Juan Manuel Pazos
Chief Economist
+54 11 4898 6606
jmpazos@tpcgco.com

Santiago Resico
LATAM Strategist
sresico@tpcgco.com
+54 11 4898 6615

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Uruguay Strategy Flash

The fiscal balance clocks in at -4.0% of GDP in June

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Uruguay's fiscal position worsened slightly in June, with increasing income sources being outpaced by a larger 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. In June, non-financial public sector income printed 27.5pp of GDP (+0.2pp relative to May). The increase came from three different sources, as Tax revenues, Other Income, and Soc.Sec contributions drove the hike. On the spending side, expenditures came at 28.7pp of GDP (+0.3pp relative to May), with increasing Soc. Sec. outlays and Transfers. In this context, the primary fiscal deficit excl. cincuentones came at -1.3pp of GDP, worsening by -0.2pp relative to May, and accumulating a 0.5pp deterioration YTD. In this context, the -0.2pp variation in the primary position in June was accounted for by a 0.2pp hike in NFPS income, and a 0.3pp increase in NFPS outlays. Consistently, the consolidated public sector deficit excl. cincuentones stood over the 3pp of GDP mark for the eight-month running. June's print came in at -4.0% of GDP— up from 3.7% in May, April, and March—.

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On the spending side, expenditures came at 28.7pp of GDP (+0.3pp relative to May), with increasing Soc. Sec. outlays and Transfers. In June, the COVID Fund balance totaled -0.2pp of GDP— dropping by -0.1pp relative to May and reducing its size by 0.4pp YTD. In this context, Central Govt & Soc. Sec. expenditures totaled 26pp (+0.1pp relative to May) with the segment experiencing a relatively large reshuffling. Wages, Soc.Sec outlays and Transfers rose marginally, contributing 0.2pp to the general increase in expenditure. This was partly offset by a 0.1pp drop in Non-personnel expenditure, putting the net total increase at 0.1pp. Public investment regained momentum relative to May, experiencing a 0.2pp rise that drove the segment to the 2.7pp of GDP mark, compounding with the increase in expenditures. With non-financial public sector income rising by +0.2pp, non-financial public sector outlays increasing by +0.3pp, and cincuentones revenues standing at 0.1pp of GDP, the primary deficit excl. cincuentones stood at -1.3pp in June—over May's 1.1pp print, April's 1.0pp and March's 1.1pp mark—.

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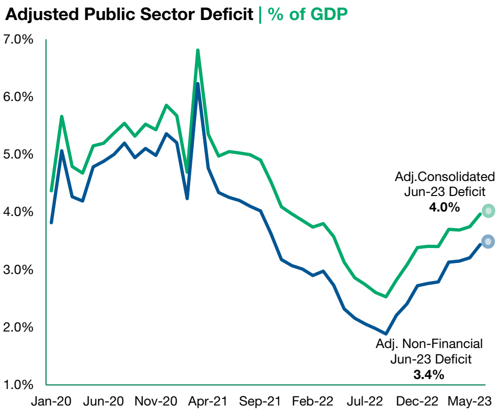
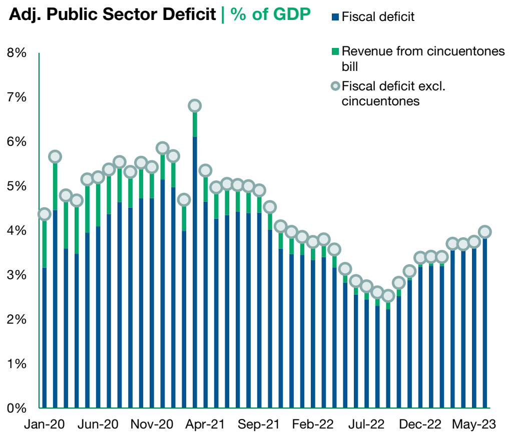
We believe the slow but steady deterioration of the fiscal position is credit negative, even if we don't expect it to affect valuations in the short run, as the deployment of fiscal stimuli to combat the effect of the drought seems appropriate this year. The administration has done a significant effort to cleanse public finances since the start of its tenure, and the deployment of fiscal stimuli this year, with the economy heavily affected by the drought, does seem appropriate. 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 0.7pp deviation from year-end targets. Even if the administration has leeway to deploy fiscal support this year, if it misses the 2023 targets, the chances of fulfilling the planned consolidation (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: June's fiscal figures





12m rolling - as % of GDP	Dec-21	Dec-22	May-23	Jun-23	Dec-23*
NFPS Income	**26.7%**	**27.1%**	**27.3%**	**27.5%**	**25.8%**
Central Government	**18.9%**	**19.3%**	**19.2%**	**19.3%**	**18.9%**
Tax Revenues	*15.9%*	*16.5%*	*16.6%*	*16.6%*	*16.1%*
International Trade	*1.1%*	*1.1%*	*1.1%*	*1.1%*	*1.1%*
Others	*1.8%*	*1.7%*	*1.5%*	*1.6%*	*1.7%*
Soc.Sec contributions	6.4%	6.8%	6.9%	6.9%	6.9%
SOE primary balance	1.4%	1.0%	1.3%	1.2%	0.1%
BSE &Munis primary balance	0.2%	0.1%	0.1%	0.1%	0.1%
BCU primary balance	0.0%	-0.1%	0.0%	0.0%	-0.1%
NFPS Outlays	**27.5%**	**27.8%**	**28.4%**	**28.7%**	**26.6%**
Central Govt. Primary Outlays	25.8%	25.4%	25.9%	26.0%	25.3%
Personnel spending	*4.6%*	*4.6%*	*4.7%*	*4.7%*	*4.6%*
Non-Personnel spending	*4.3%*	*3.9%*	*3.8%*	*3.7%*	*3.5%*
Pensions	*9.0%*	*8.9%*	*9.1%*	*9.2%*	*9.1%*
Transfers	*7.9%*	*8.0%*	*8.2%*	*8.3%*	*8.1%*
Public investment	1.8%	2.4%	2.5%	2.7%	1.2%
Public Sector Primary Balance	-0.7%	-0.6%	-1.0%	-1.2%	-0.8%
Interest payments	2.8%	2.6%	2.6%	2.7%	2.4%
Consolidated Public Sector Deficit	-3.5%	-3.2%	-3.6%	-3.9%	-3.2%
Cincuentones revenues	-0.5%	-0.2%	-0.1%	-0.1%	0.0%
Adjusted Consolidated Public Sector Deficit	**-4.0%**	**-3.4%**	**-3.7%**	**-4.0%**	**-3.3%**

Source: TPCG Research based on MEF

TPCG Analysts & Staff

Research			
Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	Strategist	sresico@tpcgco.com	+54 11 4898-6615
Sales & Trading			
Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Institutional Sales			
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Trading			
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693
Corporate Finance			
José Ramos	**Head of Corporate Finance**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Corporate Sales			
Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612
Capital markets			
Nicolás Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604
Asset Management			
Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

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