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Uruguay Strategy Flash

The fiscal balance clocks in at -4.4% of GDP in September

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Uruguay's fiscal position worsened in September, with stable income sources being outpaced by a rise in expenditures. The Government's policy agenda continues to concentrate on bolstering disposable income and real wages after the high inflation in 2022 put a strain on salaries. The administration still strives to consolidate the fiscal position, conveying a strong commitment to balancing government accounts in the medium term. However, its recent policy response to the drought has halted fiscal consolidation for the time being, with the climatic conditions being especially hard on revenue streams. In September, non-financial public sector income printed 27.5pp of GDP (+0.0pp relative to August). On the spending side, expenditures came at 29pp of GDP (+0.2pp relative to August), as Soc. Sec. outlays rose. In this context, the primary fiscal deficit excl. cincuentones came at -1.7pp of GDP, worsening by -0.2pp relative to August, and accumulating a 1pp deterioration YTD. In this context, the -0.2pp variation in the primary position in September was accounted for by stable NFPS income sources, and a -0.2pp increase in NFPS outlays. The consolidated public sector deficit excl. cincuentones followed suit, worsening relative to August. In this context, the headline deficit stood over the 3pp of GDP mark for the eleventh month running. September's print came in at -4.4% of GDP— up from -4.2% of GDP in August, -4.1% in July, and -4.0% in June—.

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In September, non-financial public sector income printed 27.5pp of GDP (+0.0pp relative to August). Even if the segment as a whole did not experience significant variations, its composition shifted slightly. Central Govt & SocSec income clocked in at 27.5pp of GDP in September (+0.0pp relative to August). The Tax revenue segment did not experience a positive change this month, showcasing no variation relative to August. However, the Soc. Sec. contributions did rise by +0.1pp relative to August. The rest of the sectors showcased no variation relative to August's figures. On the other hand, the SOEs' primary balance, one of the main drivers of 2022's fiscal overperformance, came in at +1.0pp, worsening by -0.1pp relative to August's figures, mostly driven by ANCAP's loss of revenue due to the technical stop in one of its refineries. Finally, the primary balance of Munis & BSE continues to stand at the +0.1% of GDP mark. All in all, non-financial public sector income in September remained stable relative to August.

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On the spending side, expenditures came at 29pp of GDP (+0.2pp relative to August), with increasing Soc. Sec. outlays. In September, the COVID Fund balance totaled -0.1pp of GDP— remaining stable relative to August and reducing its size by 0.5pp YTD. In this context, Central Govt & Soc. Sec. expenditures totaled 26.4pp (+0.2pp relative to August), mainly as Soc.Sec outlays experienced a +0.1pp increase contributing half of the general increase in expenditure. Public investment rose by +0.1pp relative to August, with the segment standing at 2.6pp of GDP mark, completing the increase in Central Govt. Outlays. With non-financial public sector income remaining constant, non-financial public sector outlays increasing by +0.2pp, and cincuentones revenues standing at 0.1pp of GDP, the primary deficit excl. cincuentones stood at -1.7pp in September— over August's and July's 1.5pp figure, and over June's 1.3pp print—.

