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

**Santiago Resico**
Economist
sresico@tpcgco.com
+54 11 4898 6615



# Uruguay Strategy Flash

## The fiscal balance clocks in at -3.6% of GDP in January

**Uruguay's fiscal position showcased a very slight improvement in January, with a rise in income sources being matched by a similar increase in outlays.**

**Uruguay's fiscal position showcased a very slight improvement in January, with a rise in income sources being matched by a similar increase in outlays.** After a sizable compression in the fiscal deficit during 4Q23, the balance remained relatively stable in January. The reduction during the last quarter of 2023 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. Without that effect, the compression in fiscal figures lost significant steam. The administration's press release suggests a more tangible improvement in the fiscal balance, however, this stems from the Ministry's methodology, as, as the year changes, it modifies the base GDP utilized for the calculations, and according to the MEF's estimation, nominal GDP is bound to increase by roughly +10.1%yoy in 2024. Using said figures, the fiscal position improves due to the baseline effect, with the fiscal deficit excl. cincuentones clocking in at -3.2% of GDP. In January, non-financial public sector income printed 26.6pp of GDP (+0.2pp relative to December). On the spending side, expenditures came at 27.3pp of GDP (+0.1pp relative to December), with the rise propelled by increases in Soc.Sec outlays. In this context, the primary fiscal deficit excl. cincuentones came at -0.9pp of GDP, tightening by 0.2pp relative to December. However, the consolidated public sector deficit excl. cincuentones did not follow suit, on behalf of rising interest payments. In this context, the headline deficit stood over the 3pp of GDP mark for fifteen months in a row. January's print came in at -3.6% of GDP— level with December's print, albeit down from -4.0% of GDP in November and -4.5% of GDP in October—.

**In January, non-financial public sector income printed 26.6pp of GDP (+0.2pp relative to December).**

**In January, non-financial public sector income printed 26.6pp of GDP (+0.2pp relative to December).** Central Govt & SocSec income clocked in at 26.6pp of GDP in January (+0.2pp relative to December). The two drivers behind the rise were twin 0.1pp increases in the Tax Revenues and Soc.Sec. contributions segments. This contrasted with the remainder of the segments, which showcased 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 December's figures. Finally, the primary balance of Munis & BSE continues to stand near the neutral position, exhibiting no variation. All in all, non-financial public sector income in January improved by +0.2pp relative to December.

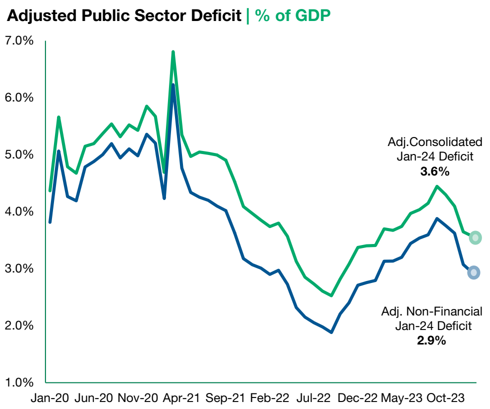
**On the spending side, expenditures came at 27.3pp of GDP (+0.1pp relative to December), with the rise propelled by increases in Soc.Sec outlays.**

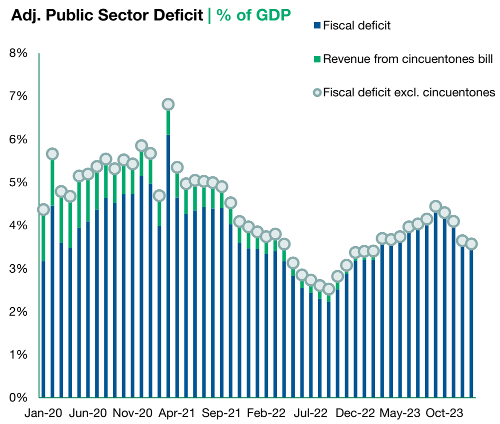
**On the spending side, expenditures came at 27.3pp of GDP (+0.1pp relative to December), with the rise propelled by increases in Soc.Sec outlays.** In January, Central Govt & Soc. Sec. expenditures totaled 25.4pp (+0.1pp relative to December). The hike responded mainly to a minor increase in Soc.Sec outlays, which rose by +0.1pp. The rest of the segments stood flat relative to December, completing the picture. However, interest payments did exhibit an increase, clocking in 0.1pp over Dec-23 figures. After compressing significantly in December, the compression in Public investment flatlined, as the segment remained constant relative to December, standing at 1.9pp of GDP mark. With non-financial public sector income rising by +0.2pp, non-financial public sector outlays rising by +0.1pp, and cincuentones revenues standing at 0.1pp of GDP, the primary deficit excl. cincuentones stood at -0.9pp in January— tightening relative to December's (-1.1pp), November's (-1.6pp) and October's (-1.7pp) figures—.

