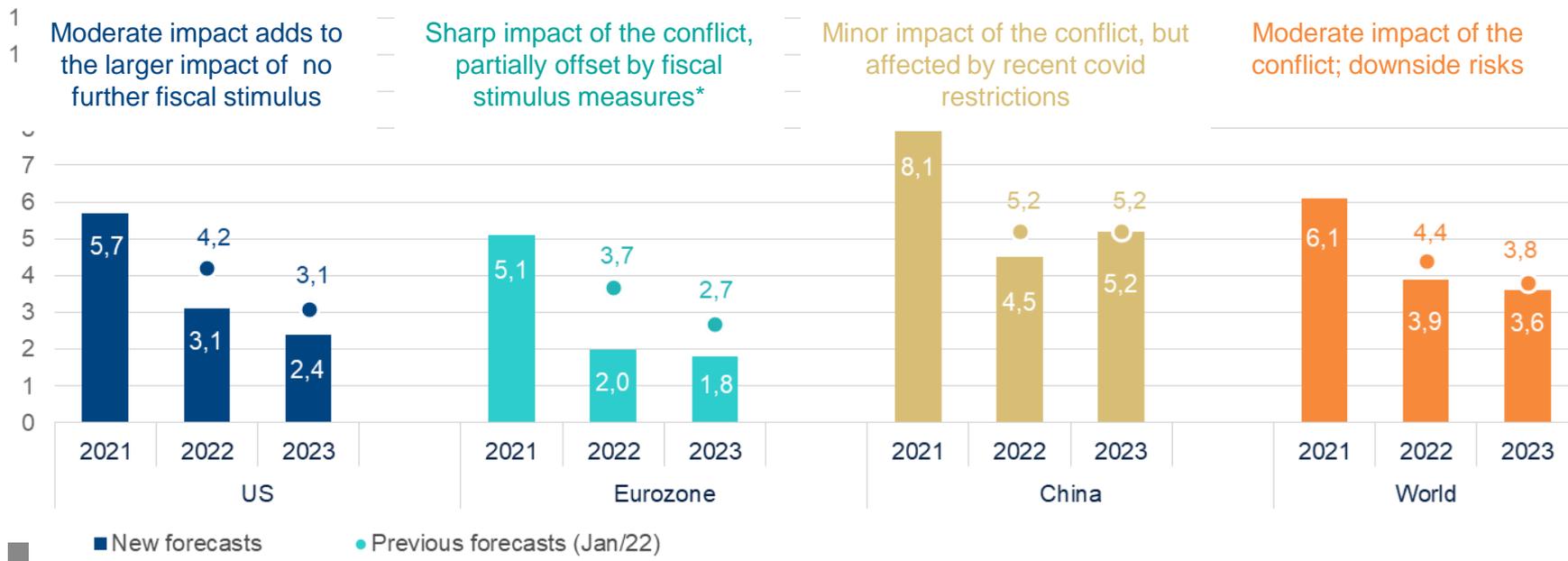


Source: BBVA Research based on data by GDELT.

# Growth forecasts have been revised significantly to the downside in Europe, and moderately in other regions; risks are mostly tilted to the downside

## GDP: ANNUAL GROWTH IN REAL TERMS

(%)



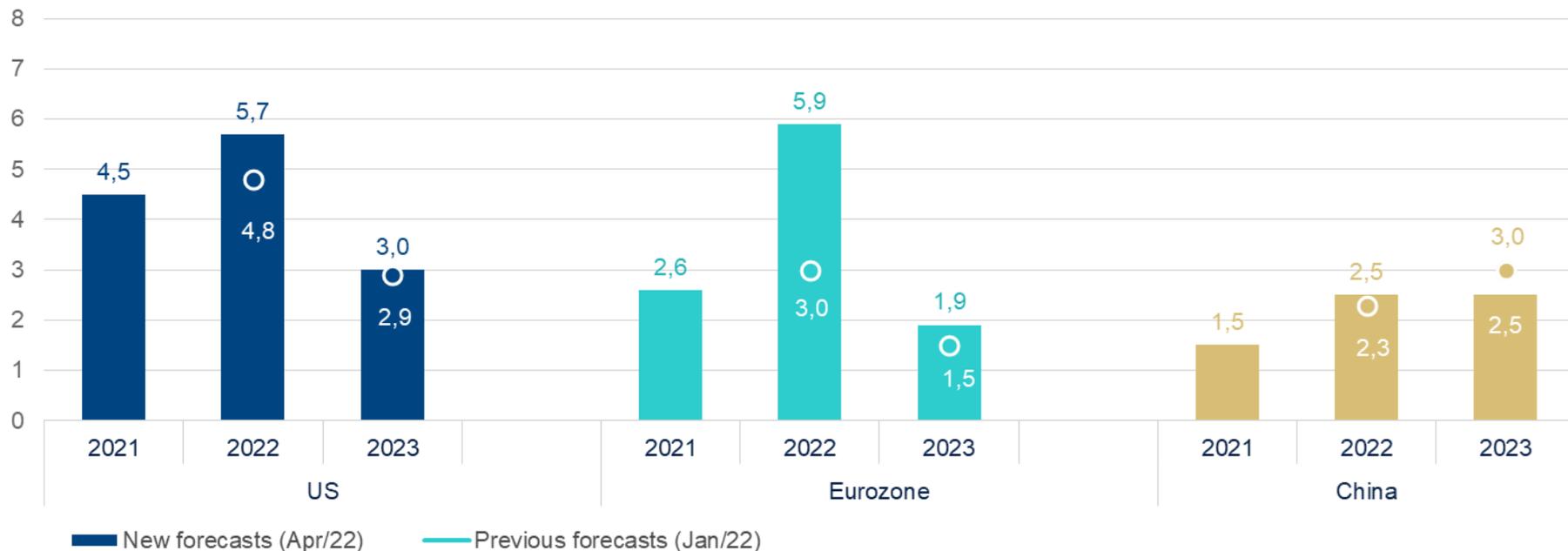
\* Germany has implemented an aid package for €16bn (0.4% GDP) and expects to approve a supplementary budget of €24bn (0.7%). Additionally, it will implement a €100bn defense spending and a €100bn aid package in loans and guarantees (2.8% GDP each). France and Spain also approved aid and loan packages for 1% and 1.4% of GDPs, respectively.

