



BANCO CENTRAL
DEL URUGUAY

MP in Uruguay: from pandemic to normalization and prices shock

27 de junio de 2022

Departamento de Operaciones Monetarias

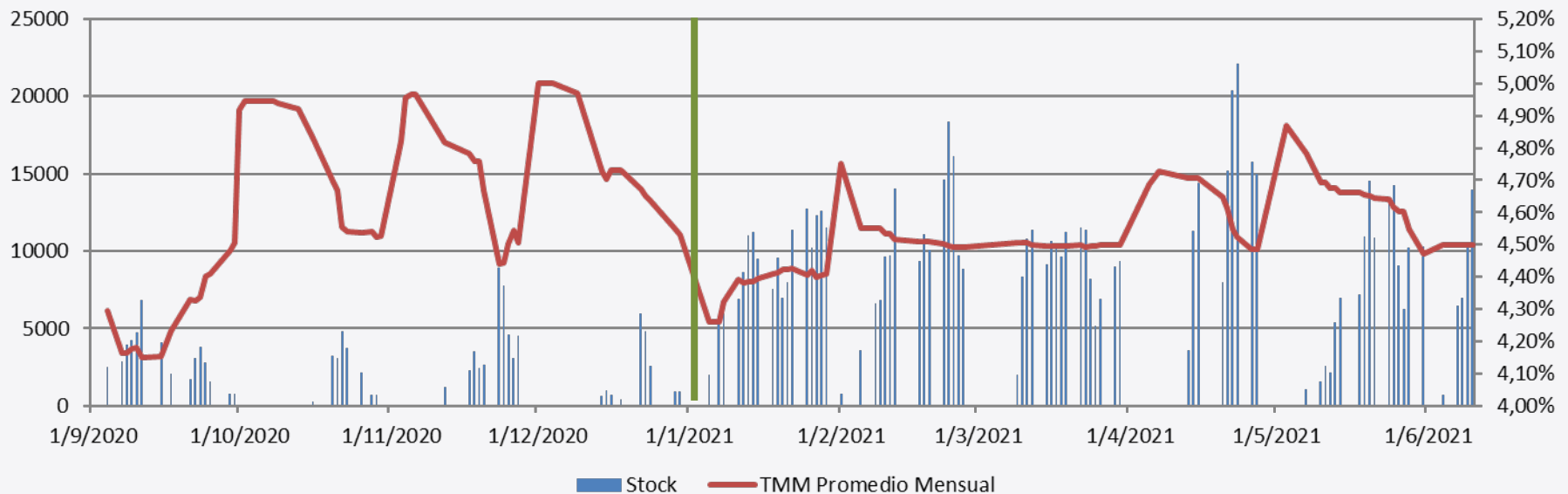
- March 1^o - assumption of new Government
- March 13 - start of the pandemic with 4 cases
- March 20 - assumption of the new Board with 3 main ideas:
 - Go back to interest rate (money aggregates from July 2013)
 - Inflation targeting of 3,5%-4% with an average track record of 8% over the last 15 years
 - De-dollarization policy

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 2020: BCU changes into interest rate as MP instrument. Fixing: 4,5%.

