



BANCO CENTRAL
DEL URUGUAY

Monetary Policy in the Pandemic, from the Change of Instrument to the Normalization of the Economy

July 2, 2021

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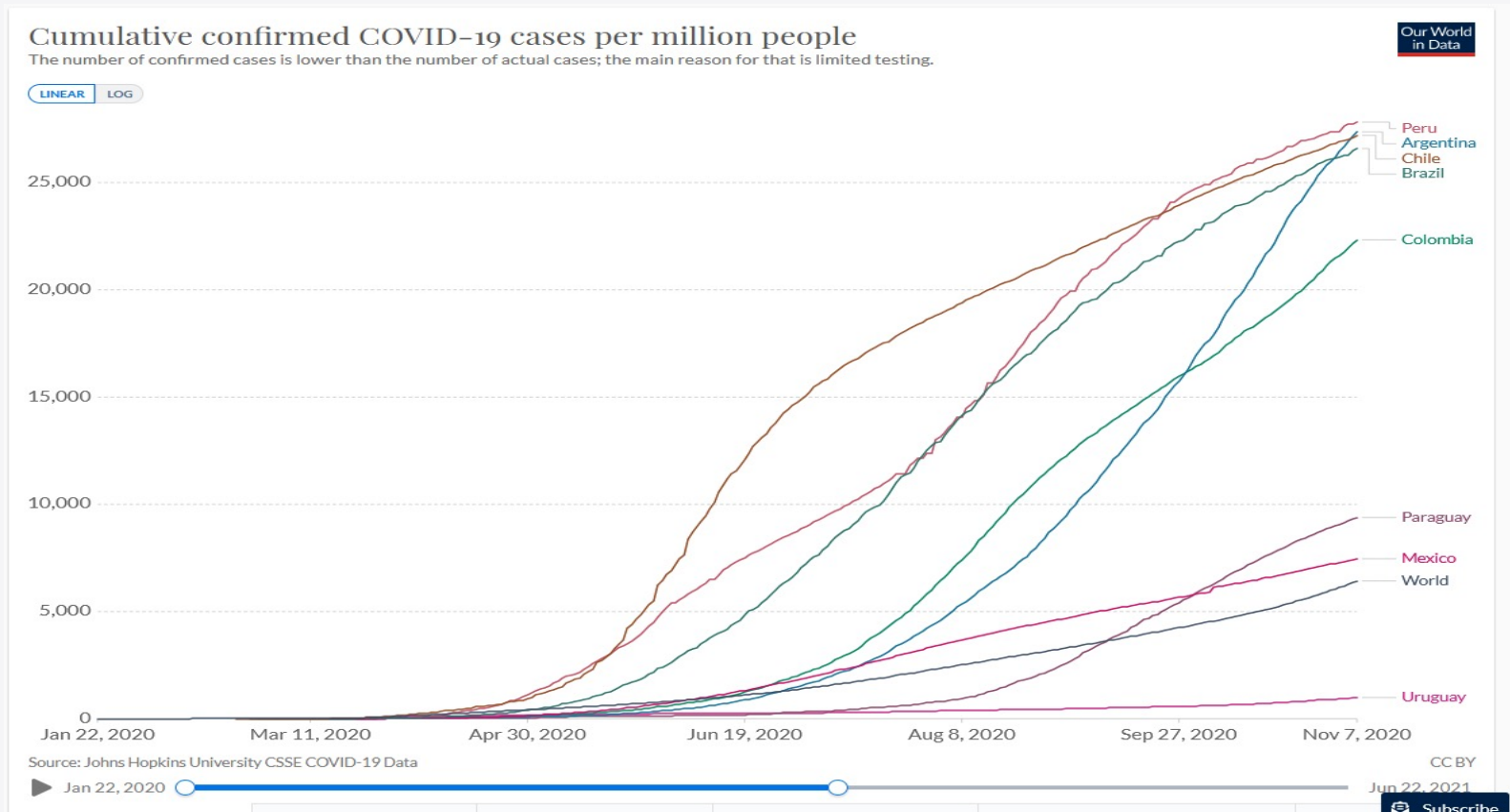


- March 1° - assumption of new Government
- March 13 - start of the pandemic with 4 cases
- March 20 - assumption of the new Board: 2 main ideas
 - Go back to interest rate (money aggregates from july 2013)
 - De-dollarization policy

Early Responses to the Pandemic

1. Classroom education closures
2. Call to switch to telecommuting (private and public)
3. Request to all to stay at home and just go out in case of needs
4. No mandatory quarantine
5. Workers on their own could keep working
6. Government formed an honorary scientific advisory group (GACH. April 13, 2020)