Source: BBVA Research.

# Commodity prices and additional bottlenecks will add to previous pressures and keep inflation very high, at least this year

## INFLATION: CPI

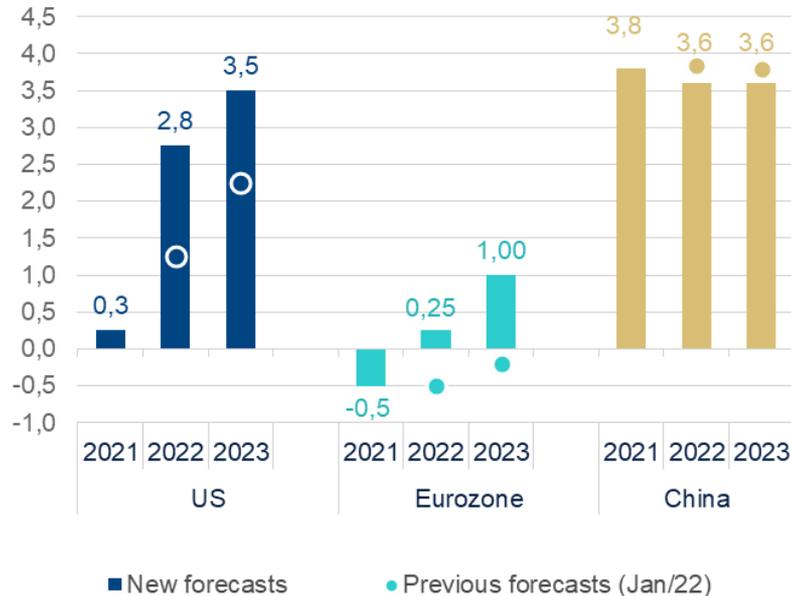
(Y/Y %, PERIOD AVERAGE)



# Interest rate hikes by the Fed (more aggressive) and by the ECB (despite the dilemma) from 2022; new fiscal stimulus in the Eurozone, but not in the US

## MONETARY POLICY INTEREST RATES\*

(%)



\* In the case of the ECB, deposit facility rates.  
Source: BBVA Research.



## Controlling inflation is the main objective

- **Fed:** more aggressive rate hikes and a reduction in the balance sheet from Jun/22 given high inflation and the labor market strength.
- **Fiscal policy:** the approval of further fiscal stimulus packages is no longer expected.



## Monetary normalization, fiscal support

- **ECB:** accelerated reduction of the asset purchase program (APP) until its end in 3Q22; gradual rate hikes since then.
- **Fiscal policy:** additional stimuli at national and European level, in defense, energy, refugees...



## Focus on avoiding a sharp slowdown

- **PBoC:** one/two more rates cuts, credit expansion
- **Fiscal policy:** local government bond issuance, tax cuts...

# Risks: significant and tilted to the downside, not only because of the war in Europe, but also from the Fed's exit and the deceleration in China

## Europe

Stagflation and other extreme economic/geopolitical scenarios due to a worsening of the Ukraine-Russia conflict and further escalation of sanctions limiting the flow of commodity products between Russia and Europe (potential risk of higher rates and spread sovereigns)

## USA

Economic recession and financial disruptions due to the Fed's normalization amid higher inflationary pressures

## China

A hard-landing of growth and financial stress due to increased restrictions due to Covid or other factors.

## Other

Impact on EM of inflation and high rates in DM, new waves of Covid, social tensions, new geopolitical conflicts...