Money Market until mid 2021

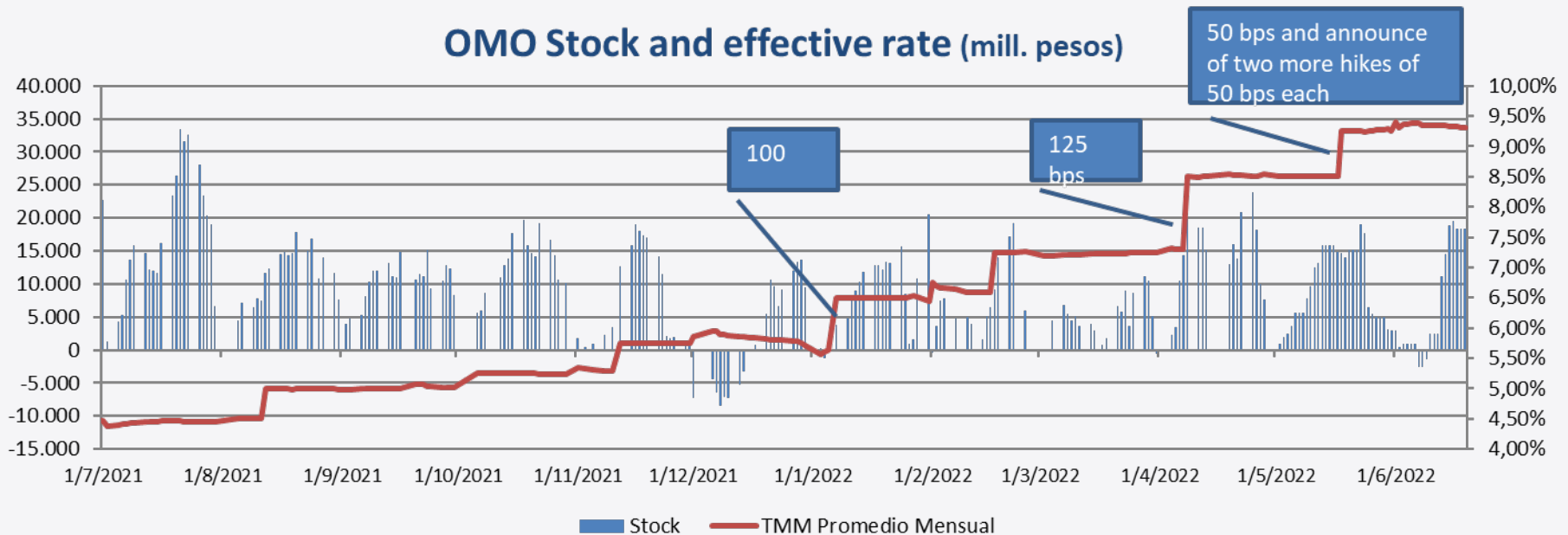
Stock OMO < 30 days and effective rate (mill. pesos)



- 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 from mid 2021

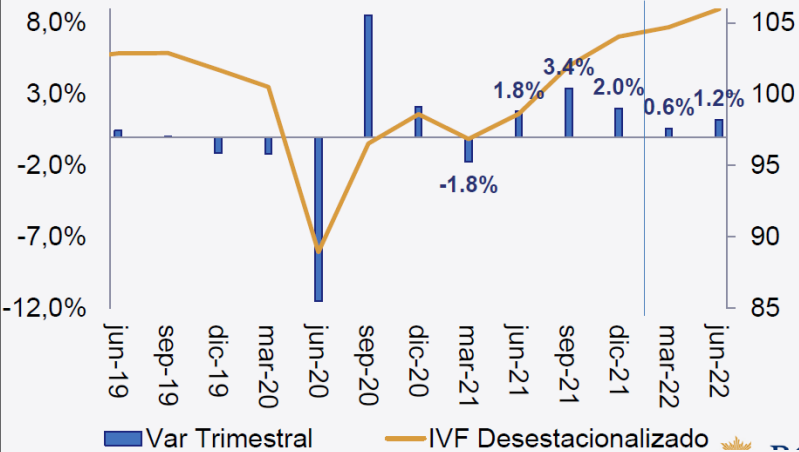
OMO Stock and effective rate (mill. pesos)



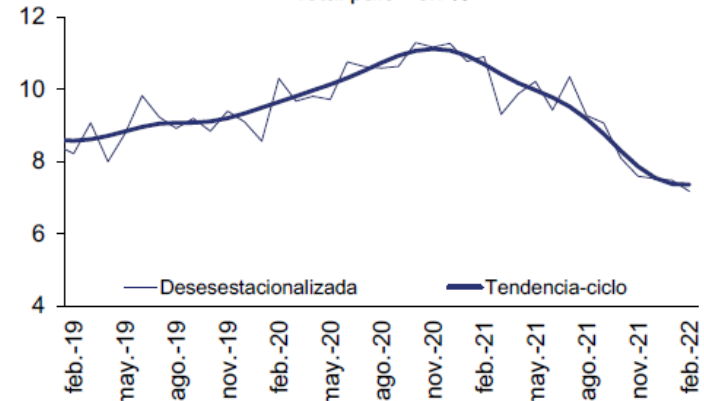
- Commodities prices increasing since second half of 2021 from global economic recovery. Increasing costs of freights
- Since the end of february 2022 commodities prices surged are exacerbated after Russian invasion to Ukraine.
- Inflation expectations soared above the target range in 24 month (MP horizon)