Early Responses to the Pandemic



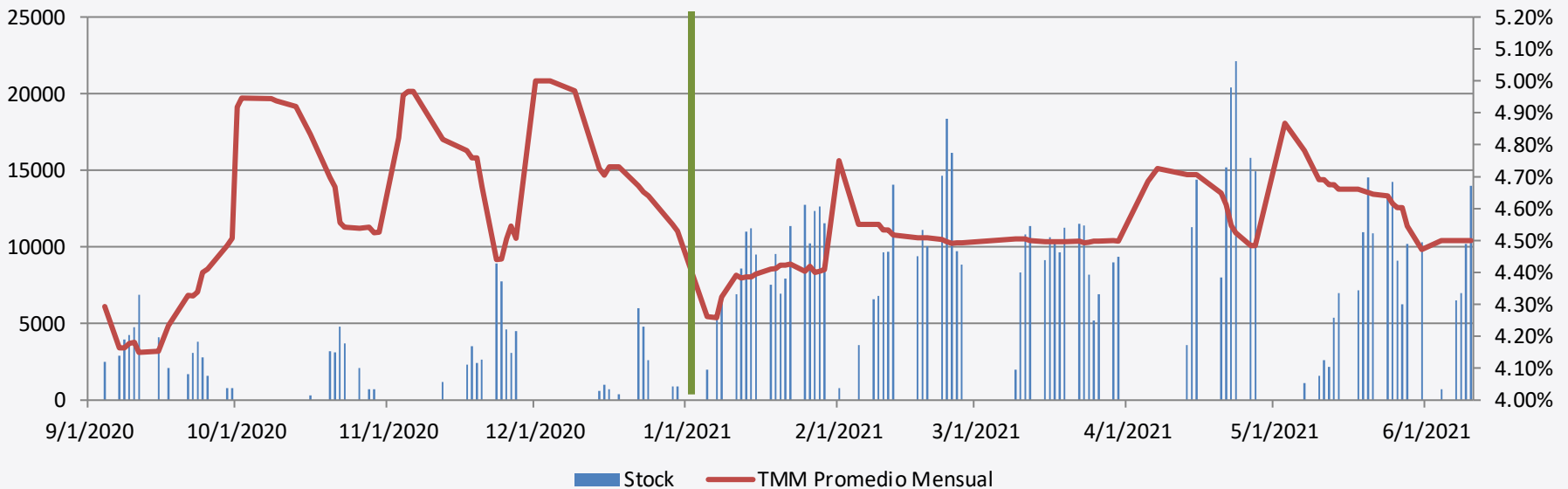
- Tetris strategy (Test, tracking and isolation)
- Protocolization of activities

BCU response

1. April: reduction of reserve requirements due to credit increases in Uruguayan pesos, until end June Results: effective reduction of 14%
2. Regulatory changes to modify credits
3. Monetary Policy Committee (April 16): commitment to ensure liquidity in the financial system. Inflation: 9,16%. Objective: 3% - 7%.
4. Forward looking commitment to maintain expansionary monetary policy at least during 2020.
5. MPC every 6 weeks instead of every 3 month (first step to IR). Minutes publication in order to improve transparency
6. UYU sharp depreciation: from \$39,15 in February to \$ 43,00 in March
7. September: BCU changes into interest rate as MP instrument. Fixing 4,5%.

