

# Macro scenario - Uruguay



June 14, 2024

## Electoral race begins

- ▶ Primary elections will take place on June 30. The winners in each party will compete for the presidency in a general election on October 27. The latest surveys suggest that none of the candidates would reach a simple majority in the first round of the general election, which would trigger a runoff on November 24.
- ▶ With inflation currently toward the bottom half of the BCU's target range (3%-6%), we are not changing our 5.50% 2024 year-end inflation call, but it now has downside risk. We do not expect further rate cuts this year.
- ▶ We are maintaining our 2024 GDP growth forecast at 3.5%, with growth likely to be led by the normalization of the agriculture sector (after a severe drought in 2023) and the solid momentum of the labor market.

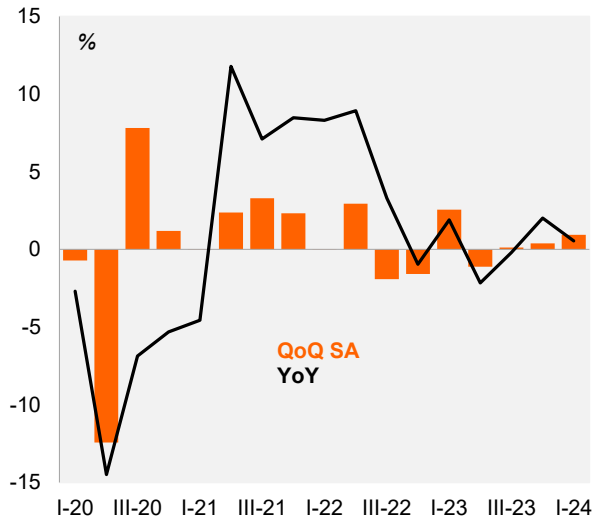
### First test

**The primary elections will take place on June 30.** In the Frente Amplio party primary, Carolina Cosse, the mayor of Montevideo, will compete against Yamandú Orsi, the mayor of Canelones. In the Partido Nacional, the competition will be between Alvaro Delgado and Laura Raffo, while in the Partido Colorado, it will be between Andrés Ojeda and Robert Silva. The winners in each party will compete for the presidency in the general election on October 27. The latest surveys suggest that none of the candidates would reach a simple majority in the first-round presidential election, which would trigger a runoff between the top two candidates on November 24. Along with the general elections, Uruguayans will also vote in a plebiscite on a proposal to overturn the social security reform enacted in 2023. According to a survey published by the consulting firm Cifra, 41% of respondents support the repeal of the reform, 37% do not support it and 22% remain undecided. A 50% + 1% voting majority is needed for the reform to be repealed. Our base-case scenario assumes that the repeal will be rejected, so we are not projecting any impact on the economy from this initiative (see electoral calendar below).

### GDP growth likely to continue in 2Q24, following the expansion in 1Q24

**GDP rose by 0.6% yoy in 1Q24 (IMAE +0.4% yoy), down from 2.0% growth in 4Q23.** Looking at the breakdown on the supply side, the annual print was driven mainly by the energy sector (20% yoy, incidence of 0.5 pp), the commerce sector (2.9% yoy, incidence of 0.4 pp) and the agriculture sector (4.3% yoy, incidence of 0.2 pp); in both the energy and agriculture sectors, the growth reflected the normalization of activity after a severe drought in the same period of 2023. On the other hand, construction output declined by 3.8% yoy, reflecting the completion of construction work on the central railroad and pulp plant. At the margin, using the central bank's seasonally adjusted series, GDP rose by 0.9% quarter over quarter in 1Q24, while the IMAE pointed to growth of 0.7% qoq/sa, expanding sequentially for the third consecutive quarter. **The** leading activity indicator published by the think tank Ceres rose by 0.2% mom/sa in May, marking the eighth consecutive monthly sequential expansion. The diffusion index (the number of sectors that evolved favorably) rose to 74% in May, up from 72.2% in April. In our view, the solid labor market (higher employment and real wages) and higher domestic tourism expenditures (which mainly reflected spillovers from the appreciation of the parallel exchange rate in Argentina), were the primary drivers of the favorable activity performance.