Rates hikes in line with economic recovery

Producto Interno Bruto
IVF Desestacionalizado

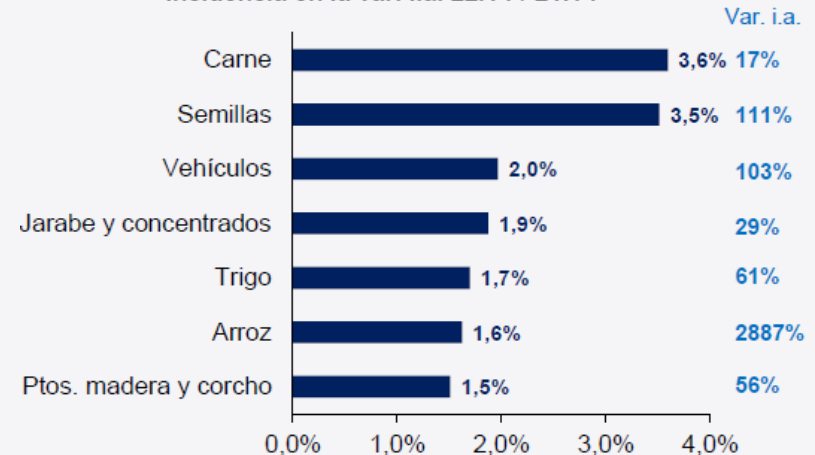


Tasa de desempleo
Total país - en %

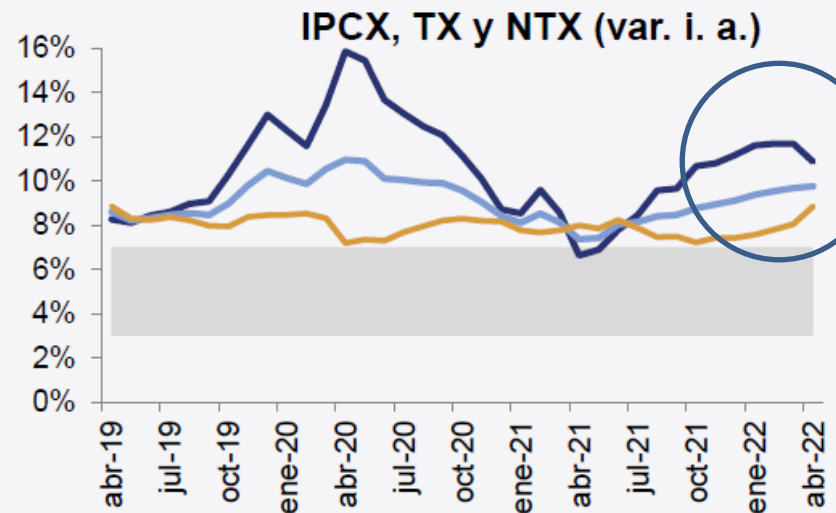
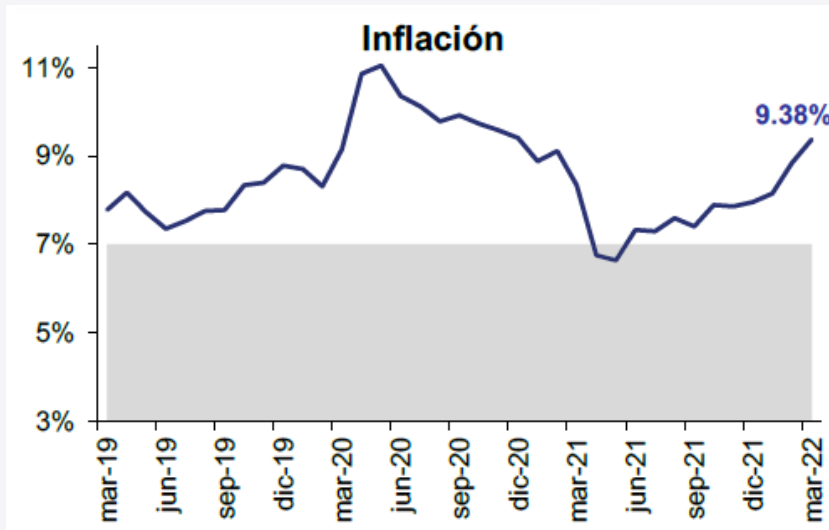