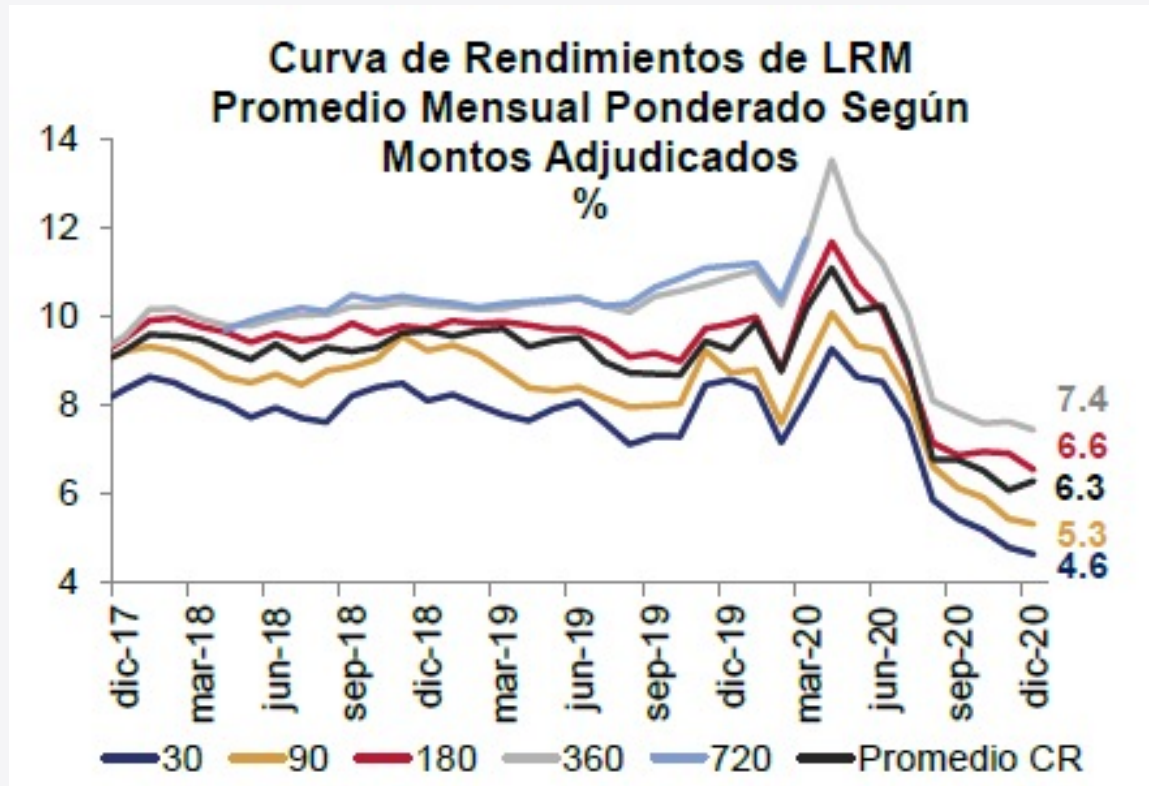
Money Market

Stock OMO < 30 days and effective rate (mill. pesos)



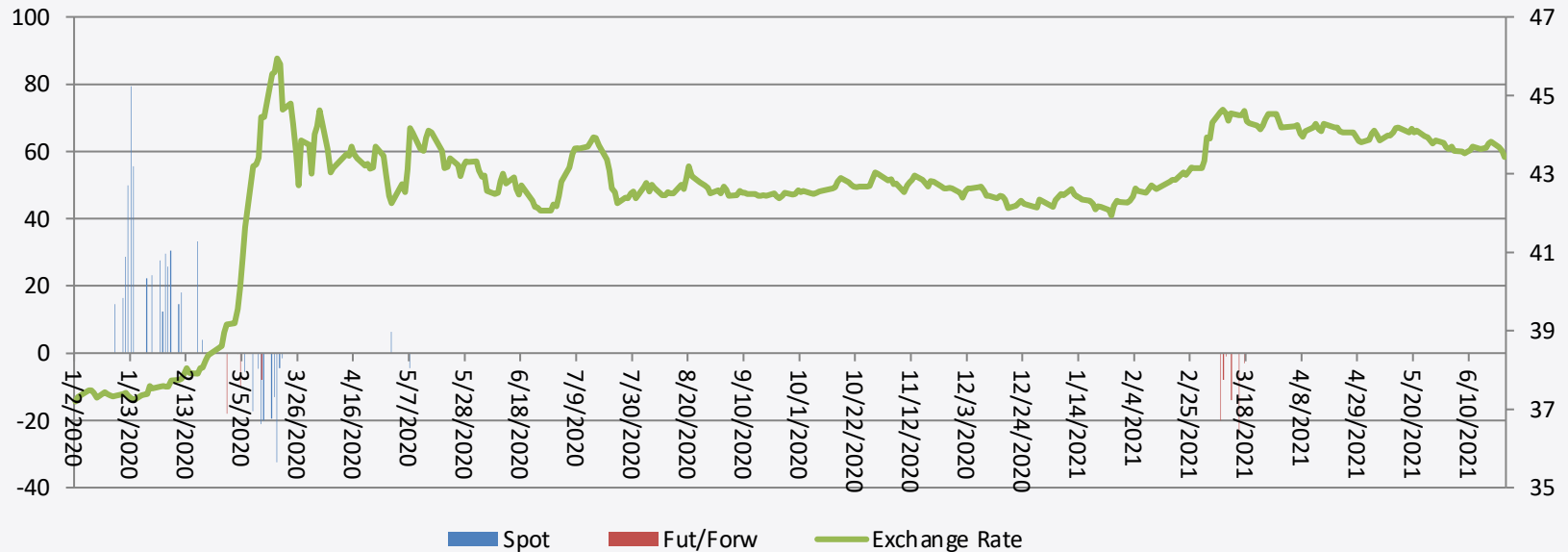
- January 1^o , new reduction of reserve requirements in three steps to reach a final level objective by 2022, in order to establish clear differences in treatment of domestic and foreign currencies.
- Market in excess liquidity forces BCU to increase OMO to reach interest rate target.

