

Macro scenario - Uruguay



November 21, 2024

Elections amid a more challenging global scenario

- ▶ Uruguay's next president will be chosen in a runoff election on November 24. Voters will be deciding between Yamandú Orsi of the Frente Amplio or Álvaro Delgado of the current governing coalition.
- ▶ With the policy rate already at neutral, fewer cuts penciled in for the Federal Reserve, and inflation expectations still above-target, we now expect the central bank to keep the policy rate at 8.50% through 2025.
- ▶ We have revised our YE24 and YE25 exchange-rate forecasts to 42.5 UYU/USD (from 41) and 44.0 UYU/USD (from 43), respectively, in light of the stronger USD globally.

All eyes on this month's runoff

General elections were held in October. Yamandú Orsi (from the opposition Frente Amplio coalition) finished first with 43.9% of the vote, followed by Álvaro Delgado (Partido Nacional) with 26.8% and Andrés Ojeda (Partido Colorado) with 16.0%. The results were broadly in line with the poll averages leading up to the election.

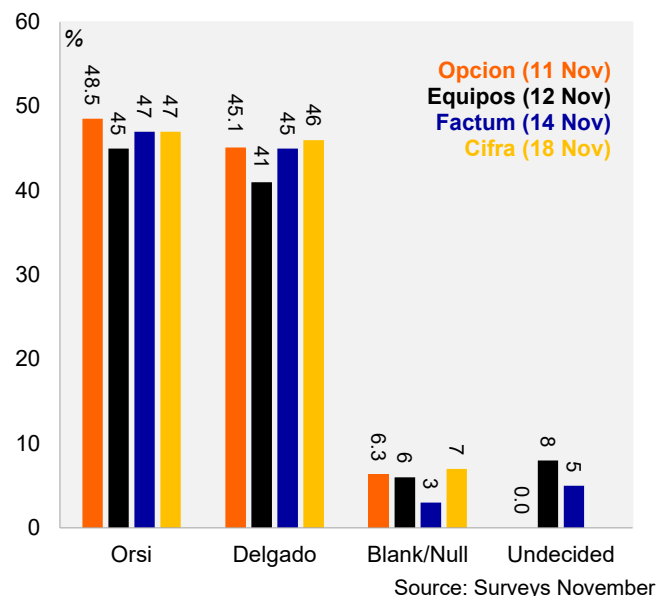
A divided congress. According to preliminary results, the Frente Amplio will have a majority in the Senate, while the governing coalition will have a majority in the Lower Chamber.

A measure to institute market-distorting social security policies was rejected in a plebiscite.

The proposal to repeal the social security reform won only 38.8% support, well below the 50% (plus one vote) needed for passage. In the end, yes votes were even lower than the levels indicated by the polls in the runup to the election (40%, on average). In a second plebiscite, a proposal on night raids was also rejected (39.4%, also below the 50%-plus-one threshold).

A presidential runoff election will take place on November 24, when Uruguayans will decide between Yamandú Orsi of the Frente Amplio or Álvaro Delgado of the governing coalition. The poll averages for November suggest that Orsi leads the race, against Delgado, with 4% of voters undecided and 6% blank or annulled votes.

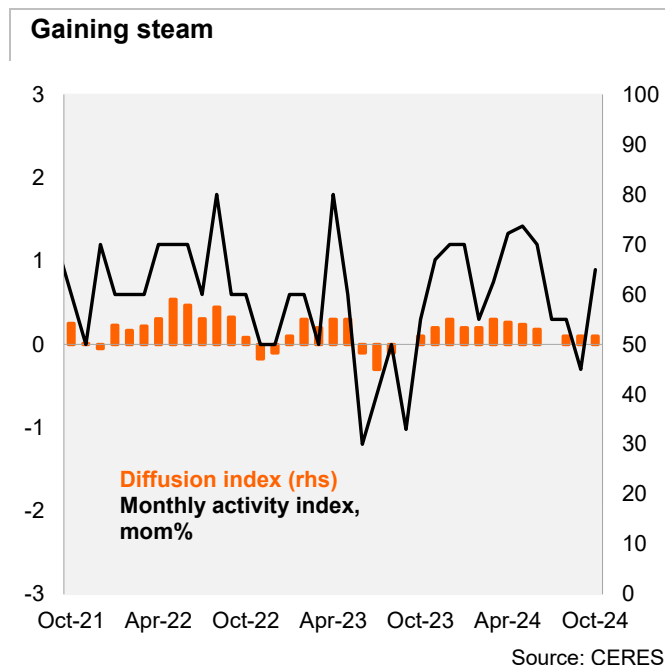
Voting intention Run - Off (24th November)