- Growth: 8.3% interannual rate in 1Q 2022. Unemployment rate below pre covid levels.
- Exports increase 5% 2022 Q1 vs 2021 Q1 in terms of volume. 23% interannual in USD.

Incidencia en la var. i.a. 22.T1 / 21.T1

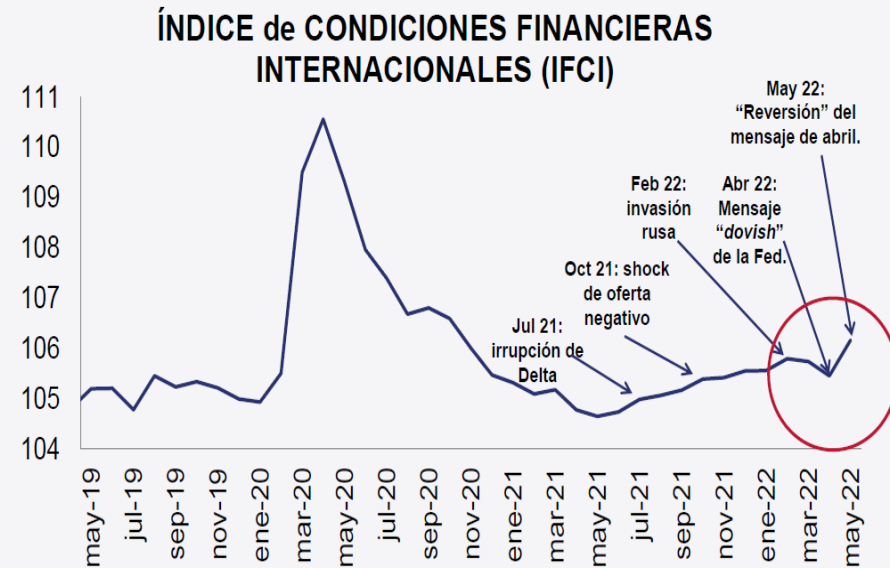


Rates hikes also in line with inflation