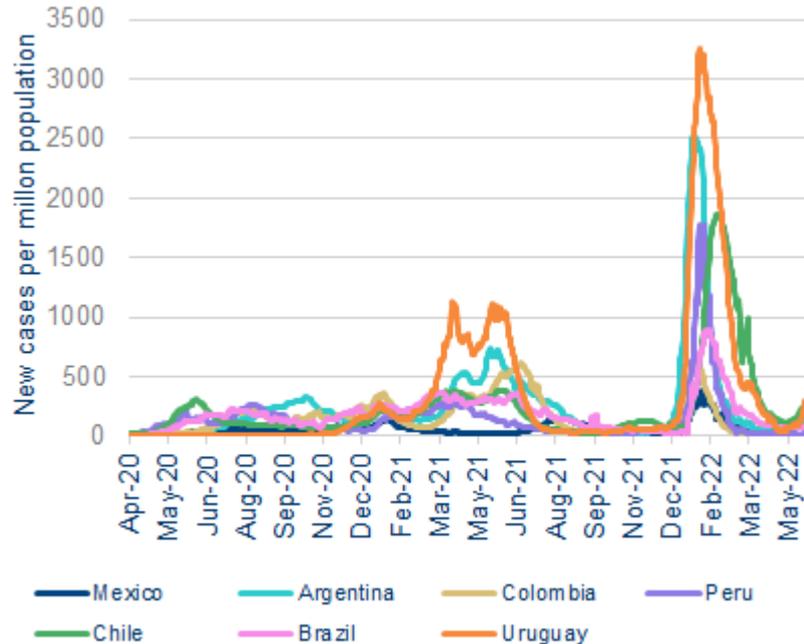


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# Uruguay Economic Outlook

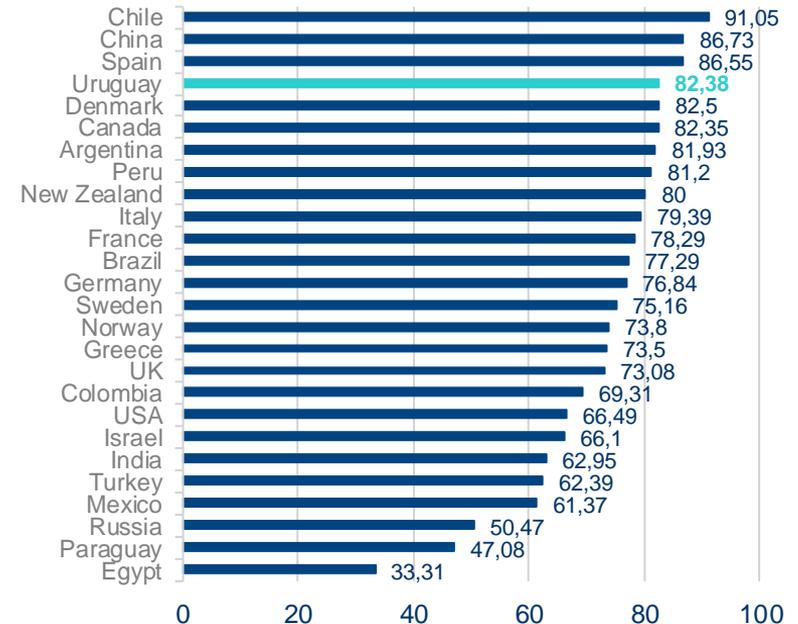
# The region is facing with an incipient increase in the number of infections as winter approaches, but protected by high vaccination rates

## NEW CASES PER MILLION PEOPLE 7-DAY AVG



Source: BBVA Research and Johns Hopkins University.

## FULL VACCINATION (2 DOSES) (IN % OF POPULATION)



Source: BBVA Research and Our World in Data.

# The GDP grew 4.4% in 2021 thanks to the lifting of mobility restrictions as the pandemic was overcome

## GDP BY ECONOMIC ACTIVITY

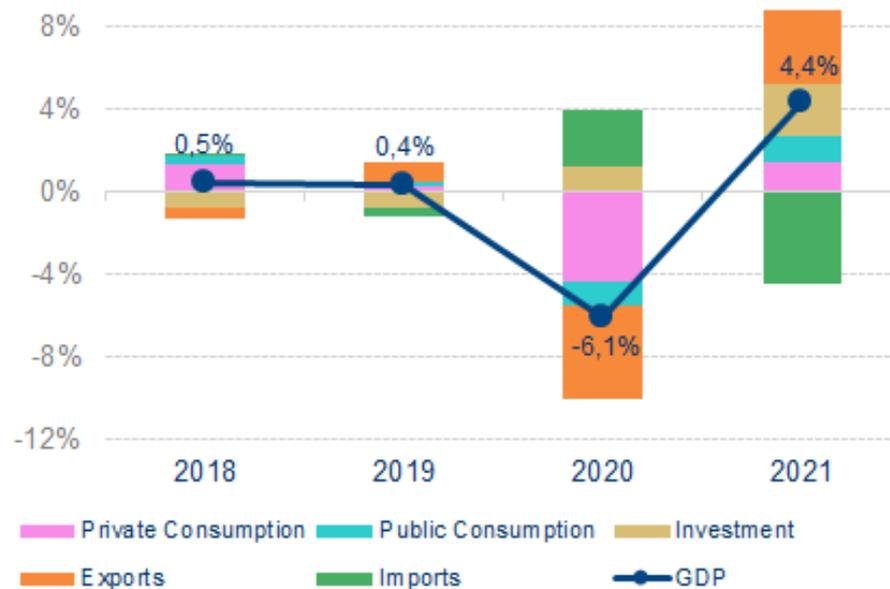
CHANGE AND INCIDENCE, IN %

Type of Economic Activity	Year 2021 - 2020		2020-2019
	Change	Incidence	Change
Agriculture, Fishing and Mining	5.0%	0.3%	-5.4%
Manufacturing industry	6.7%	0.7%	-6.1%
Electricity, Gas and Water	3.5%	0.1%	-9.4%
Construction	6.0%	0.3%	2.1%
Trade, Lodging and Food and beverage supply	7.0%	0.9%	-7.5%
Transportation and Warehousing, Information and Communications	4.1%	0.4%	-7.8%
Financial services	5.0%	0.3%	-0.4%
Professional activities and Leasing	5.2%	0.4%	-5.9%
Public administration activities	0.0%	0.0%	-0.8%
Health, Education, Real Estate Activities and Other Services	1.9%	0.5%	-8.9%
<b>GROSS VALUE ADDED at basic prices</b>	<b>4.3%</b>	<b>3.8%</b>	<b>-6.3%</b>
Taxes minus product subsidies	5.0%	0.6%	-4.7%
<b>GROSS DOMESTIC PRODUCT</b>	<b>4.4%</b>	<b>4.4%</b>	<b>-6.1%</b>

Source: BBVA Research and BCU.

## GDP AND DEMAND COMPONENTS

(IN %)

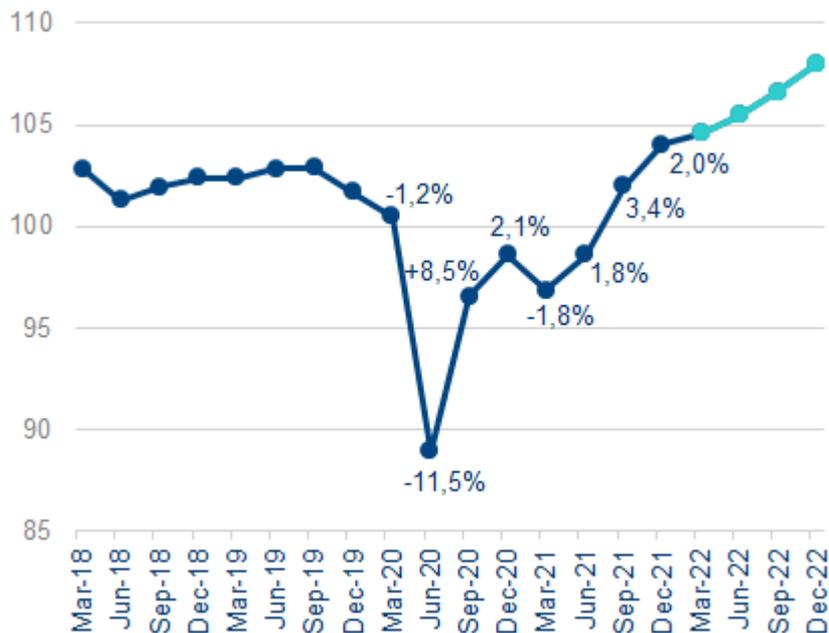


Source: BBVA Research and BCU.

