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Strategy Flash – Uruguay

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Uruguay Strategy Flash

The fiscal balance clocks in at -3.6% of GDP in December

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Uruguay's fiscal position improved in December, with a rise in income sources compounding with a significant reduction in expenditures. As we expected, during the last quarter of 2023, the administration was able to compress its fiscal position significantly. The reduction clocked in at nearly 0.8% of GDP, and was principally driven by Nov-22 and Dec-22 dropping off the 12m rolling figures, as said months had accumulated significant one-off capex and non-personnel expenditures which bloated the fiscal figures until now. In December, non-financial public sector income printed 26.4pp of GDP (+0.2pp relative to November). On the spending side, expenditures came at 27.2pp of GDP (-0.4pp relative to November), with the drop propelled by reductions in Non personnel outlays and capex. In this context, the primary fiscal deficit excl. cincuentones came at -1.0pp of GDP, tightening by 0.6pp relative to November, albeit still accumulating a 0.3pp deterioration YTD. The consolidated public sector deficit excl. cincuentones followed suit, improving relative to November. In this context, the headline deficit stood over the 3pp of GDP mark for fourteen months in a row. December's print came in at -3.6% of GDP— down from -4.0% of GDP in November, -4.5% of GDP in October and -4.4% of GDP in September—.

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In December, non-financial public sector income printed 26.4pp of GDP (+0.2pp relative to November). Central Govt & SocSec income clocked in at 26.4pp of GDP in December (+0.2pp relative to November). The two drivers behind the rise were twin 0.1pp increases in the Other income and Soc.Sec. contributions segments. Instead, the Tax revenue segment remained stable, showcasing no variation relative to last month. On the other hand, the SOEs' primary balance, one of the main drivers of 2022's fiscal overperformance, came in at +0.8pp, flat relative to November's figures. 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 December improved by +0.2pp relative to November.

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On the spending side, expenditures came at 27.2pp of GDP (-0.4pp relative to November), with the drop propelled by reductions in Non personnel outlays and capex. In December, the COVID Fund balance finally became depleted, coming down to 0.0pp of GDP— tightening by -0.5pp YTD. In this context, Central Govt & Soc. Sec. expenditures totaled 25.3pp (-0.1pp relative to November). The drop responded mainly to a significant reduction in Non-personnel expenditure, which was cut by -0.2pp. However, this was offset by a rise in both Soc.Sec outlays and Personnel expenditure, which offset the drop by 0.1pp.The rest of the segments stood flat relative to November, completing the picture. The other main savings, as we expected, came on the capex front. Public investment dropped by -0.2pp relative to November, with the segment standing at 1.9pp of GDP mark, adding to the drop in Central Govt. Outlays. With non-financial public sector income rising by +0.2pp, non-financial public sector outlays falling by -0.4pp, and cincuentones revenues standing at 0.1pp of GDP, the primary deficit excl. cincuentones stood at -1.0pp in December— tightening relative to November's (-1.6pp), October's (-1.7pp) and September's (-1.8pp) figures—.

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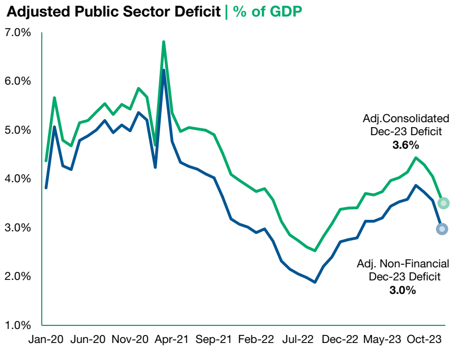
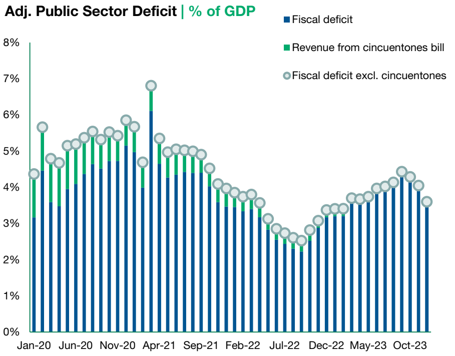
While the administration’s efforts to compress the deficit in 4Q23 were significant, it remains to be seen if they were enough to comply with the first pillar of the fiscal rule. Using both the fiscal data and GDP information provided by the administration, our estimation puts the consolidated fiscal deficit excluding cincuentones at -3.6% for 2023, a figure that was consistent with our point estimate, which suggested a deficit of this magnitude for the year. Still, these estimates are preliminary, and the revised GDP figures are necessary to establish whether the administration complied or not with the fiscal rule. In addition, the first pillar of the latter refers specifically to the structural deficit, not headline figures, and must be calculated by the administration. In this context, the government’s headline target for 2023 (which is not binding) consisted of a -3.3% of GDP deficit, which would mean the preliminary headline figures for the year carry a moderate deviation (0.3pp) from the envisaged results. Therefore, while the government should be able to meet both the requirements regarding the cap for the increase in primary expenditure and the net indebtedness cap, the first pillar, the binding structural balance, does seem more difficult to accommodate. 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.

Figure 1: December’s fiscal figures





12m rolling - as % of GDP	Dec-21	Dec-22	Nov-23	Dec-23	Dec-23*	Dec-24*
NFPS Income	**26.7%**	**27.1%**	**26.2%**	**26.4%**	**25.8%**	**26.0%**
Central Government	**18.9%**	**19.3%**	**18.6%**	**18.7%**	**18.9%**	**19.0%**
Tax Revenues	*15.9%*	*16.5%*	*15.9%*	*15.9%*	*16.1%*	*16.2%*
International Trade	*1.1%*	*1.1%*	*1.0%*	*1.0%*	*1.1%*	*1.1%*
Others	*1.8%*	*1.7%*	*1.7%*	*1.8%*	*1.7%*	*1.8%*
Soc.Sec contributions	6.4%	6.8%	6.9%	6.9%	6.9%	7.0%
SOE primary balance	1.4%	1.0%	0.8%	0.8%	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%**	**27.6%**	**27.2%**	**26.6%**	**26.3%**
Central Govt. Primary Outlays	25.8%	25.4%	25.4%	25.3%	25.3%	25.2%
Personnel spending	*4.6%*	*4.6%*	*4.7%*	*4.7%*	*4.6%*	*4.6%*
Non-Personnel spending	*4.3%*	*3.9%*	*3.6%*	*3.4%*	*3.5%*	*3.5%*
Pensions	*9.0%*	*8.9%*	*9.1%*	*9.1%*	*9.1%*	*9.1%*
Transfers	*7.9%*	*8.0%*	*8.0%*	*8.0%*	*8.1%*	*8.0%*
Public investment	1.8%	2.4%	2.2%	1.9%	*1.2%*	*1.1%*
Public Sector Primary Balance	-0.7%	-0.6%	-1.5%	-0.9%	-0.8%	-0.3%
Interest payments	2.8%	2.6%	2.5%	2.6%	2.4%	2.3%
Consolidated Public Sector Deficit	-3.5%	-3.2%	-3.9%	-3.5%	-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%**	**-4.0%**	**-3.6%**	**-3.3%**	**-2.6%**

Source: TPCG Research based on MEF

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