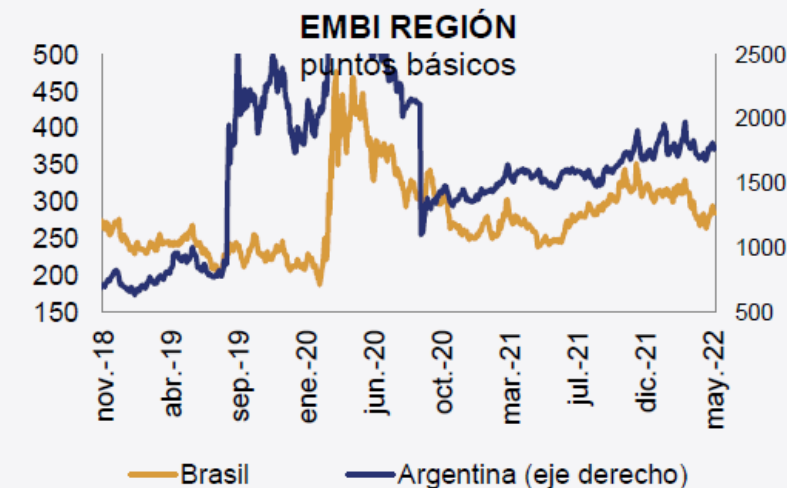
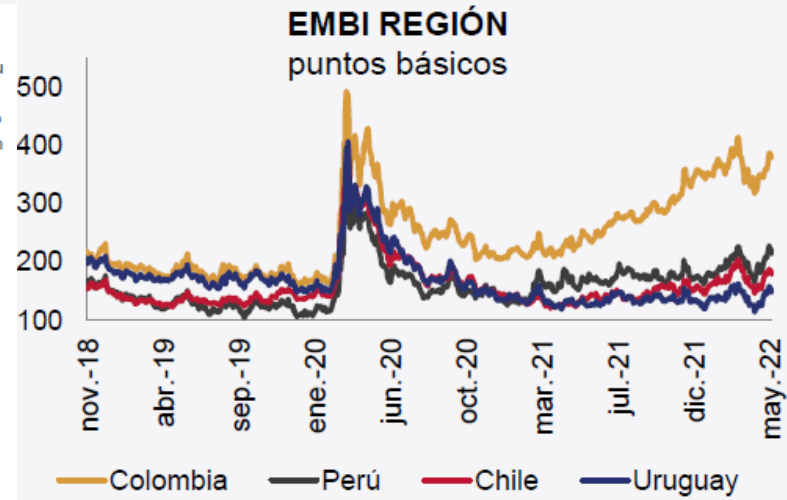
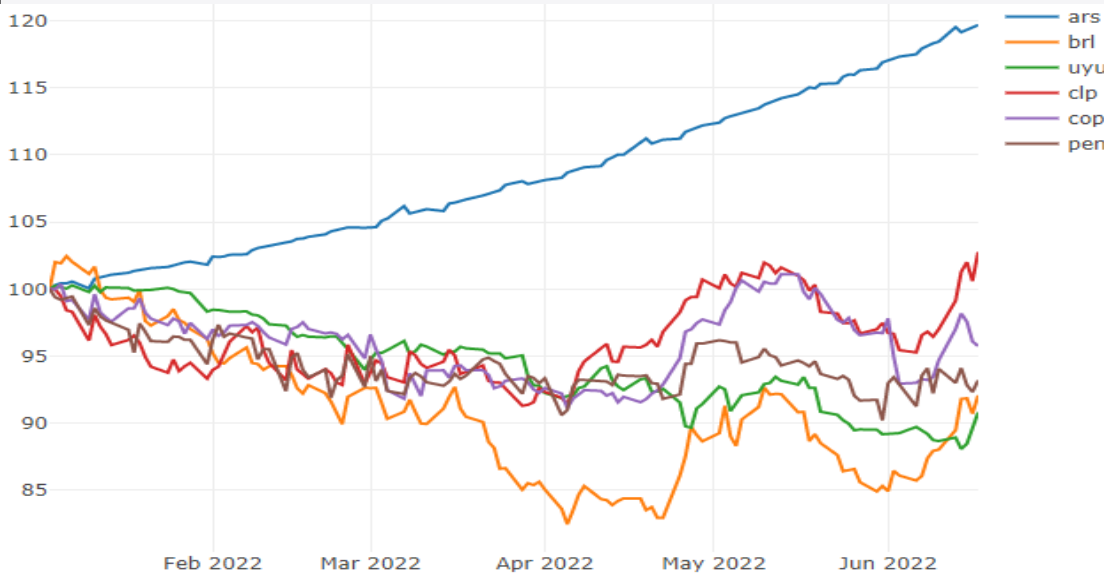
- Inflation above the ceiling of target range but stable in the last 2 months
- Tradable goods slow pace in margin but non tradable goods accelerate, increasing the risks of inflationary indexation