## 2021's last quarter growth predicts a continued high for 2022, with the added contribution of investment (UPM) and higher external demand

### SEASONALLY ADJUSTED QUARTERLY GDP

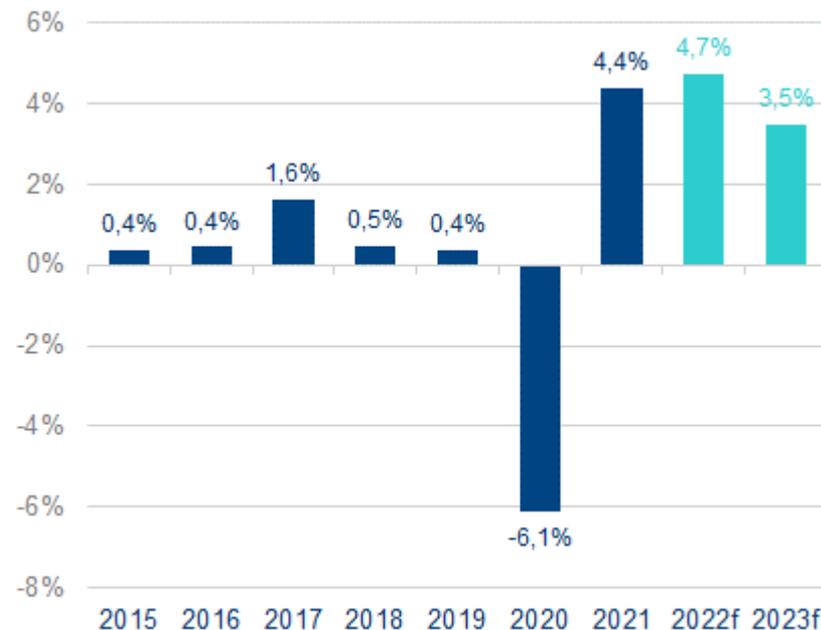
(% Q/Q CHG)



Source: BBVA Research and BCU.

### ANNUAL GDP

(CHANGE %)



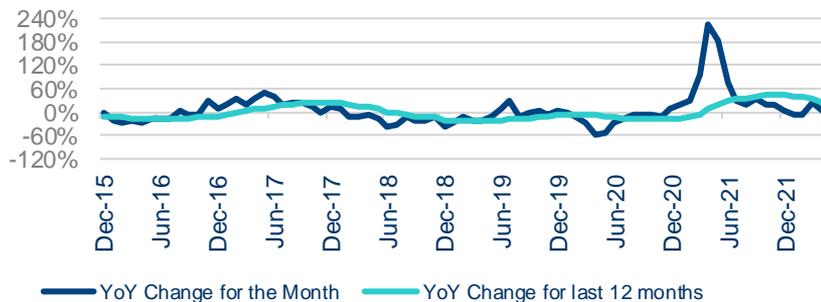
Source: BBVA Research and BCU.

# Latest data for 2022 show signs of moderation in the dynamism of activity

## VAT COLLECTION (VAR % Y/Y IN REAL TERMS)

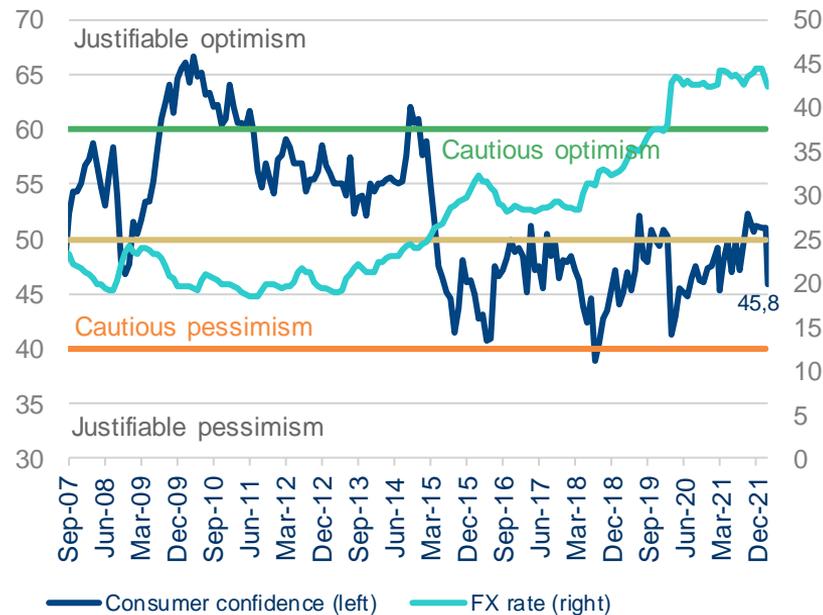


## OKM AUTOMOBILE SALES (VAR % Y/Y)



## CONSUMER CONFIDENCE

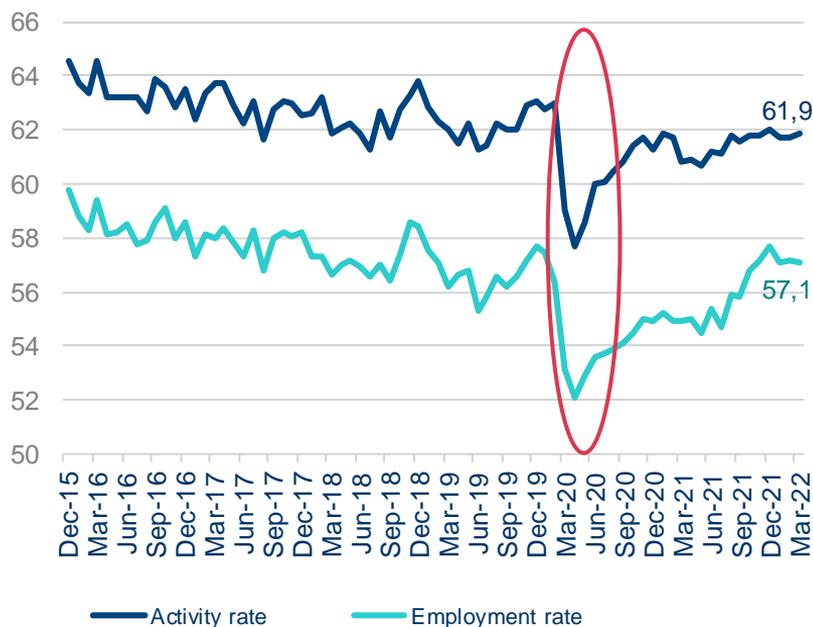
(INDEX 50 = NEUTRALITY)