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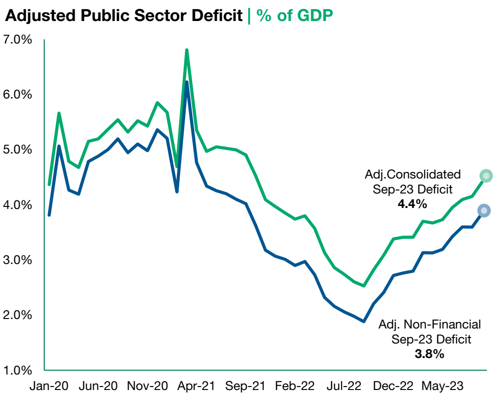
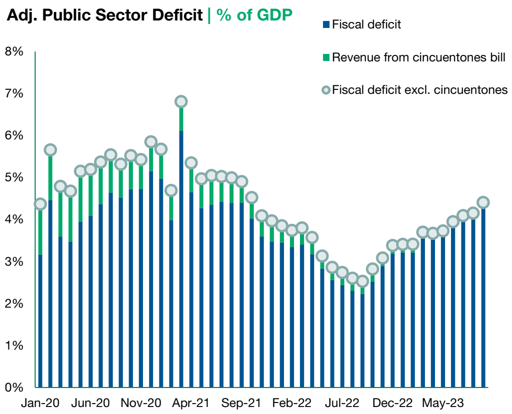
We continue to believe the slow but steady deterioration of the fiscal position is credit negative, even if we don't expect it to affect valuations in the short run, with the widening fiscal deficit starting to threaten compliance with the fiscal rule this year. The administration has made a significant effort to cleanse public finances since the start of its tenure, and the major effect of the drought on the economy has generated a slowdown in revenue streams and forced the administration to deploy some fiscal stimuli. However, the administration is carrying a significant deviation from this year's fiscal targets, which already proposed no additional fiscal consolidation, leaving the fiscal position flat relative to 2022. In this context, the government envisages the fiscal deficit to total -3.3pp of GDP, now carrying nearly a 1pp deviation from year-end targets. In this context, after complying with all three pillars of the fiscal rule since its creation, it seems these are increasingly becoming under threat. While the government should be able to meet both the requirements regarding the cap to the increase in primary expenditure and the net indebtedness cap, the first pillar, the binding structural balance, does seem under threat. The budget law establishes a -2.7% structural deficit for 2023. With the headline figures exhibiting a -4.0% deficit, it is difficult to envisage a convergence to the target by year-end. Still, after an expenditure-heavy 4Q22 that collected significant one-off outlays, the rolling 12m figures should showcase an improvement as the year advances. We expect the fiscal deficit to close near the -3.5% mark in 2023. Even if the administration has some leeway this year due to the drought, if it misses the 2023 targets, the chances of fulfilling the planned consolidation for 2024 (which would drive the deficit back to -2.6% of GDP in 2024), would deteriorate considerably. This could be concerning given the chances of the administration executing a considerable fiscal consolidation in an electoral year are already low, especially as the govt. coalition does not part as the top dog in the race, trailing the FA in voting intention. We believe that, under severe political strain, for 2024 we expect the need to win back voters should prime over any consolidation effort the administration is prepared to execute, a problem which could compound with the possibility of a bloated 2023 deficit.

Figure 1: September's fiscal figures





12m rolling - as % of GDP	Dec-21	Dec-22	Aug-23	Sep-23	Dec-23*	Dec-24*
NFPS Income	**26.7%**	**27.1%**	**27.5%**	**27.5%**	**25.8%**	**26.0%**
Central Government	**18.9%**	**19.3%**	**19.3%**	**19.4%**	**18.9%**	**19.0%**
Tax Revenues	*15.9%*	*16.5%*	*16.5%*	*16.6%*	*16.1%*	*16.2%*
International Trade	*1.1%*	*1.1%*	*1.1%*	*1.1%*	*1.1%*	*1.1%*
Others	*1.8%*	*1.7%*	*1.7%*	*1.7%*	*1.7%*	*1.8%*
Soc.Sec contributions	6.4%	6.8%	7.0%	7.1%	6.9%	7.0%
SOE primary balance	1.4%	1.0%	1.1%	1.0%	0.1%	0.3%
BSE &Munis primary balance	0.2%	0.1%	0.0%	0.0%	0.1%	0.1%
BCU primary balance	0.0%	-0.1%	0.0%	0.0%	-0.1%	-0.1%
NFPS Outlays	**27.5%**	**27.8%**	**28.8%**	**29.0%**	**26.6%**	**26.3%**
Central Govt. Primary Outlays	25.8%	25.4%	26.2%	26.4%	25.3%	25.2%
Personnel spending	*4.6%*	*4.6%*	*4.8%*	*4.8%*	*4.6%*	*4.6%*
Non-Personnel spending	*4.3%*	*3.9%*	*3.8%*	*3.8%*	*3.5%*	*3.5%*
Pensions	*9.0%*	*8.9%*	*9.2%*	*9.3%*	*9.1%*	*9.1%*
Transfers	*7.9%*	*8.0%*	*8.4%*	*8.4%*	*8.1%*	*8.0%*
Public investment	1.8%	2.4%	2.5%	2.6%	*1.2%*	*1.1%*
Public Sector Primary Balance	-0.7%	-0.6%	-1.4%	-1.6%	-0.8%	-0.3%
Interest payments	2.8%	2.6%	2.7%	2.7%	2.4%	2.3%
Consolidated Public Sector Deficit	-3.5%	-3.2%	-4.1%	-4.3%	-3.2%	-2.5%
Cincuentones revenues	-0.5%	-0.2%	-0.1%	-0.1%	0.0%	0.0%
Adjusted Consolidated Public Sector Deficit	**-4.0%**	**-3.4%**	**-4.2%**	**-4.4%**	**-3.3%**	**-2.6%**

Source: TPCG Research based on MEF

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