**GDP Growth**



Source: BCU

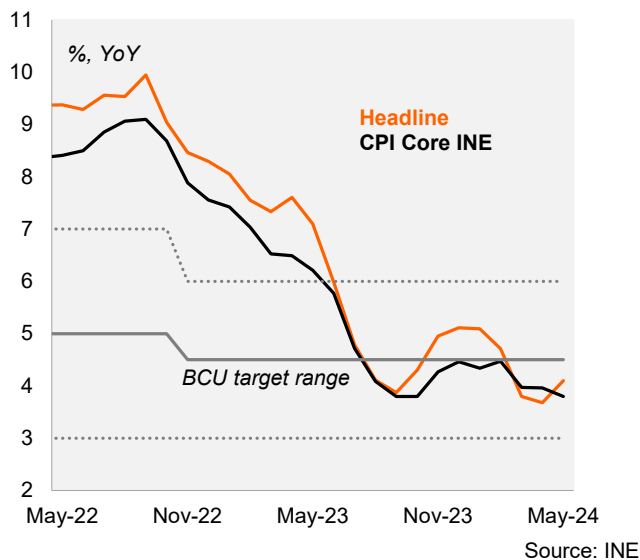
**BCU on hold in data-dependent-mode**

**At its latest monetary policy meeting, the central bank committee decided to keep the policy rate at 8.50%, as widely expected.** In the press release, the central bank stated that average inflation expectations stood at 6.25% at that time. Thus, the real ex-ante policy rate stood at 2.1% (using expectations for the monetary policy horizon), slightly below the BCU’s neutral real rate estimate of 2.4%, so monetary policy is still tilted toward the expansionary side as inflation expectations remain above the BCU’s 3%-6% target. The committee highlighted that future decisions will depend on data on domestic and international developments and on the convergence of inflation expectations toward the middle of the target range.

**Inflation Rebounded in May**

**Headline inflation rose by 0.40% MoM in May (compared with -0.01% a year ago and the 5-year median of 0.4%).** The headline figure reflects the increase in food prices (incidence of 0.21 pp), particularly volatile ones (vegetable and legume prices rose by 10.8% MoM). Core inflation (excluding fruits and vegetables and fuel prices) increased by 0.15% MoM, compared with a 0.30% MoM increase in the same month one year ago. On an annual basis, headline inflation rose to 4.1% from 3.7% in April, while core inflation fell to 3.8% from 4.00% in the previous month. We note that both readings remain within the central bank’s inflation target range (3%-6%).

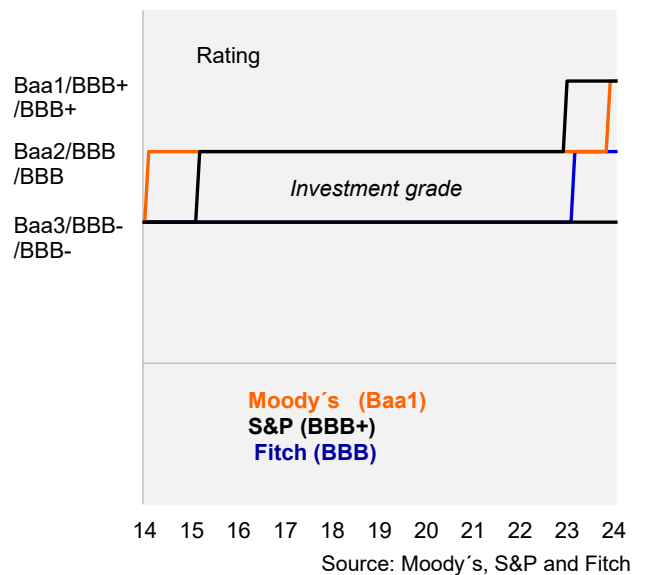
**Annual inflation**



**Fitch affirmed the sovereign’s BBB rating amid a slight deterioration of fiscal accounts**

**Fitch Ratings kept Uruguay’s sovereign rating at BBB with a Stable outlook.** Fitch highlighted the strong governance indicators, improvement in inflation and robust external finances. On the other hand, it also mentioned the risks associated with the referendum on the social security system and slightly wider fiscal deficits. In fact, the central government’s 12-month nominal fiscal deficit increased slightly to 3.5% of GDP in April, compared with 3.3% at the end of 2023. This fiscal balance measure excludes extraordinary income from the social security agency (i.e., asset transfers from individuals switching from the private pension system to the public pension system).

