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Uruguay Strategy Flash

The fiscal balance clocks in at -3.4% of GDP in December

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Uruguay's fiscal position ended the year at -3.4%of GDP, with the primary deficit coming in at -0.8% of GDP, slipping inside the government's forecasts. The 2022 Budget Review foresaw a 0.9pp of GDP primary deficit excl. cincuentones and a 3.5 consolidated public sector deficit by YE22. Consequently, the fiscal position beat the target by 0.1pp of GDP, with the primary position also surpassing expectations, coming in 0.1pp tighter than forecasted. In December, non-financial public sector income printed 26.5pp of GDP (+0.1pp relative to November) mainly on the back of improving tax revenues. On the spending side, expenditures came at 27.1pp of GDP (+0.5pp relative to November) as the Government accelerated non-Personnel expenditure by 0.2pp, while also accompanied by an increase in Transfers. The consolidated public sector deficit excl. cincuentones printed 3.4pp of GDP— up from 3.0% in November, 2.8% in October but 0.7pp below Dec-21 4.1% of GDP figure—.

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Non-financial public sector income printed 26.5pp of GDP (+0.1pp relative to November) mainly on the back of improving tax revenues. Central Govt & SocSec income printed 25.5pp of GDP in December (+0.1pp relative to November) completely driven by a +0.1pp improvement in tax collections. The SOEs primary result remained constant at +1.0pp in December, as did primary balance of Munis & BSE, which clocked in at +0.1% of GDP. All in all, non-financial public sector income in December improved by +0.1pp relative to November. On a yearly basis, Income suffered a 1.2pp compression relative to 2021, mostly accounted for by the substantial increase in GDP, as the segment did experience solid dynamics throughout the year. 2022 closed with revenues under the 2021 level by -1.2pp on the back of lower tax collections (-0.4pp), a drop in Other Income (-0.3pp), and a less robust SOE primary surplus (-0.5pp). Instead, Soc. Sec contributions and foreign trade remained constant relative to 2021.

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On the spending side, expenditures came at 27.1pp of GDP (+0.5pp relative to November) as the Government accelerated non-personnel expenditure by 0.2pp, while also accompanied by an increase in Transfers. In December, the COVID Fund balance totaled 0.5pp of GDP—dropping by 0.1pp relative to November and standing 1.1pp below Dec-21 figures, which amounted to 1.6% of GDP—. In this context, Central Govt & Soc. Sec. expenditures totaled 24.8pp (+0.4pp relative to November) on the back of higher non-personnel spending (+0.2pp) and transfers (+0.2pp), with the rest of the segments showing no variation in the monthly department. Public investment remained flat with November figures, clocking in at 2.3pp of GDP. All in all, 2022 closed with a -1.4pp decrease in total expenditure relative to 2021, again, aided by a strong baseline effect. However, the majority of the cuts concentrated in current expenditure, which fell by 1.9pp of GDP. The most aggressive trims came in the shape of a 0.6pp drop in non-personnel spending, a 0.3pp fall in the Wages segment, and reductions in Soc.Sec Outlays (-0.6pp) and Transfers (-0.4pp). Instead, capex experienced steady increases throughout the year, with its yearly hike amounting to 0.5pp of GDP. With non-financial public sector income and non-financial public sector outlays dropping by -1.2pp and -1.4pp YTD, respectively, and cincuentones revenues falling to 0.2pp of GDP, the primary deficit excl. cincuentones improved to 0.8pp in November—down from -1.2pp in December—.