Money Market: short term rates



- Management of the yield curve in line with the requests of Monetary Policy stance

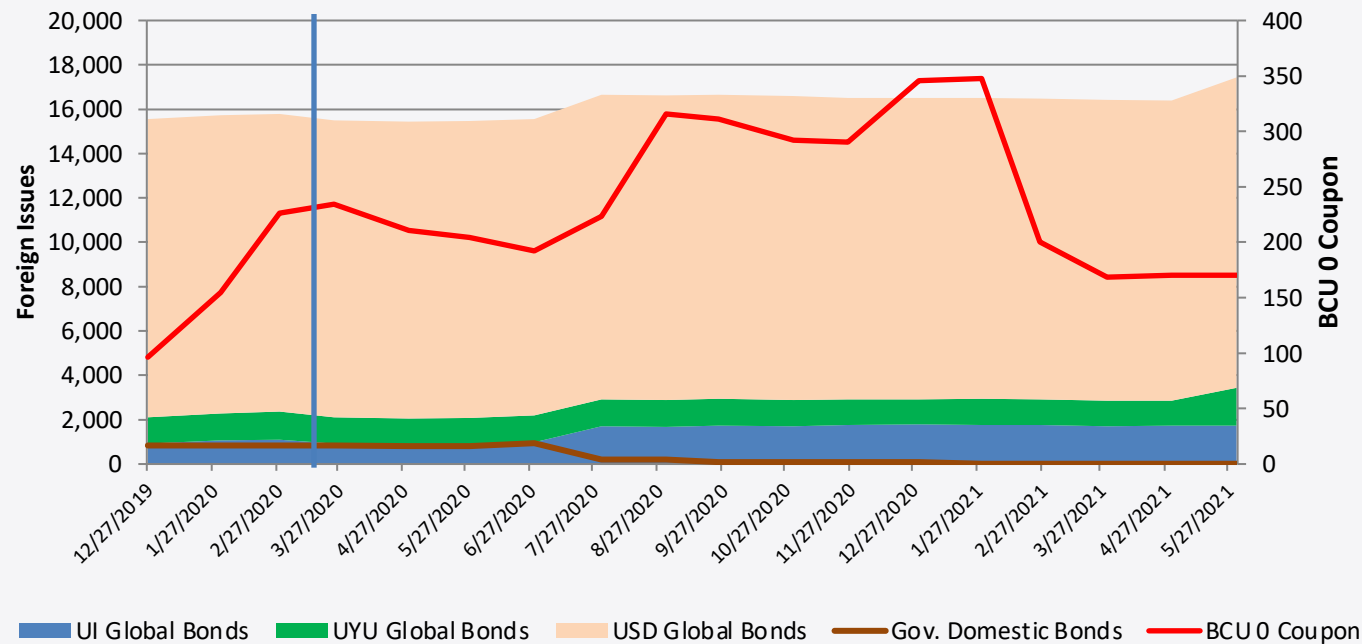
Foreign Exchange Market



- Little fear of floating (Calvo / Reinhart dixit)

Foreign Exchange Market: capital inflows

Non Residents holdings. (mill. USD)



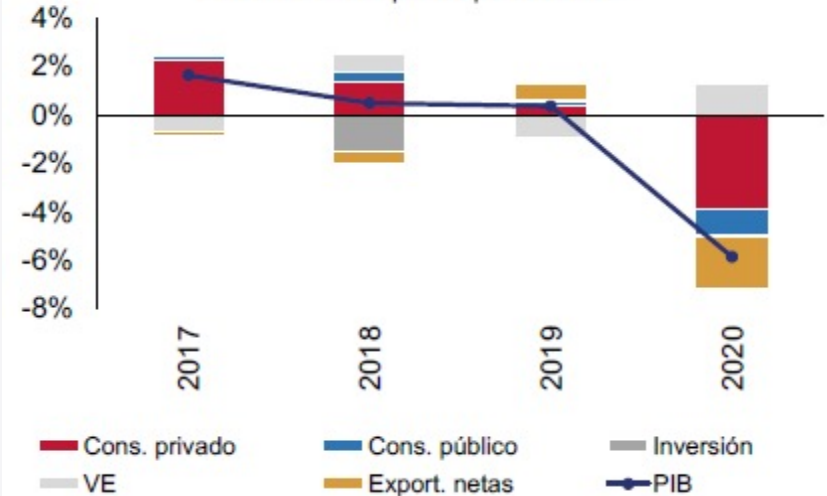
- Very low stock of BCU instruments prior to the pandemic, which led to very limited outflows.
- Non-residents keep their positions in Uruguayan bonds despite the health crisis
- In May 21, the upward corresponds to two global bond issues in Uruguayan pesos and dollars