# Unemployment will stand at 7.7% by the end of the year, reflecting the stagnation in job creation following the pandemic

## EMPLOYMENT-TO-POPULATION RATIO & EMPLOYMENT RATES

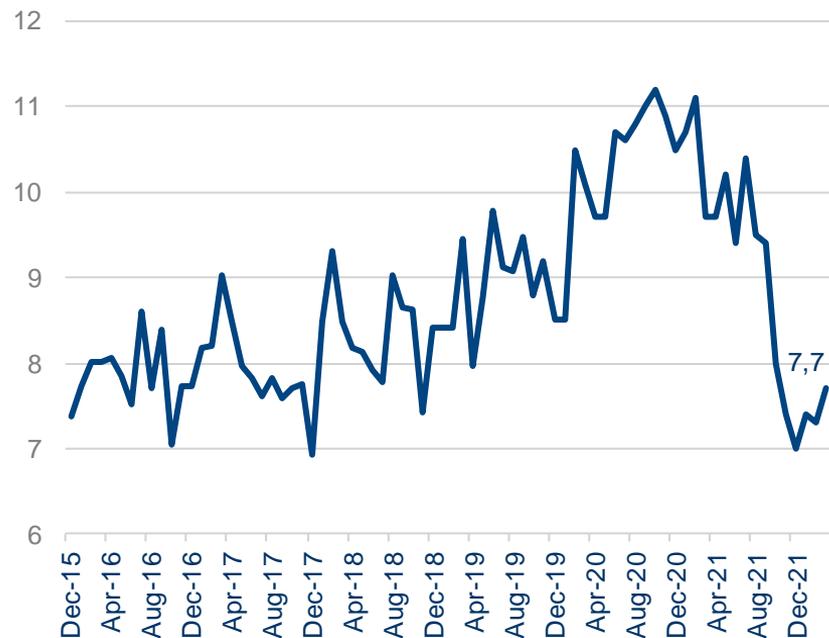
(% OF WAP)



Source: BBVA Research and INE.

## UNEMPLOYMENT RATE

(% OF WAP)

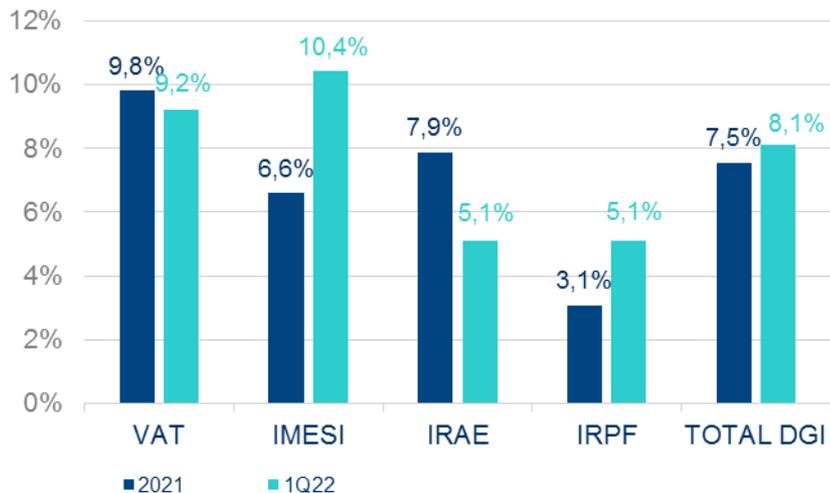


Source: BBVA Research and INE.

# Fiscal consolidation in 2021, due to improved tax revenues from increased activity and expenditure restraint, will be maintained in 2022 and 2023

## TAX REVENUE

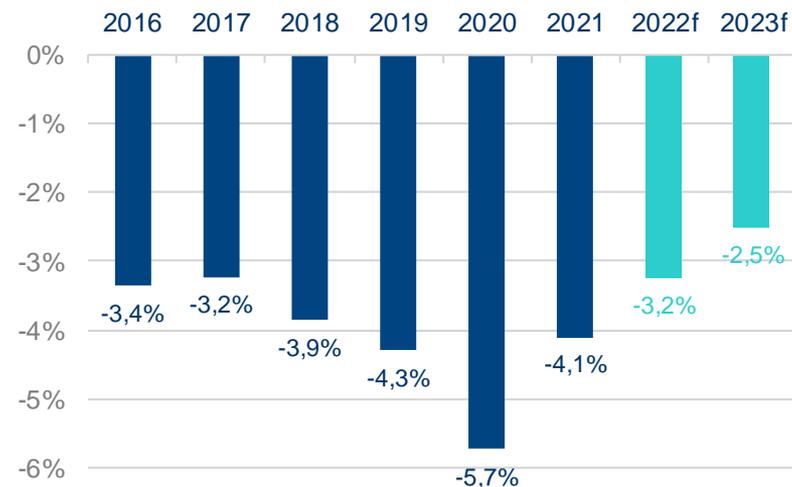
(VAR % Y/Y IN REAL TERMS)



Source: BBVA Research and MEF.