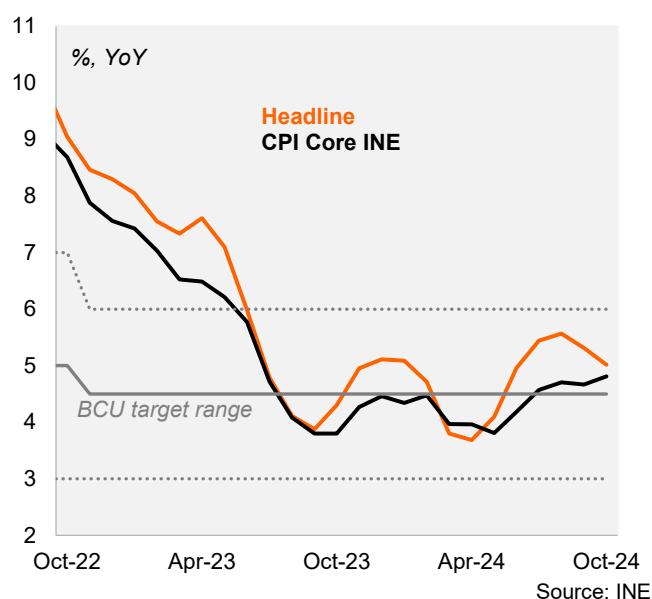
Good signs in 3Q24 activity

The monthly GDP proxy increased in August. The central bank's monthly GDP proxy (IMAE) increased by 3.4% yoy in August, pointing to a 3.0% expansion in the quarter ended that month (3.8% yoy in 2Q24). The figures likely reflect the normalization of the agricultural sector after last year's severe drought. On a sequential basis, the index climbed by 0.3% mom/sa in August after rising 1.7% mom/sa in July. Thus, the IMAE increased by 1.0% qoq/sa in the quarter ended in August, down from 2.0% qoq/sa in 2Q24. The statistical carryover for 2024 stands at 3.1%.

Meanwhile, the latest economic indicator from Ceres, a think tank, shows that activity levels continued to rise in October, increasing by 0.1% mom. This marks the third consecutive month of growth, maintaining the positive trend. Moreover, the diffusion index (the number of sectors performing favorably) rose to 65% in October from 45% in 3Q24.



Annual inflation



Inflation decelerated in October

Headline inflation rose by 0.33% mom in October (from 0.62% a year ago and a five-year median of 0.64%). The main monthly impact came from food and non-alcoholic beverages (0.36% mom, incidence 0.10 pp), clothing and footwear (2.26% mom, incidence 0.05 pp), and hotels and restaurants (0.49% mom, incidence 0.04 pp). Core inflation (which excludes prices for fruits and vegetables and fuel) increased by 0.57% mom, from 0.43% mom in October 2023. On an annual basis, headline inflation fell to 5.01% from 5.32% in September, while core inflation rose to 4.81% from 4.66% in the previous month. We note that both readings remain within the central bank’s inflation target range of 4.5% ± 1.5%.

No rate cuts in sight

In November, the central bank’s monetary policy committee (MPC) left the policy rate unchanged at 8.50%, where it has been since April. Inflation expectations stood at 5.82%, lower than in the previous quarter (5.88%) and marking a new historical low. We estimate that the ex-ante real policy rate stands at 2.5%, in line with the BCU’s neutral rate estimate. The MPC highlighted as positive the persistence of inflation around the midpoint of the target range and its gradual convergence to the committee’s expectations. However, the MPC also mentioned changes in the global scenario and their possible impact on domestic inflation and its expectations. Indeed, the UYU has depreciated recently against the USD, while expectations for the Fed’s easing cycle have moderated toward fewer cuts.