Economic performance in 2020

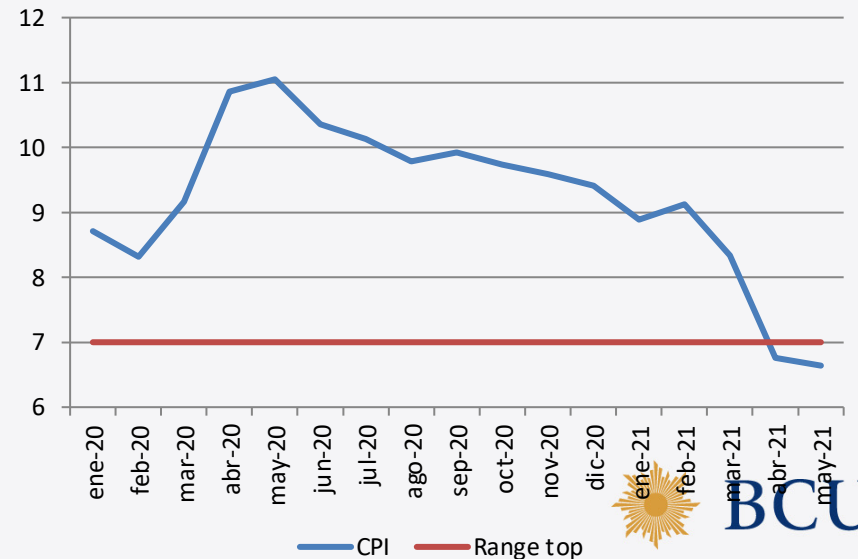
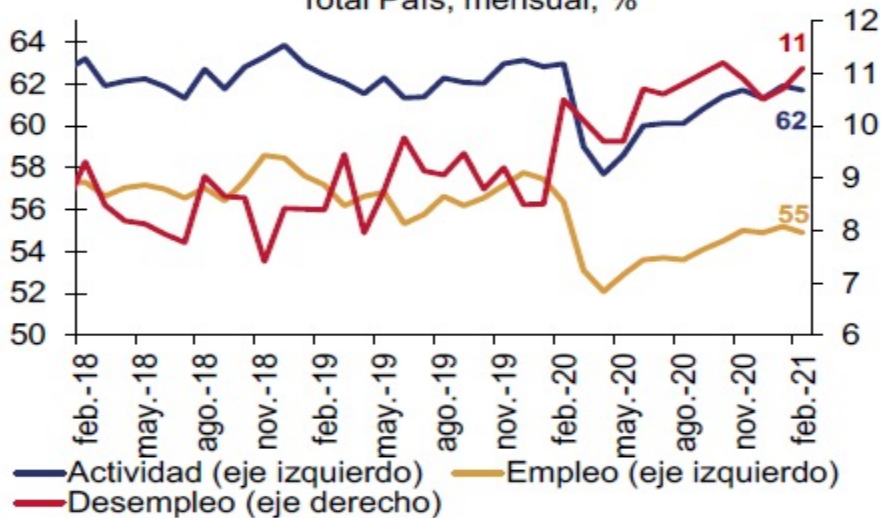
Producto Interno Bruto
Var. promedio anual