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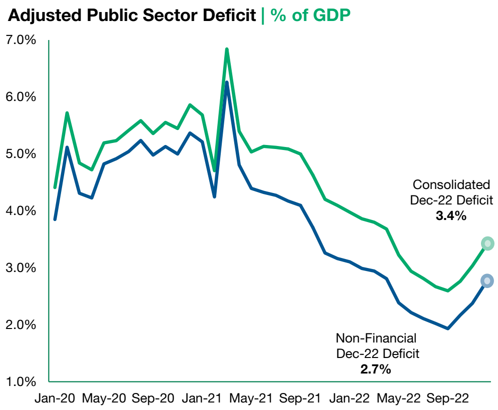
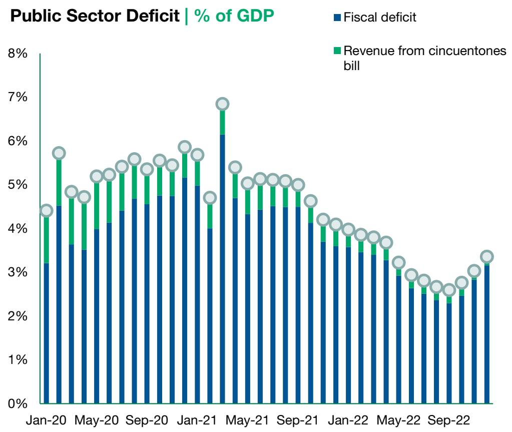
After a strong consolidation up to 3Q22, the fiscal position suffered substantially, worsening by nearly 0.8pp relative to September's levels and resulting in a tight compliance with the target. By September, the fiscal balance exhibited a -2.6% of GDP deficit, with the government still fully on consolidation mode. However, expenditure seasonality took its toll, as the fiscal deficit widened by nearly 0.8pp in three months, ending the year at +3.4% of GDP. So the administration ended 2022 just below the -3.5% target, instead of comfortably meeting it, even when the Budget review had widened the 2022 target since its previous edition. While the yearly consolidation was still substantial, totaling 0.7pp, nearly half of 2021's deficit compression, the strong surge in expenditure in 12m rolling figures (+4.2% since Sept-22) does raise some concerns. Now, the budget indicates the administration should close 2023 with a -2.7% of GDP deficit, marking a 0.7pp consolidation relative to current levels, with the primary balance also expected to compress to -0.4pp. We believe the target is attainable for the government, whose track record indicates it is prepared to stick to its fiscal consolidation plan. However, next year presents other challenges to the administration. The president's approval ratings have dropped substantially since the Artesiano scandal, and the government might be forced to bolster its support as the next presidential elections close in, resulting in additional challenges for the fiscal front.

Figure 1: December's fiscal figures





12m rolling - as % of GDP	Dec-20	Dec-21	Oct-22	Dec-22	Dec-22*
NFPS Income	**28.0%**	**27.7%**	**26.4%**	**26.5%**	**26.3%**
Central Government	**19.8%**	**19.6%**	**18.8%**	**18.9%**	**19.2%**
Tax Revenues	*16.6%*	*16.5%*	*16.0%*	*16.1%*	*16.4%*
International Trade	*1.0%*	*1.1%*	*1.1%*	*1.1%*	*1.1%*
Others	*2.2%*	*1.9%*	*1.6%*	*1.7%*	*1.7%*
Soc.Sec contributions	7.2%	6.6%	6.6%	6.6%	6.5%
SOE primary balance	1.0%	1.5%	1.0%	1.0%	0.4%
BSE &Munis primary balance	0.1%	0.2%	0.1%	0.1%	0.3%
BCU primary balance	0.0%	0.0%	-0.1%	0.0%	-0.1%
NFPS Outlays	**30.2%**	**28.5%**	**26.7%**	**27.1%**	**26.5%**
Central Govt. Primary Outlays	28.2%	26.7%	24.4%	24.8%	25.3%
Personnel spending	*5.2%*	*4.8%*	*4.4%*	*4.5%*	*4.6%*
Non-Personnel spending	*4.0%*	*4.4%*	*3.6%*	*3.8%*	*4.0%*
Pensions	*10.0%*	*9.3%*	*8.7%*	*8.7%*	*9.0%*
Transfers	*9.0%*	*8.2%*	*7.7%*	*7.8%*	*7.7%*
Public investment	2.0%	1.8%	2.3%	2.3%	1.2%
Public Sector Primary Balance	-2.1%	-0.7%	-0.2%	-0.6%	-0.2%
Interest payments	3.1%	2.9%	2.6%	2.6%	3.1%
Consolidated Public Sector Deficit	-5.2%	-3.6%	-2.8%	-3.2%	-3.3%
Cincuentones revenues	-0.7%	-0.5%	-0.2%	-0.2%	-0.2%
Adjusted Consolidated Public Sector Deficit	**-5.9%**	**-4.1%**	**-3.0%**	**-3.4%**	**-3.5%**

Source: TPCG Research based on MEF

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