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Uruguay Strategy Flash

On Saturday, the PIT-CNT presented 430.000 signatures supporting the plebiscite to rework the social security system, widely exceeding the necessary 275.000 threshold.

The substantial number of signatures should trigger some alarms, as the wording of the proposal threatens to change a functional hybrid pension system, with the plebiscite carrying the risk of dynamiting its foundations, derailing the efforts to make the system sustainable.

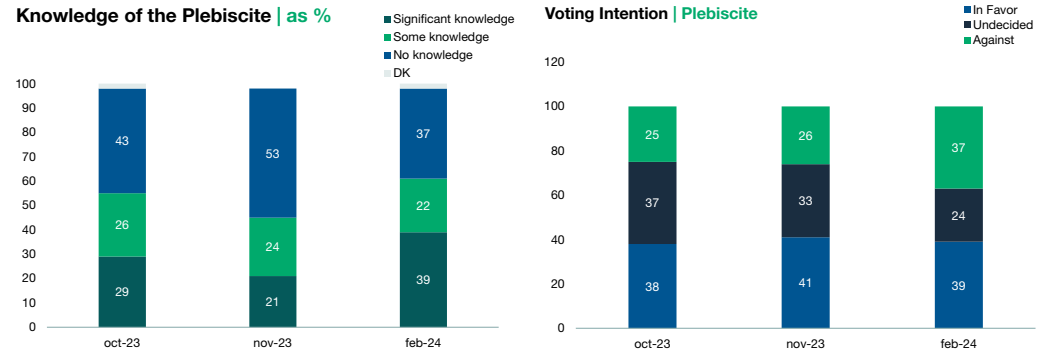
The PIT-CNT presented the signatures for the Soc.Sec. plebiscite

On Saturday, the PIT-CNT presented 430.000 signatures supporting the plebiscite to rework the social security system, widely exceeding the necessary 275.000 threshold. The plebiscite for the social security system was announced nearly a year ago by the FA, after the current administration passed the pension system reform, which ensured the sustainability of the scheme, with modifications such as increasing the retirement age progressively from 60 years to 65 and modifying the minimum amount of contributions to retire (for more details on the reform, please click [here](#)). Against such changes, the FA decided to challenge them via plebiscite, in a similar fashion to their response to the LUC, back in 2022. However, while the 2022 consultation was a referendum, this time around the institutional mechanism chosen by the FA was a plebiscite. The practical differences between both lie in two key characteristics. The first consists of the fact that referendums are designed to challenge laws approved by the legislative muscle of the country, while plebiscites have to do with constitutional matters. On a second, and more important note, there is a difference in the number of signatures needed for them to be validated and actually go to a national vote. For plebiscites, this threshold stands at 10% of the Uruguayan electorate (which amounts to 2.766.323 citizens), meaning that the initiative must galvanize the written support of at least 276.633 enabled voters to be valid, and taken to the general public to vote. The referendum instead requires 25% of the electorate (691.581 signatures) or at least 2% of the electorate (55.327 signatures), in which case a voluntary consultation is triggered, in which if the proposal reaches 25% of adherence, it is taken to the general public). So while last time around the PIT-CNT's institutional weapon of choice was the referendum, to bring down the LUC, this time it chose to challenge the pension reform via a plebiscite.

The substantial number of signatures should trigger some alarms, as the wording of the proposal threatens to change a functional hybrid pension system, with the plebiscite carrying the risk of dynamiting its foundations, derailing the efforts to make the system sustainable. Even if now the Electoral Court must ensure the signatures are not forged, a process which will take around three months, the sheer volume of the support suggests the plebiscite is inevitable, as the 430.000 gathered signatures are more than enough to reach the established threshold. This in itself is a warning for the administration, which must be vigilant, as it indicates that the proposal has significant support. This becomes especially true when looking at the proposed modifications to the pension system. The plebiscite proposes a minimum retirement age of 60 years, a pension tied to the national minimum wage, and the elimination of individual savings, AFAPs, and profits in the scheme. In other words, the PIT-CNT is proposing a complete overhaul of the pension system, not only overturning the advances in sustainability made by the latest reform but also taking a shot at the AFAPs, the pension funds that administer nearly USD20bn and are a key player in the Uruguayan financial markets. The fact that such a revolutionary proposal has gained that much traction should trigger alarms inside the country. Even if the extreme phrasing should take some support away from the initiative, it will still be a very high-stakes vote, with some very attractive components, such as the return of the 60-year threshold to retire, packaging some popular claims with some highly undesirable items, marking it as a very dangerous concoction, especially as it threatens to turn the system back into unsustainability (for more details on the progress of the current reform on that department, please click [here](#)). However, just for reference, the PIT-CNT managed to gather 796.526 signatures for the LUC referendum,

widely exceeding the necessary 675.000 mark, and in that case, the initiative failed to overturn the omnibus bill, even if being more reasonable, albeit by a very tight margin.

Figure 1: Polls suggest a tight outcome for the Soc.Sec plebiscite



Source: TPCG Research based on Equipos Consultores

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In addition, public opinion polls present a very uncertain scenario relative to the results of the plebiscite, clouding prospects even further. Polls showcase an unclear scenario regarding the possible plebiscite results, with a high degree of uncertainty still seeping into the metrics. The public’s knowledge on the topics of the plebiscite is increasing significantly, with now nearly 61% of Uruguayans having a relatively clear idea of what is at stake, compared to 47% in November. And the increased knowledge on the plebiscite has leveled the playing field, as initial polls showcased a slight advantage to the YES (ie. the plebiscite being approved), while the NO was able to catch up significantly in recent months. Polls convey that the supporters of the plebiscite stand roughly at the 39% mark (-2pp vs November), while the supporters of the NO amount to 37% (+11pp vs. Nov.). So, the increased knowledge of the topics being put into question seems to be favoring the detractors of the proposal. Still, even if uncertainty is falling, dropping by 9pp relative to November, it still stands at a very high 24%, meaning the plebiscite can still go either way, clouding prospects. While during the LUC referendum, we argued that the sheer size of the bill would turn the electoral bout into a popularity contest between the government and the FA, this time around the policies being put into question are much more precise and definite, which will cap the amount of popularity of either side that can seep into the vote. On a positive note, the fact that the proposal encompasses very radical changes clashes with the Uruguayan electorate, that tends heavily to the center, dampening the chances of the plebiscite being successful. In addition, the fact that increased knowledge on the plebiscite topics came in conjunction with further support for the NO suggests that, with nearly 37% of the polled still not knowing what the plebiscite is about, the camp against the PIT-CNT proposal has still some ground to grow, in contrast with the YES, that has plateaued its levels of support since the end of last year. Still, the proposal includes some very attractive points, such as the return of the retirement age to 60, which might galvanize further support for its side. All in all, we find the news worrisome, as they compound a high-threat event, which has the ability to derail the hard-fought reforms that make the pension system sustainable, with public opinion polls which, at the moment, suggest a very tight scenario with uncertainty clouding prospects even further.

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