**Looking at 2024, we do expect the fiscal balance to improve due to cyclical factors, albeit major consolidation prospects continue to look unlikely.**

**Looking at 2024, we do expect the fiscal balance to improve due to cyclical factors, albeit major consolidation prospects continue to look unlikely.** Having ended 2023 with headline figures standing at the -3.6% of GDP mark, 0.3pp wide relative to the administration's Budget review headline target of -3.3% of GDP, the envisaged 2024 target seems somewhat challenging to achieve for the government in the current context. The latter already seemed ambitious on paper earlier in 2023, as it planned a 0.7pp consolidation relative to the budget baseline, putting headline figures at -2.6% of GDP by the end of Mr. Lacalle Pou's tenure. Now, said consolidation requires a 1pp compression in the fiscal balance, which again looks challenging. We do expect the efforts to have some baseline tailwind, as 2023's drought caused a significant drop in income sources, which is now bound to reverse, adding between 0.2pp and 0.3pp to revenues this year. This, in conjunction with some minor consolidation efforts, might yield a moderate, but noticeable improvement in fiscal figures this year. However, we believe the chances of the administration executing a considerable fiscal consolidation in an electoral year are 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. This will probably result in an upward correction for the 2024 fiscal target in the upcoming Budget review, which is bound to occur in late June.

## Figure 1: January's fiscal figures




| 12m rolling - as % of GDP | Dec-21 | Dec-22 | Dec-23 | Jan-24 | Dec-23* | Dec-24* |
|---|---|---|---|---|---|---|
| **NFPS Income** | **26.7%** | **27.1%** | **26.4%** | **26.6%** | **25.8%** | **26.0%** |
| **Central Government** | **18.9%** | **19.3%** | **18.7%** | **18.8%** | **18.9%** | **19.0%** |
| *Tax Revenues* | *15.9%* | *16.5%* | *15.9%* | *16.0%* | *16.1%* | *16.2%* |
| *International Trade* | *1.1%* | *1.1%* | *1.0%* | *1.0%* | *1.1%* | *1.1%* |
| *Others* | *1.8%* | *1.7%* | *1.8%* | *1.8%* | *1.7%* | *1.8%* |
| *Soc.Sec contributions* | 6.4% | 6.8% | 6.9% | 7.0% | 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% | -0.1% | -0.1% | 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%** | **27.2%** | **27.3%** | **26.6%** | **26.3%** |
| Central Govt. Primary Outlays | 25.8% | 25.4% | 25.3% | 25.4% | 25.3% | 25.2% |
| *Personnel spending* | *4.6%* | *4.6%* | *4.7%* | *4.8%* | *4.6%* | *4.6%* |
| *Non-Personnel spending* | *4.3%* | *3.9%* | *3.4%* | *3.4%* | *3.5%* | *3.5%* |
| *Pensions* | *9.0%* | *8.9%* | *9.1%* | *9.2%* | *9.1%* | *9.1%* |
| *Transfers* | *7.9%* | *8.0%* | *8.0%* | *8.0%* | *8.1%* | *8.0%* |
| *Public investment* | 1.8% | 2.4% | 1.9% | 1.9% | *1.2%* | *1.1%* |
| Public Sector Primary Balance | -0.7% | -0.6% | -1.0% | -0.8% | -0.8% | -0.3% |
| Interest payments | 2.8% | 2.6% | 2.6% | 2.7% | 2.4% | 2.3% |
| Consolidated Public Sector Deficit | -3.5% | -3.2% | -3.5% | -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%** | **-3.6%** | **-3.6%** | **-3.3%** | **-2.6%** |