## CONSOLIDATED FISCAL RESULT

(% GDP)



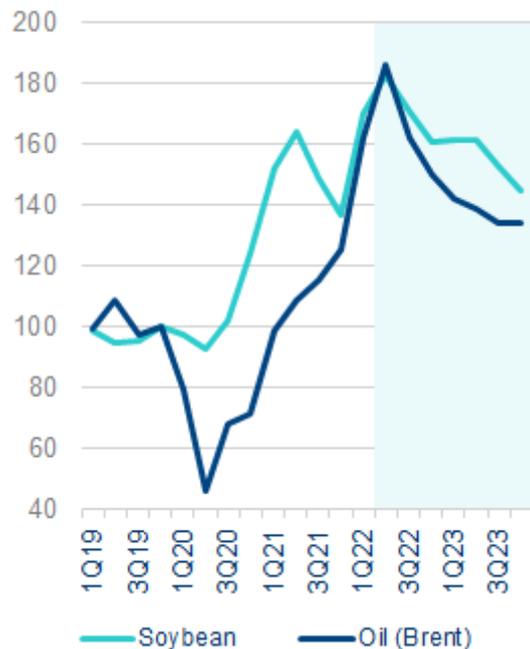
Source: BBVA Research and MEF.

Tax revenue grew—in real terms—by 7.5% in 2021 and by accumulated to April 2022 the increase already exceeds 8%.

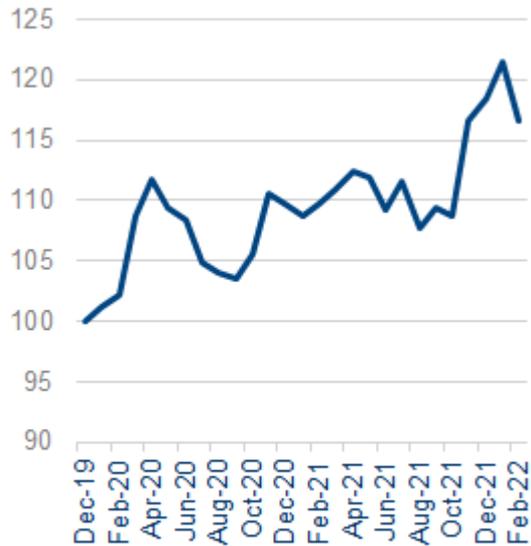
Revenues will continue to grow as activity improves, as will the dismantling of COVID-19 expenditure and the containment of other expenses, which will allow the government to meet fiscal targets.

# Strong dynamism in goods trade driven by favorable trade terms...

**POSITIVE IMPACT OF COMMODITY PRICES** (PRICES 4Q19 = 100)

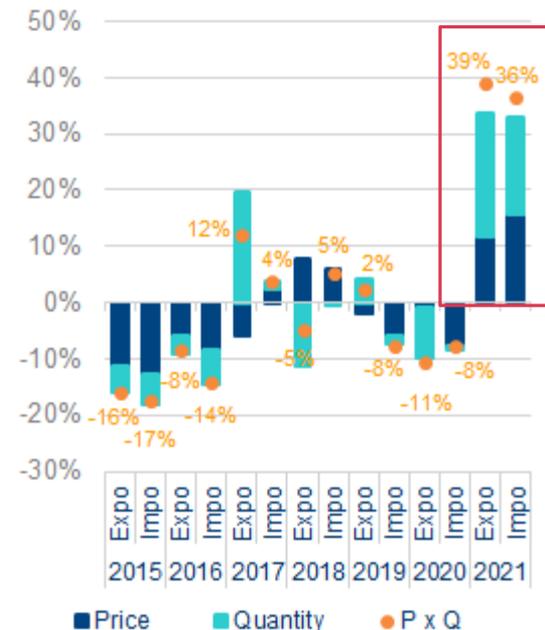


**GROSS UNIT SURPLUS OF THE EXPORT INDUSTRY\*** (DEC19 = 100)



\*The GUSE is a ratio that represents how much the value exported exceeds the costs associated with that export

**FOREIGN TRADE IN GOODS** (CHG % YY OF PRICES, QUANTITIES & VALUES)



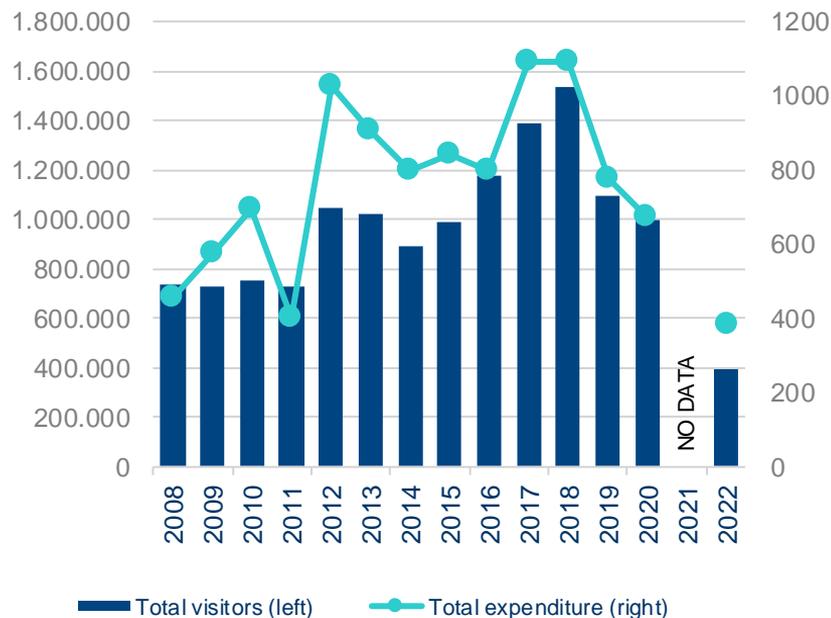
Source: BBVA Research and BCU.

Source: BBVA Research and HAVER.

Source: BBVA Research and BCU.