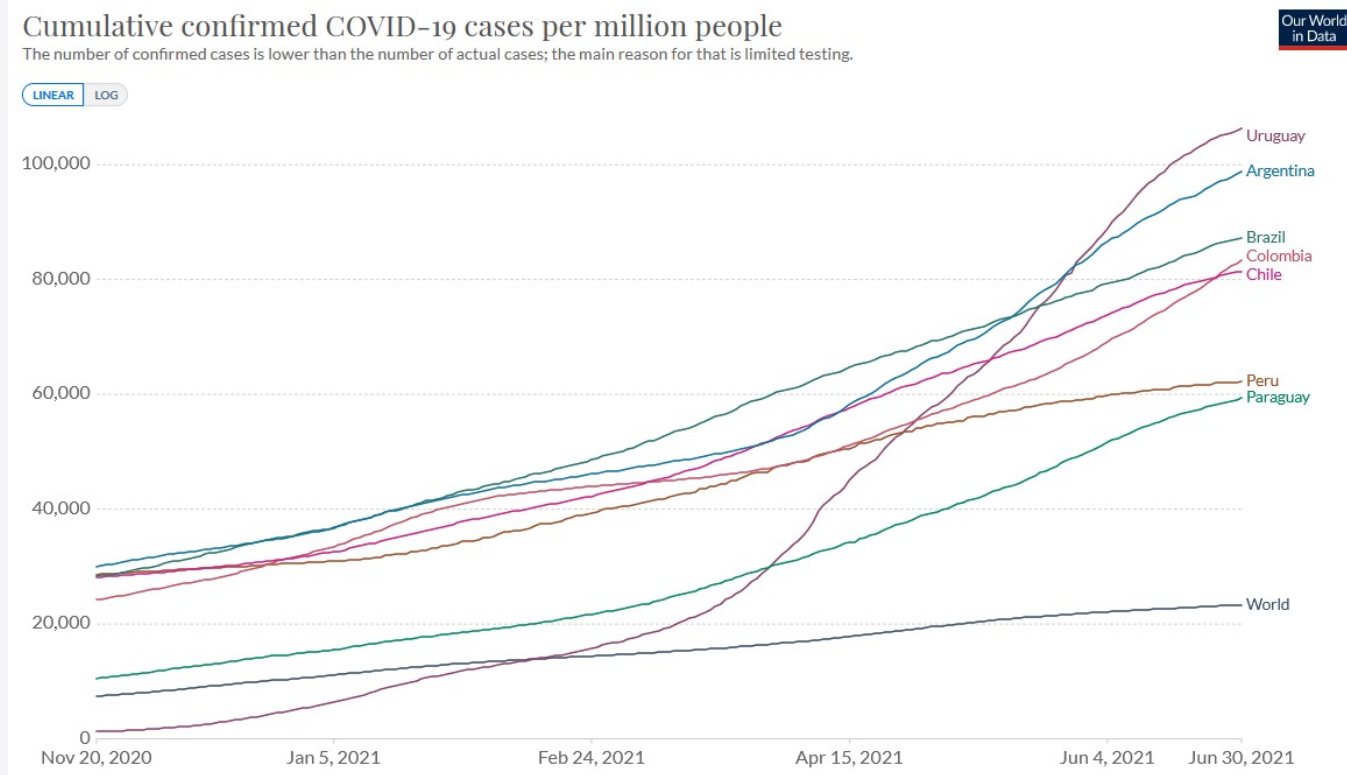
PIB: enfoque de la demanda
Incidencia anual- puntos porcentuales