Foreign Exchange Market



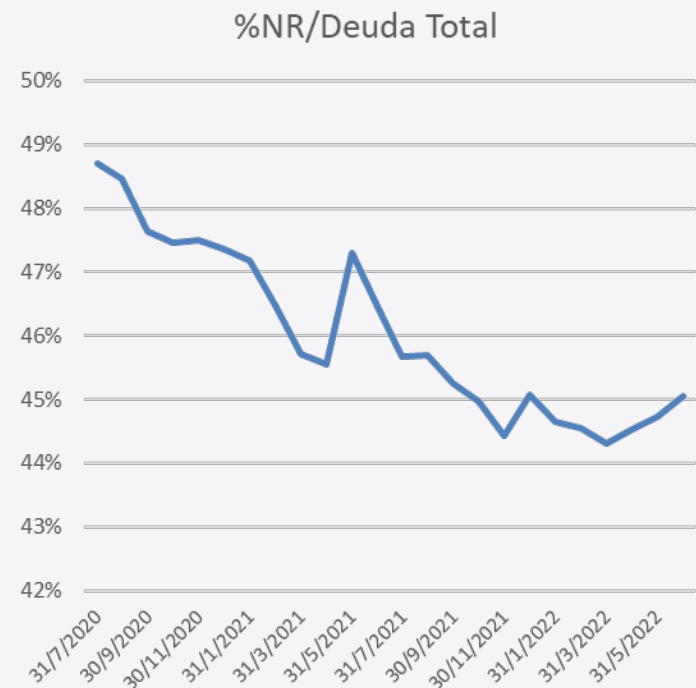
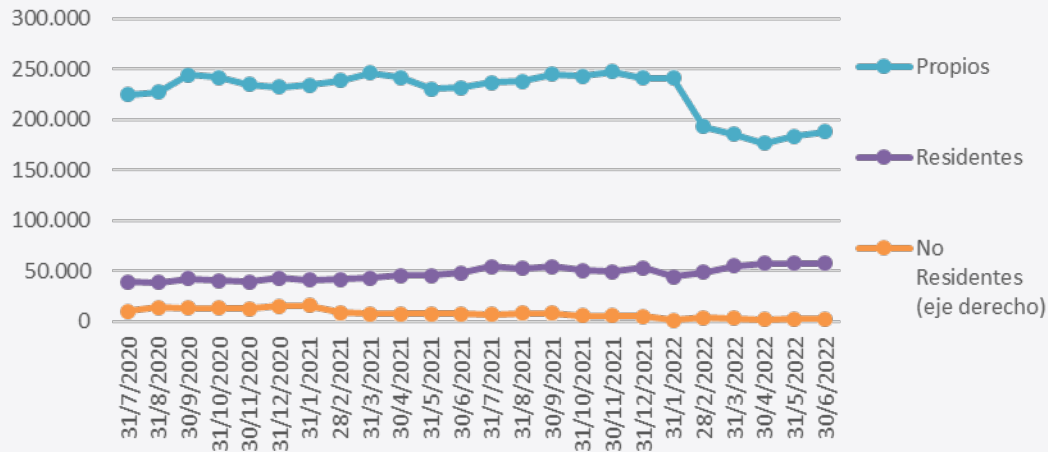
- No fear of floating. Only 1 intervention the last year and a half
- Despite the tightening of the index of international financial conditions, the dollar continues to lose value in the domestic financial market

