

# Macro scenario - Uruguay



October 11, 2024

## More than a presidential election

- ▶ All eyes are on the presidential election and plebiscite on social security matters, both scheduled for October 27. Polls point to a tight election, suggesting a runoff should take place on November 24. New polls confirm the downward trend in voting intention to repeal the social security reform.
- ▶ We kept our inflation forecast at 5.3%, while we now expect at least one rate cut before YE24 (to 8.25% from 8.50% in our previous scenario). We also expect now a weaker currency (UYU/USD 41 from UYU/USD 40.5).

### A key month for politics and the economy

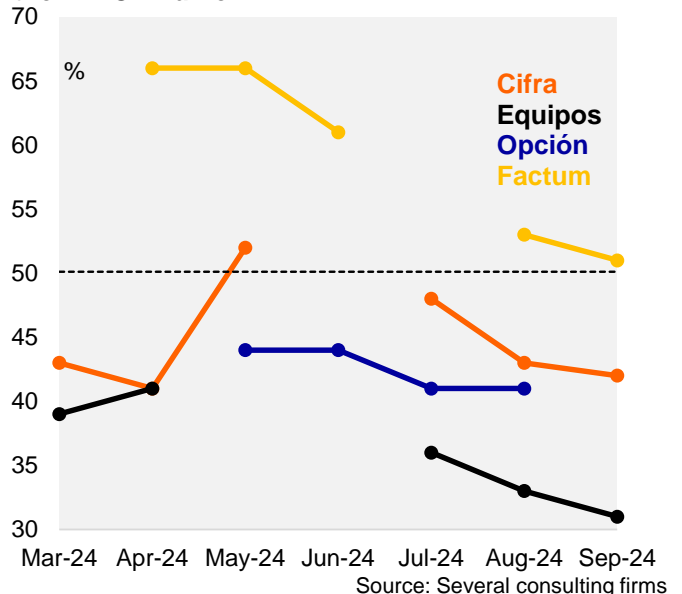
**The first round of the presidential election and plebiscite, both scheduled for October 27, are the key watch points in the near term.** Polls suggest that the plebiscite may be rejected, and the presidential election should go to a runoff.

**All eyes are on the plebiscite on social security matters.** The plebiscite lowers the retirement age from 65 to 60, bringing the minimum pension in line with the minimum wage (at a fiscal cost of about 1.3% of GDP per year) and nationalizing the pension funds. Polls point to a fall in support for the plebiscite's approval (see chart). Importantly, the plebiscite does not have the support of the presidential candidates. In addition, the main leaders of the political parties rejected the plebiscite. President Luis Lacalle Pou held a press conference highlighting the negative consequences if the plebiscite is approved, while former President José Mujica (a referent of the Frente Amplio) also spoke out against the plebiscite. Importantly, the plebiscite needs 50% +1 of the total votes, so nulls and blanks count against it. All in all, our baseline scenario is that the plebiscite will not pass.

**In terms of presidential voting intentions, the Frente Amplio leads in first-round voting intentions, but would not exceed the simple majority, which would lead to a runoff on November 24 seems the most likely scenario.** Nevertheless, the polls show a close result between the Frente Amplio and the parties of the governing coalition, anticipating an open scenario for November.

**In addition to the presidential election and the plebiscite on social security, Uruguayans will vote for congress and other plebiscite on night raids.**

### Support to the plebiscite promoted by the PIT-CNT union



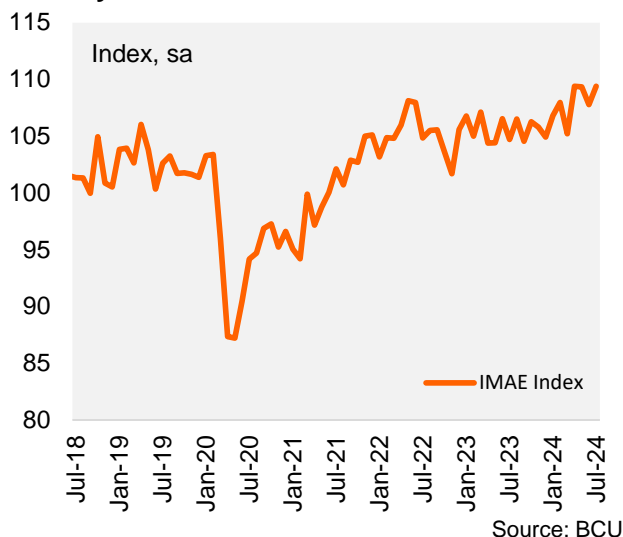
### Activity started 3Q24 on the right foot