Actividad, empleo y desempleo
Total País, mensual, %

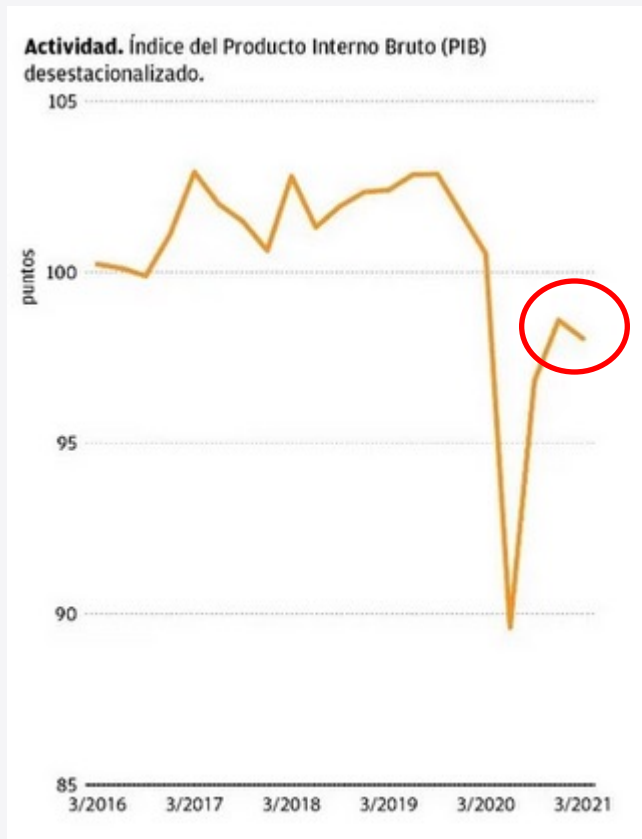


Pandemic in 2021

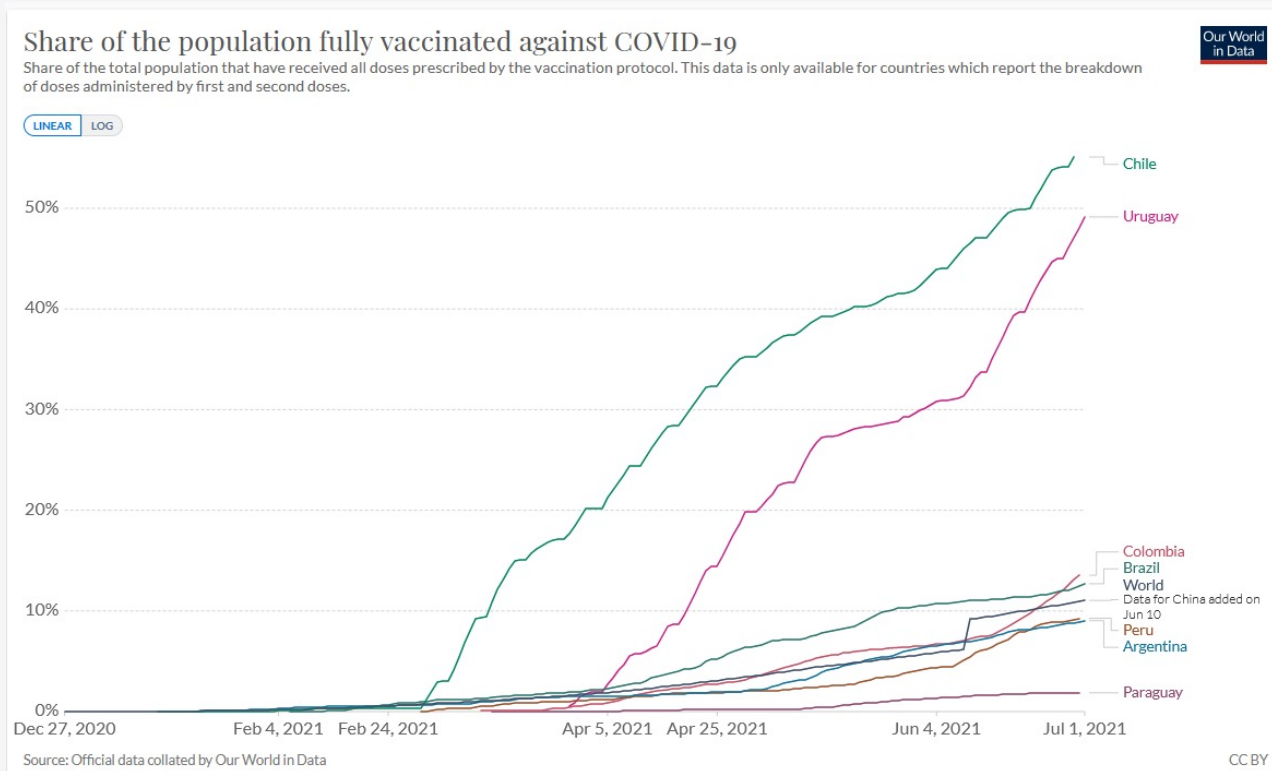


- Sharp worsening of the health situation (March, April, May. P1 variant income)
- Actions taken by the Government:
 - All educational activities passed to virtual
 - Public officials to virtual (except essentials)
 - Urge the private sector to maximize the use of virtuality
 - Schedule limitations in shopping centers and bars

Economic performance in Q1/2021



Pandemic in 2021 – Vaccination program

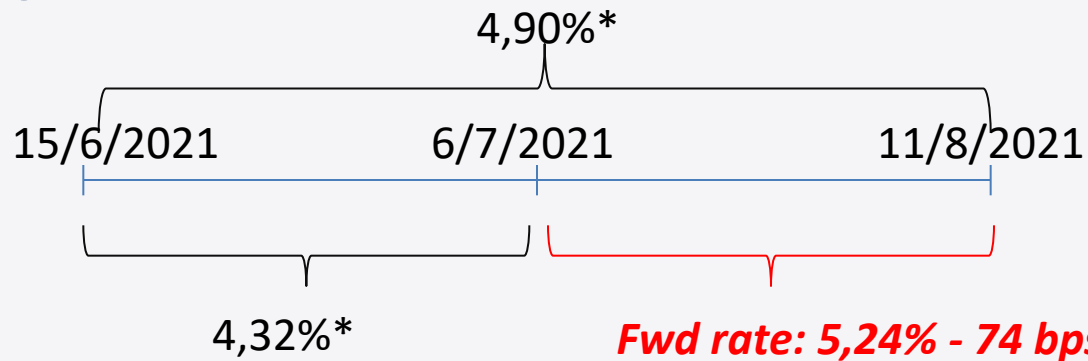


- By mid July: 60% fully vaccinated (75% Sinovac, 25% Pfizer)
- By the end of July: 65% fully vaccinated
- Drastic drop in hospitalizations in intensive care units: -52% in 30 days.
- Sharp drop in active cases: -59% in 30 days
- Reopening of activities in July, aimed at normalizing the economy