Foreign Exchange Market



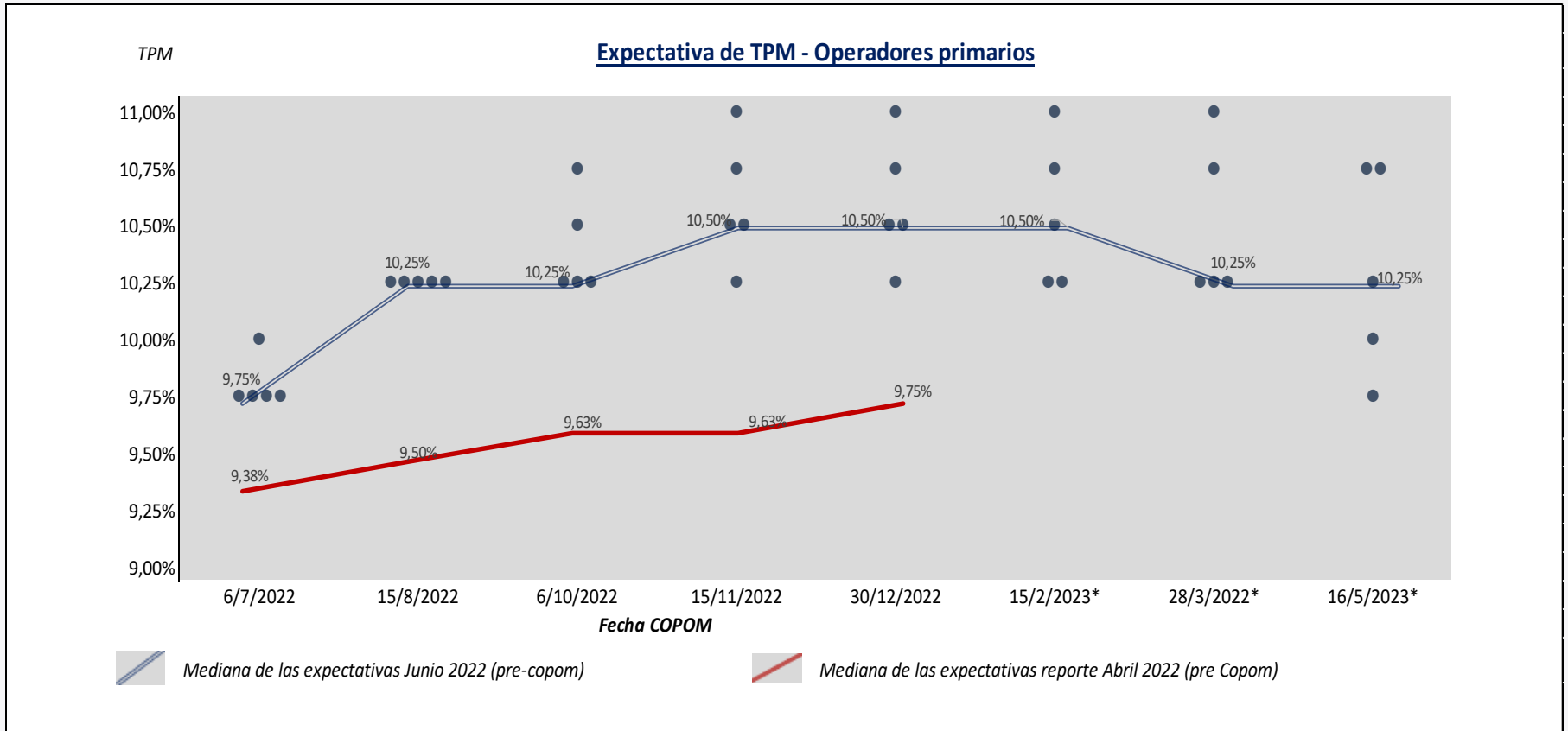
- The exchange rate in Uruguay follows the the region trend.
- EMBI also evolves according to peers in the region (investment grade), without significant impact by the neighbors (Brazil and Argentina)