Source: TPCG Research based on MEF

## GFNs for 2024 are forecasted at USD4.75bn

**In other news, the MEF presented its revised GFNs figures for both 2023 and 2024, with both experiencing minor corrections to the upside.**

**In other news, the MEF presented its revised GFNs figures for both 2023 and 2024, with both experiencing minor corrections to the upside.** For 2023, GFNs totaled USD5.37bn, clocking USD100mn over previous estimates, as a slight compression in the primary treasury deficit (-USD64mn) was offset by an increase in Changes to Financial Assets (+USD168mn). On the sources side, the administration sourced the majority of its financing from bond issuances, (USD4.2bn), as usual, albeit also relying somewhat more heavily on IFI financing which amounted to USD1bn. For 2024, GFNs are estimated at USD4.75bn, experiencing a +USD300mn upward correction from the previous estimates. In this case, the widening in needs responds to a higher primary deficit estimate (+USD172mn) and additional changes to financial assets (+USD124mn), with the first being consistent with our expectations of a less aggressive consolidation taking place in 2024. Still, regarding the Administration's needs, interest and principal payments take the front seat. The former is expected to clock in at USD2.1bn, while the latter is also estimated at USD2.1bn. Completing the picture, the Treasury primary deficit is forecasted at USD415mn, while the change in financial assets is expected at USD189mn. On the sources side, the MEF exhibits its usual preferences, maintaining IFI financing at relatively low levels (USD616mn), and relying strongly on bond issuances, expecting nearly USD3.9bn in private funding, with the remaining USD211mn coming from other sources.

### Figure 2: 2024's GFNs were corrected USD300mn to the upside

| USDmn | 2022 | 2023 | 2023 (Revised) | 2024 | 2024 (Revised) | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|
| **Financing Needs** | **5,140** | **5,263** | **5,365** | **4,438** | **4,752** | **4,827** | **4,190** | **4,704** |
| Primary Deficit | 722 | 716 | 652 | 243 | 415 | -26 | -60 | -16 |
| Interest Payments | 1,667 | 1,896 | 1,898 | 2,062 | 2,080 | 2,086 | 2,096 | 2,135 |
| Principal Payments | 2,604 | 2,842 | 2,838 | 2,068 | 2,068 | 2,800 | 2,189 | 2,608 |
| Change in Financial Assets | 147 | -191 | -23 | 65 | 189 | -34 | -35 | -24 |
| **Secure Financing Sources** | **5,140** | **5,263** | **5,365** | **4,438** | **4,752** | **4,827** | **4,190** | **4,704** |
| IFIs | 571 | 987 | 1,011 | 325 | 616 | 250 | 250 | 250 |
| Bond Issuance | 3,992 | 4,269 | 4,228 | 4,015 | 3,925 | 4,464 | 3,826 | 4,336 |
| Other (net) | 576 | 7 | 126 | 98 | 211 | 113 | 114 | 118 |
| **Net Indebtness Cap** | **1,860** | **2,860** | **2,860** | **2,300** | **2,300** | **-** | **-** | **-** |

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 |
| Santiago Resico | Economist | sresico@tpcgco.com | +54 11 4898-6615 |
| Camila Sanchez Lauria | Research Analyst | csanchezlauria@tpcgco.com | +54 11 6616-9512 |

## 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 |
| Santiago Jauregui | Sales | sjauregui@tpcgco.com | +598 9933-9495 |
| 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 |
| Wealth Management | | | |
| Josefina Guerrero | Private Wealth Management Specialist | jguerrero@tpcgco.com | +54 9 11 6556 2401 |

## Asset Management

| | | | |
|---|---|---|---|
| **Ileana Aiello** | **Portfolio Manager** | **iaiello@tpcgco.com** | **+54 11 4898-6611** |
| **Claudio Achaerandio** | **Portfolio Manager** | **cachaerandio@tpcgco.com** | **+54 11 4898-6618** |

## Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valors SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For U.S. persons only:

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any U.S. person, which is not a U.S. Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another U.S. registered broker dealer.