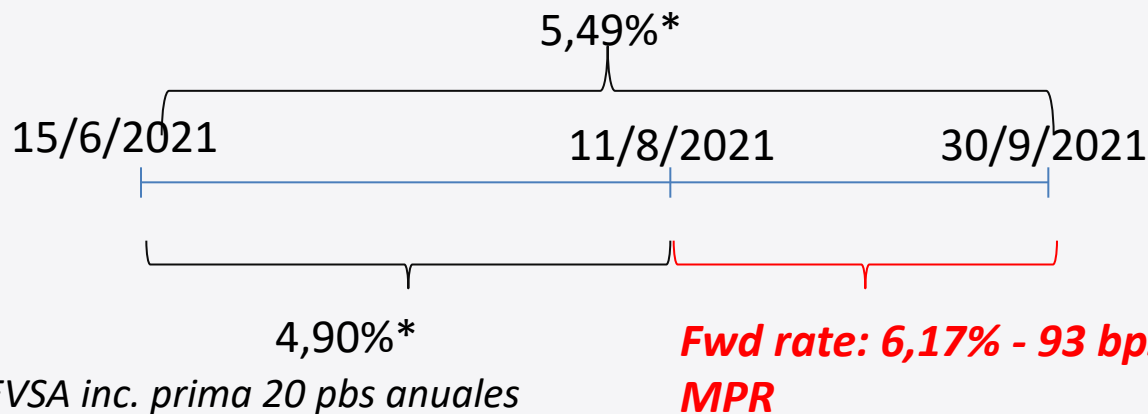
Monetary Policy: market expectations

MPR implicit in the yield: 150 bps increase in the next two meetings

*COPOM meeting
6/7/2021*



*COPOM meeting
11/8/2021*

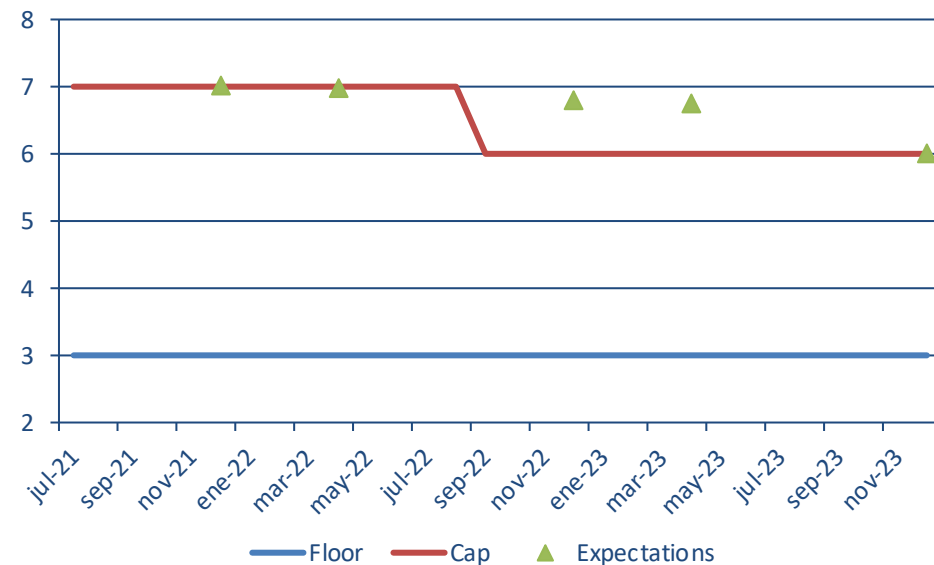
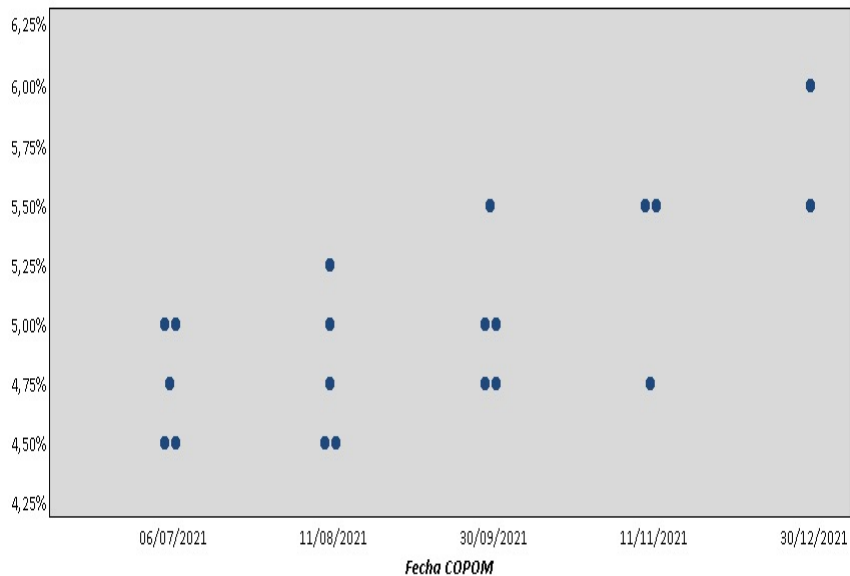


* Tasas ILTUP-BEVSA inc. prima 20 pbs anuales

Monetary Policy: market expectations

MPR expectations from some domestic banks (before improvements in pandemic data)

TPM PROYECTADAS POR LOS OPERADORES PRIMARIOS (5 contribuyentes)



THANKS