No news from Non-Residents



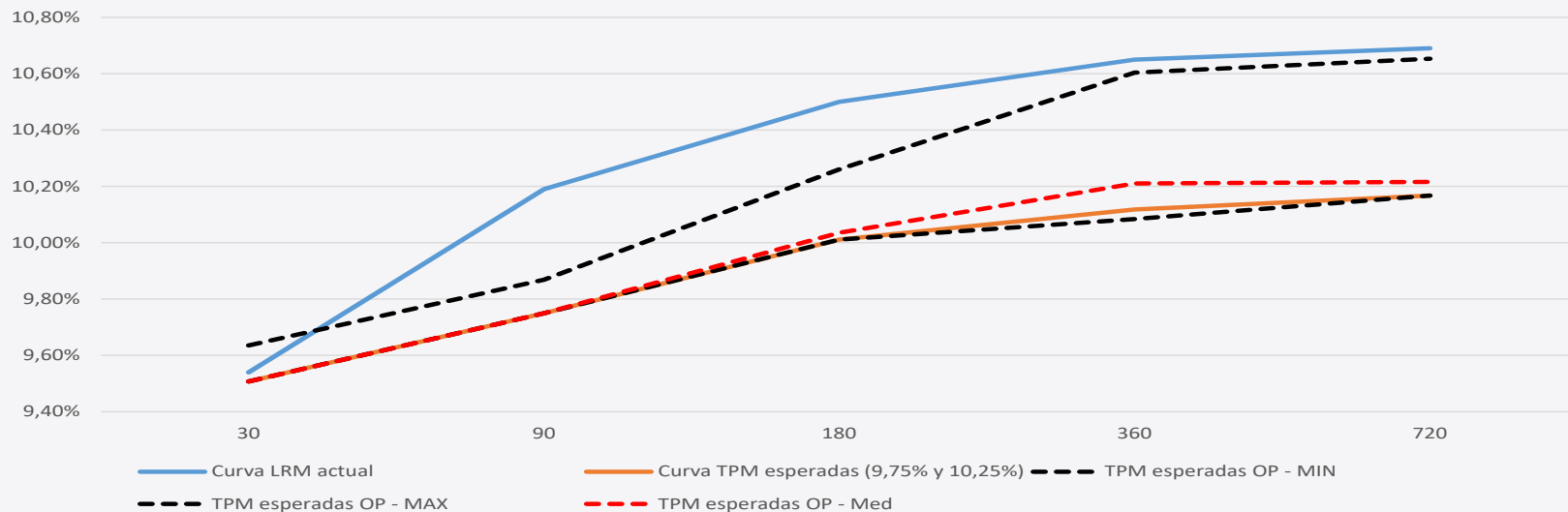
- No capital inflows from non-residents to securities issued in the local market are recorded.
- non-resident holdings in global bonds remain stable

Monetary Policy: some inputs



- Primary dealers expected MPR.
- BCU surprised with a more hawkish approach than expected

Monetary Policy: some inputs



Nodo	Cortes LRM	Rolover TPM OP - Med	Prima (por dif.)
30	9,63%	9,51%	0,12%
90	10,19%	9,75%	0,44%
180	10,50%	10,04%	0,46%
360	10,65%	10,21%	0,44%
720	10,69%	10,22%	0,47%

- Roll over of expected MPR. A baseline exercise for defining tender cut-off rates

- Table with liquidity premiums paid in each security issued by the BCU (zero coupon)

Monetary Policy: main challenge

ENCUESTA SELECTIVA DE EXPECTATIVAS DE INFLACIÓN

Mayo de 2022

Tasas de inflación para el periodo que se indica (cifras expresadas en porcentaje)	Mayo 2022 (este mes)	Mayo 2022 - Octubre 2022 (próximo semestre)	Enero - Diciembre 2022 (año calendario)	Mayo 2022 - Abril 2023 (próximos 12 meses)	Enero - Diciembre 2023 (año calendario)	Mayo 2023 - Abril 2024 (próximos 24 meses)	Enero - Diciembre 2024 (año calendario)
1. Mediana	0.50	3.40	8.54	7.65	7.00	6.83	6.54
2. Promedio simple	0.55	3.35	8.61	7.55	7.09	6.89	6.59
3. Desvío estándar	0.14	0.34	0.27	0.56	0.51	0.50	0.60
4. Mínimo	0.39	2.48	8.00	6.20	5.79	6.00	5.50
5. Máximo	1.00	3.90	9.15	8.50	8.00	7.90	8.00
6. Cantidad de respuestas	25	24	27	24	26	22	21

- Despite the general agreement that the price shock is temporary, inflation expectations are never within the target range. Clearly there is a reputation problem, most likely linked to the fact that the average inflation rate of the last 10-15 years is around 8%. However, fiscal policy is expected to contribute to this objective. By implementing a fiscal rule, a neutral effect is expected from the Central Government, which would help the BCU in fulfilling its main objective.

GRACIAS