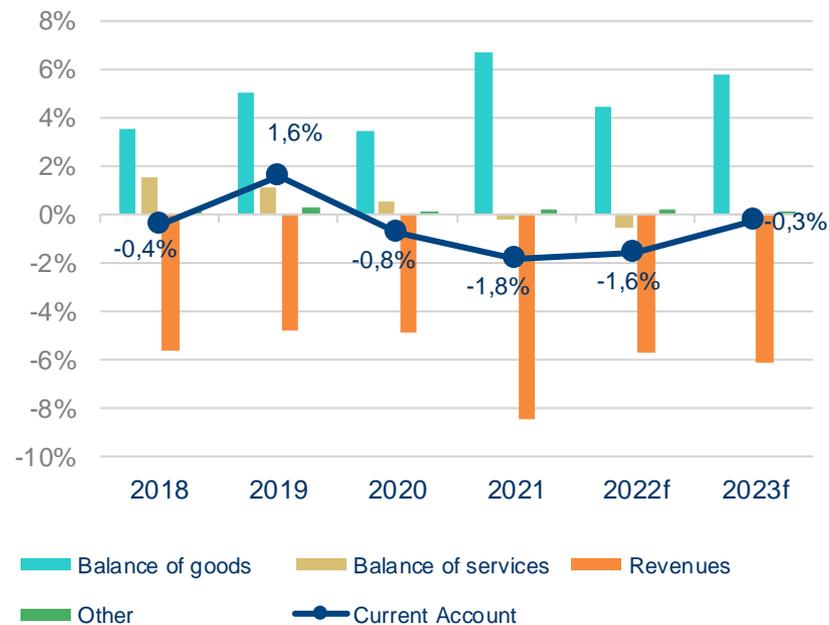
# ...but lackluster tourism figures after border opening will deepen the current account deficit by 2022

## TOURISM REVENUE AND TOTAL EXPENDITURE (IN NUMBER & MILLIONS OF DOLLARS, 1ST QUARTER/YR)



Source: BBVA Research and Ministry of Tourism.

## CURRENT ACCOUNT & COMPONENTS (% GDP)

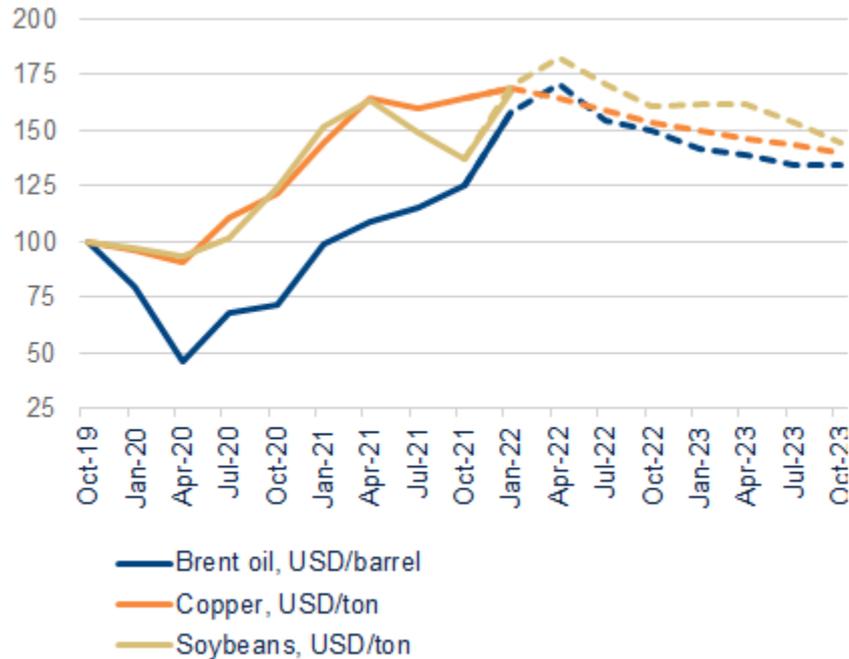


Source: BBVA Research and BCU.

## Strong impact of the war on (already high) commodity prices

### COMMODITY PRICES: FORECASTS

(4Q19 AVERAGE= 100, QUARTERLY AVERAGE)

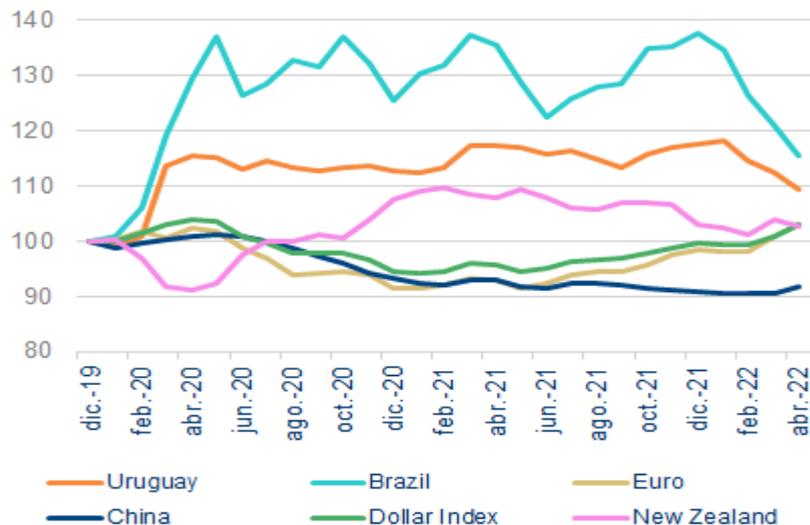


- The commodities energy prices will remain high in the short term due to the distortions by sanctions, and in the medium and long term due to the difficulty of achieving a quick "green" energy transition.
- Copper price will remain high in the medium term due to the combination a low global production expansion and a strong demand generated by the increase in "green" investment and the conversion to electric vehicle.
- Strong price reaction to the conflict in Europe due to fears of lack of supplies and key inputs, particularly sunflower oil, wheat, corn and fertilizers, added pressure to already tight markets. For the medium term, we expect volatility and high prices. Increased biofuel use supports prices over the medium to long term.

