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Uruguay Strategy Flash

The fiscal balance clocks in at -3.8% of GDP in March

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Uruguay's fiscal position showcased a very slight widening in March, with stable income sources being marginally outpaced by a weak increase in outlays. After a sizable compression in the fiscal deficit during 4Q23, the balance remained relatively stable in 1Q24, as headline figures showcase nearly no variation relative to Dec-23. 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. In March, non-financial public sector income printed 27pp of GDP (+0.0pp relative to February). On the spending side, expenditures came at 26.7pp of GDP (-0.8pp relative to February). However, the major compression comes on the back of the fact that, in 2023, the BPS paid April's pensions, transfers, and salaries in advance. Now that Mar-23 is dropping out of the 12m-rolling figure, then fiscal outlays are artificially low, as Apr-23 did not showcase the anticipated payments. This effect amounts to 1pp of GDP, so, adjusting by this effect, expenditures totaled 27.7pp of GDP (+0.1pp relative to February). In this context, the primary fiscal deficit excl. cincuentones came at -1pp of GDP, widening by 0.1pp relative to February. The consolidated public sector deficit excl. cincuentones followed suit standing over the 3pp of GDP mark for seventeen months in a row. March's print came in at -3.8% of GDP—level with December's print, albeit up from -3.6% of GDP in January and -3.7% of GDP in February—.

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In March, non-financial public sector income printed 27pp of GDP (+0.0pp relative to February). Central Govt & Soc.Sec income clocked in at 27pp of GDP in March (+0.0pp relative to February). Even if the headline figure remained plateaued, there were some shuffles inside the segment, which compensated to annul any significant monthly variation. On the one hand, Tax revenues experienced a -0.2pp decrease relative to February. On the other hand, Soc. Sec collections rose by +0.2pp vs. February, offsetting the weaker tax intake, and leaving the segment unchanged relative to the prior month. Furthermore, the SOEs' primary balance, one of the main drivers of 2022's fiscal overperformance, came in at +0.8pp, flat relative to February'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 March showcased no improvement relative to December.

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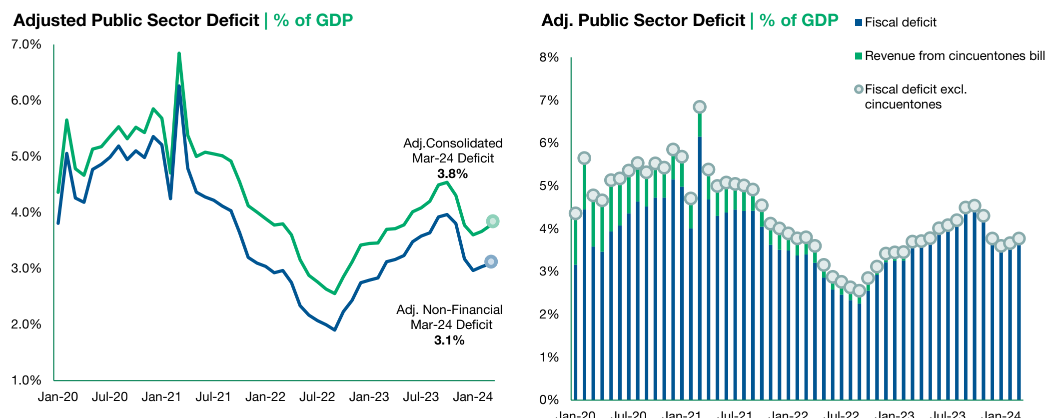
On the spending side, expenditures came at 27.7pp of GDP (+0.1pp relative to February), once adjusted by the effect of the advance payments described above. In March, Central Govt & Soc. Sec. expenditures totaled 25.7pp (+0.0pp relative to February). No segments showcased significant variations, once adjusted by the effect described above, as without it, Wages, Soc.Sec.Outlays, and Transfers all exhibit a decrease relative to February. After compressing significantly in December, Public investment saw a minor increase in March, hiking by +0.1pp, and explaining the rise in outlays, with the segment now standing at 2pp of GDP mark. With non-financial public sector income remaining flat, 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 -1pp in March— widening relative to February's (-0.9pp) and January's (-0.9pp) and figures—.