A slight improvement in the fiscal accounts

The central government’s 12-month nominal fiscal deficit fell to 3.4% of GDP in September from 3.6% in August, but it remained above the 3.2% level registered at the end of 2023. This measure excludes extraordinary income from the social security agency (asset transfers from individuals switching from the private pension system to the public pension system). Also of note, Standard & Poor’s (S&P) maintained Uruguay’s debt rating at BBB+, the highest level in the country’s history.

Runoff elections are coming

Our 2024 GDP growth forecast remains at 3.0%.

The leading indicators for 3Q24 support our call. For 2025, we have revised our growth forecast to 2.3% (from 2.5%) due to a lower global growth estimate, partially offset by an upward revision in Argentina's projected GDP.

We have lowered our YE24 inflation forecast to 5.0% (from 5.3%) due to lower prints and the prospect of a seasonal electricity tariff reduction in December. However, we have revised our YE25 forecast upward to 5.8%, from 5.5%, in light of the weaker currency.

Our policy rate forecasts for YE24 and YE25 have both been revised to 8.5%, from 8.25% and 8.0%, respectively. In our view, the recent depreciation of the UYU calls for an additional layer of caution in future decisions. Besides this, fewer cuts being penciled for the Fed limits the room for additional rate cuts due to the narrowing interest-rate differential.

The outlook for a stronger USD globally has led us to revise our YE24 and YE25 exchange-rate projections to 42.5 UYU/USD (from 41) and 44 UYU/USD (from 43), respectively.

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Uruguay | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	0.7	-6.3	5.3	4.9	0.4	3.0	3.0	2.3	2.5
Nominal GDP - USD bn	62.1	53.7	61.4	71.3	77.3	81.2	81.5	83.5	83.7
Population (millions)	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6
Per Capita GDP - USD	17,650	15,221	17,324	20,058	21,665	22,702	22,767	23,254	23,320
Unemployment Rate - year avg	8.9	10.4	9.3	7.9	8.3	8.0	8.0	7.8	7.8
Inflation									
CPI - %	8.8	9.4	8.0	8.3	5.1	5.0	5.3	5.8	5.5
Interest Rate									
Reference rate - eop - %	8.57	4.50	5.75	11.50	9.00	8.50	8.25	8.50	8.00
Balance of Payments									
UYU / USD - eop	37.35	42.35	44.69	39.9	38.9	42.5	41.0	44.0	43.0
Trade Balance - USD bn	-0.1	-0.2	0.0	-0.8	-2.5	-1.0	1.0	-1.0	1.0
Current Account - % GDP	1.2	-0.8	-2.5	-3.9	-3.6	-2.0	-1.0	-2.0	-1.0
Foreign Direct Investment - % GDP	2.2	1.9	2.4	4.5	5.5	2.0	2.0	1.5	1.5
International Reserves - USD bn	14.5	16.2	17.0	15.1	16.2	18.0	18.0	18.5	18.5
Public Finances									
Nominal Balance Central Gov. (*) - % GDP	-4.0	-5.8	-4.2	-3.0	-3.3	-3.1	-3.1	-2.9	-2.9
Gross Public Debt Central Gov. - % GDP	45.1	48.0	61.2	58.5	58.3	56.0	56.0	55.0	55.0

Source: FMI, Haver, Bloomberg, BCU, Itaú.

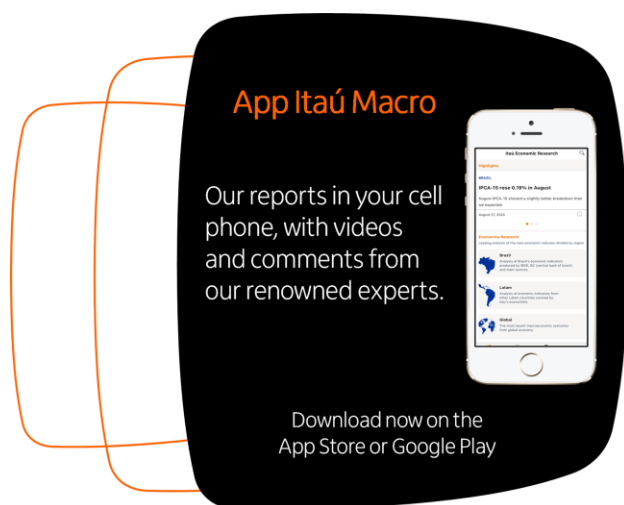
(*) Excludes extraordinary inflows to the Social Security Trust Fund.

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