# Contained by fundamentals, commodities prices and the effects of monetary policy, the exchange rate will reach UYU/USD 42.1 by the end of 2022

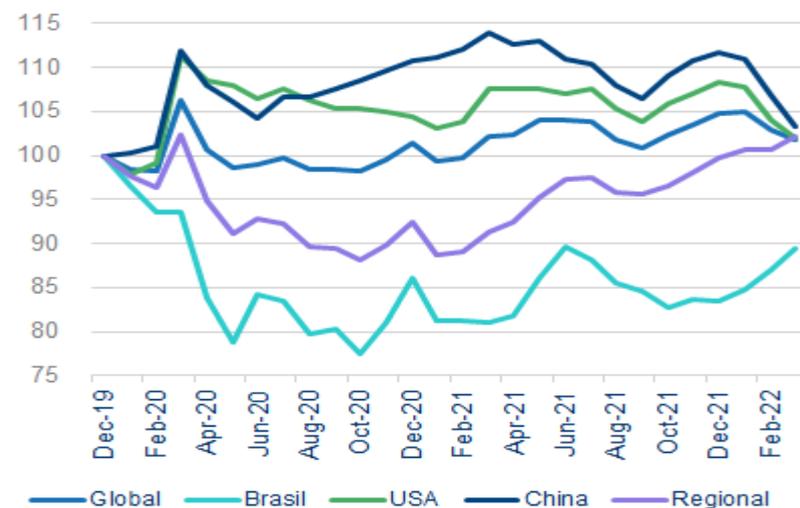
## NOMINAL EXCHANGE RATE SELECT COUNTRIES

(VS. USD, DEC19 = 100)



## REAL EXCHANGE RATE URUGUAY

(DEC19 = 100)

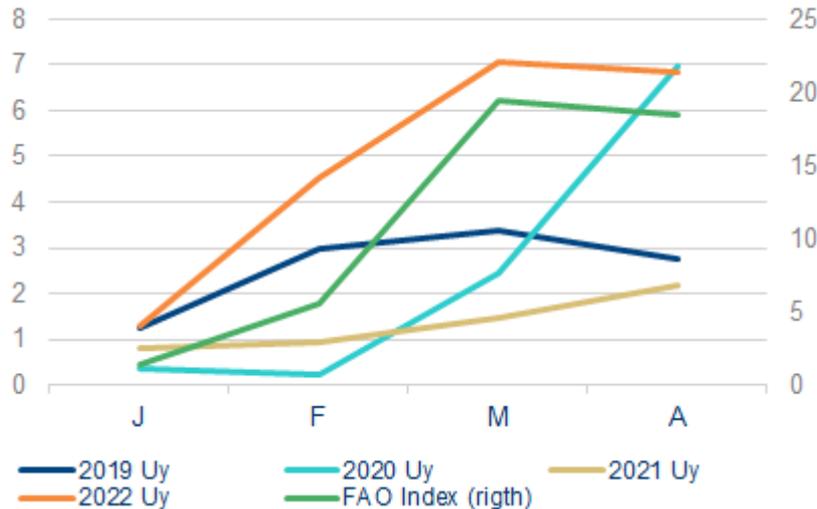


Source: BBVA Research HAVER, and BCU.

Adjusting for inflation, the overall real exchange rate of the economy is above the pre-pandemic level. The Fed's more hawkish than expected stance creates room for BCU monetary policy.

**With food price increases and rising expectations, Uruguay could not avoid the global high inflation scenario. We expect 8.3% for 2022 and 7.0% for 2023.**

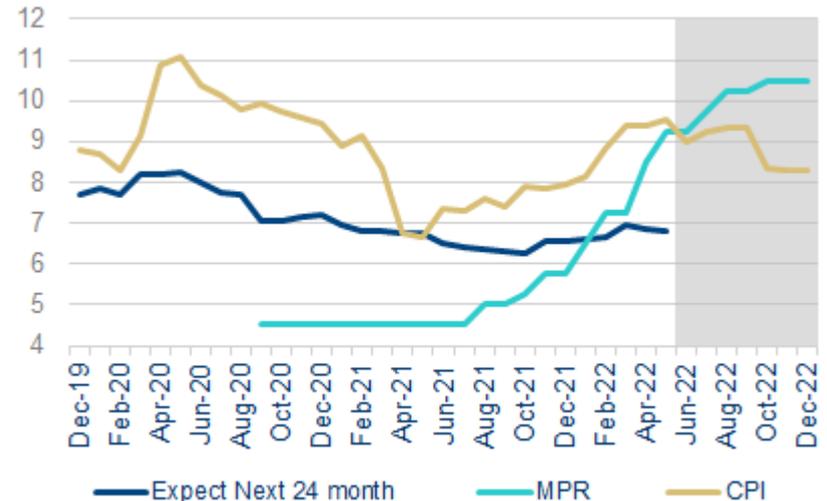
### FOOD PRICES, AND IN URUGUAY (2005 = 100)



Source: BBVA Research, INE and FAO.

The strong increase in food prices is on par with the rest of the world. In Uruguay, they accounted for 38% of cumulative inflation this year (vs. 16% Jan–Apr 2021).

### INFLATION & INTEREST RATE (% Y/Y CHG.)



Source: BBVA Research and BCU.

The improvement in activity and the decelerated slowdown of inflation expectations support the BCU's decisions to bring the monetary policy rate to at least 10.5% by the end of the year.

## Forecasts

	Uruguay				
	2019	2020	2021	2022f	2023f
GDP (% y/y)	0,4	-6,1	4,4	4,7	3,5
Inflation (% y/y, EOP)	8,8	9,4	8,0	8,3	7,0
Inflation (% y/y, average)	7,9	9,8	7,7	8,8	6,0
Exchange rate (vs. USD, EOP)	37,7	42,4	44,3	42,1	44,2
Exchange rate (vs. USD, average)	35,2	42,0	43,6	42,0	43,2
Private consumption (% y/y)	0,5	-6,9	2,3	4,3	4,2
Public consumption (% y/y)	1,1	-7,3	8,0	3,6	1,9
Investment (% y/y)	-5,2	8,1	14,6	8,0	6,3
Unemployment rate (% EOP end)	8,9	10,4	7,0	7,7	7,1
Fiscal Balance (% GDP)	-4,3	-5,7	-4,1	-3,2	-2,7
Current account (% GDP)	1,6	-0,8	-1,8	-1,6	-0,3

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