Figure 1: March's fiscal figures



12m rolling - as % of GDP	Dec-21	Dec-22	Dec-23	Feb-24	Mar-24
NFPS Income	**27.0%**	**27.5%**	**27.7%**	**26.9%**	**27.0%**
Central Government	**19.1%**	**19.6%**	**19.7%**	**19.0%**	**18.9%**
Tax Revenues	*16.1%*	*16.7%*	*16.7%*	*16.2%*	*16.0%*
International Trade	*1.1%*	*1.2%*	*1.0%*	*1.0%*	*1.0%*
Others	*1.9%*	*1.7%*	*1.9%*	*1.9%*	*1.9%*
Soc.Sec contributions	6.5%	6.9%	7.3%	7.1%	7.3%
SOE primary balance	1.4%	1.0%	0.8%	0.8%	0.8%
BSE &Munis primary balance	0.2%	0.1%	0.0%	-0.1%	-0.1%
BCU primary balance	0.0%	-0.1%	0.0%	0.0%	0.0%
NFPS Outlays	**27.8%**	**28.2%**	**28.6%**	**27.6%**	**27.7%**
Central Govt. Primary Outlays	26.0%	25.8%	26.6%	25.7%	25.7%
Personnel spending	*4.7%*	*4.7%*	*5.0%*	*4.8%*	*4.8%*
Non-Personnel spending	*4.3%*	*4.0%*	*3.6%*	*3.4%*	*3.4%*
Pensions	*9.1%*	*9.0%*	*9.6%*	*9.3%*	*9.3%*
Transfers	*8.0%*	*8.1%*	*8.4%*	*8.2%*	*8.2%*
Public investment	1.8%	2.4%	2.0%	1.9%	2.0%
Public Sector Primary Balance	-0.7%	-0.6%	-1.0%	-0.8%	-0.9%
Interest payments	2.8%	2.7%	2.7%	2.8%	2.8%
Consolidated Public Sector Deficit	-3.5%	-3.2%	-3.7%	-3.6%	-3.7%
Cincuentones revenues	-0.5%	-0.2%	-0.1%	-0.1%	-0.1%
Adjusted Consolidated Public Sector Deficit	**-4.0%**	**-3.4%**	**-3.8%**	**-3.7%**	**-3.8%**

Source: TPCG Research based on MEF

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Looking at 2024, we do expect the fiscal balance to improve due to cyclical factors, albeit major consolidation prospects continue to look unlikely. However, we envisage compliance with the fiscal rule, as the administration corrected its estimates upwards. With the final calculation of the structural deficit for 2023 finally complying with the first pillar of the fiscal rule, the administration was able to meet all three fiscal targets for the year, maintaining its very solid track record. According to the MEF, the deficit clocked in at -3.3% of GDP, 0.1pp wider than estimated. However, the structural deficit amounted to -2.7% of GDP, complying with the target established by the fiscal rule. The administration also respected the other two pillars during the year, managing to keep both the growth in real primary outlays and net indebtedness under the established caps. However, it is also true that the administration corrected the fiscal estimates for 2024 significantly and is now expecting a wider structural deficit. Initially, the envisaged target in the Budget Review seemed ambitious on paper, 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 estimate has been corrected to a -3% of GDP deficit, which would result in a structural deficit of -2.9%. So, while headline figures should compress marginally, the structural deficit would widen by +0.2pp, suggesting that the administration's plans for 2024 are much more modest than initially envisaged. In addition, said correction practically ensures compliance with the target, as 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. In this context, the upward correction in the structural deficit estimate also points in that direction.

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