**A look at the ratings**



## On hold for a while

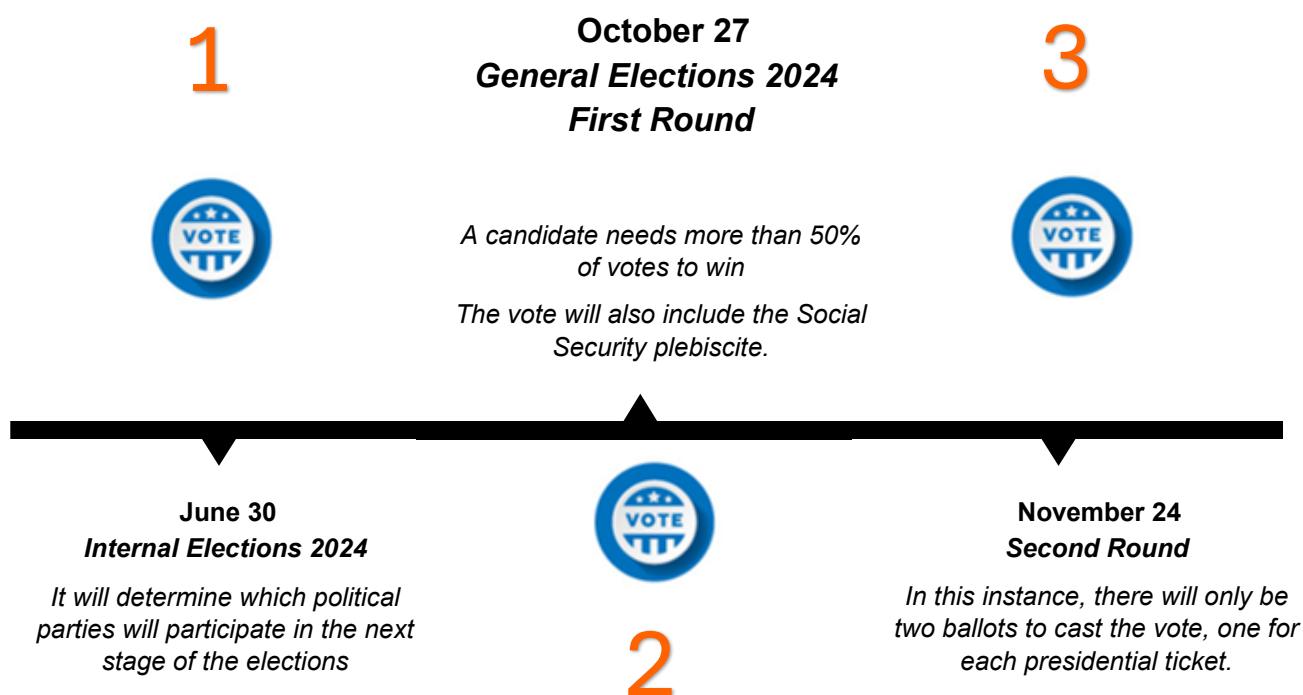
**We have left our 2024 GDP growth forecast at 3.5% in light of the positive figures for 1Q24 and the beginning of 2Q24.** The normalization of the agriculture sector (after a severe drought in 2023) and the solid momentum of the labor market support our call.

**We see downside risk to our 5.50% inflation forecast for YE24.** The likely reversion of recent increases in volatile prices (fruits and legumes) introduce a downward bias to our call.

**We have maintained our YE24 monetary policy rate forecast of 8.50%.** The central bank will meet again on July 16, and we do not expect further rate cuts, yet the BCU could cut again later in the year if inflation remains well behaved or if inflation expectations continue to correct toward the BCU's inflation target.

**We have left our nominal 2024 fiscal balance forecast unchanged at -3.0% of GDP, in line with the MoF's projections.** While we note that there has been a slight increase of the fiscal deficit in recent months, the government's discipline in fiscal management over the years supports our call.

**Andrés Pérez M.  
Diego Ciongo  
Soledad Castagna**



Source: Electoral court

## Uruguay | Forecasts and Data

	2019	2020	2021	2022	2023	2024F		2025F		
						Current	Previous	Current	Previous	
<b>Economic Activity</b>										
Real GDP growth - %	0.7	-6.3	5.3	4.9	0.4	<b>3.5</b>	3.5	<b>3.0</b>	3.0	
Nominal GDP - USD bn	62.1	53.7	61.4	71.3	77.3	<b>84.4</b>	84.4	<b>91.7</b>	91.7	
Population (millions)	3.5	3.5	3.5	3.6	3.6	<b>3.6</b>	3.6	<b>3.6</b>	3.6	
Per Capita GDP - USD	17,650	15,221	17,324	20,058	21,665	<b>23,589</b>	23,589	<b>25,550</b>	25,550	
Unemployment Rate - year avg	8.9	10.4	9.3	7.9	8.3	<b>8.0</b>	8.0	<b>7.8</b>	7.8	
<b>Inflation</b>										
CPI - %	8.8	9.4	8.0	8.3	5.1	<b>5.5</b>	5.5	<b>5.5</b>	5.5	
<b>Interest Rate</b>										
Reference rate - eop - %	8.57	4.50	5.75	11.50	9.00	<b>8.50</b>	8.50	<b>8.00</b>	8.00	
<b>Balance of Payments</b>										
UYU / USD - eop	37.35	42.35	44.69	39.9	38.9	<b>39.5</b>	39.5	<b>41.5</b>	41.5	
Trade Balance - USD bn	-0.1	-0.2	0.0	-0.8	-2.5	<b>1.0</b>	1.0	<b>1.0</b>	1.0	
Current Account - % GDP	1.2	-0.8	-2.5	-3.9	-3.6	<b>-1.0</b>	-1.0	<b>-1.0</b>	-1.0	
Foreign Direct Investment - % GDP	2.2	1.9	2.4	4.5	5.5	<b>2.0</b>	2.0	<b>1.5</b>	1.5	
International Reserves - USD bn	14.5	16.2	17.0	15.1	16.2	<b>18.0</b>	18.0	<b>18.5</b>	18.5	
<b>Public Finances</b>										
Nominal Balance Central Gov. (*) - % GDP	-4.0	-5.8	-4.2	-3.0	-3.3	<b>-3.0</b>	-3.0	<b>-2.7</b>	-2.7	
Gross Public Debt Central Gov. - % GDP	45.1	48.0	61.2	58.5	58.3	<b>55.2</b>	55.2	<b>53,4</b>	53,4	

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

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

## Macro Research – Itaú

## Mario Mesquita – Chief Economist

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