**GDP proxy expanded in July.** The central bank's monthly GDP proxy (IMAE) expanded by 4.3% yoy in July, leading to an expansion of 3.5% in the quarter ended this month (3.8% yoy in 2Q24). The figures likely reflect the normalization of the agriculture sector after a severe drought in 2023. On a sequential basis, the index rose 1.5% mom in July. Thus, the IMAE expanded 1.2% qoq/sa in the quarter ended in July, down from 2% qoq/sa in 2Q24. The statistical carryover for 2024 stood at 2.8%.

**Moreover, the latest economic indicator from the Ceres think tank shows that activity levels continued to rise in September, increasing 0.1% mom.** This marks the second consecutive month of growth, maintaining a positive trend. However, the diffusion index (the number of sectors performing

favorably) fell to 52% in average in 3Q24 from 72% in 2Q24.

### Activity Index



### Inflation slowed in September

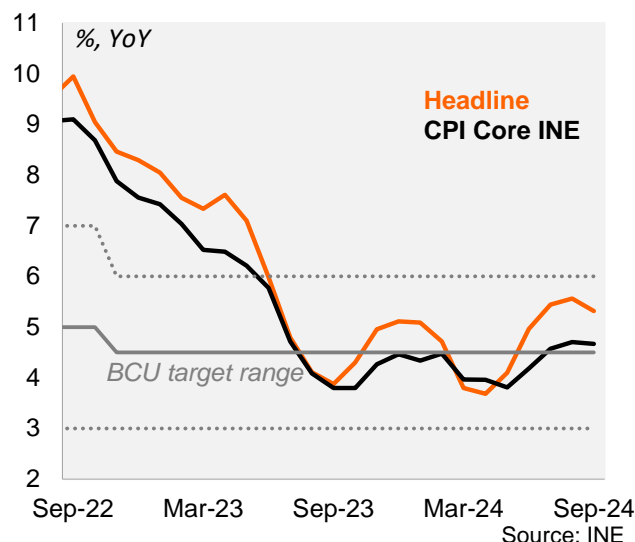
**Headline inflation rose by 0.37% MoM in September (from 0.61% a year ago and a 5-year median figure of 0.61%).** The print was below our forecast (0.62%) and in line with market expectations according to the BCU's survey (at 0.4%). The main monthly contributors were food and non-alcoholic beverages, hotels and restaurants and insurance and financial services. On the other hand, Transportation and Information and Communication experienced monthly declines. Core inflation (excluding fruits & vegetables and fuel prices) increased by 0.34% MoM, from 0.38% MoM in September 2023. On an annual basis, both headline and core inflation slowed, with headline inflation falling to 5.32% from 5.57% in August, while core inflation fell to 4.67% from 4.71% in the previous month. We note that both readings remain within the Central Bank's inflation target range of 4.5% +/- 1.5%.

### A rate cut is likely

**At its most recent meeting on October 8, the Central Bank's Monetary Policy Committee decided, as widely expected, to leave the key interest rate unchanged at 8.50%, where it has been since April.** Inflation expectations stood at 5.88%, lower than the previous quarter (6.06%), highlighting that this is the first time that the average falls in the inflation target range (4.5% +/-1.5%). Thus, we estimate that the real ex-ante policy rate stands at 2.5% (using expectations for the monetary policy horizon), in line with the BCU's neutral real rate estimate of 2.5%, keeping the monetary policy around neutral levels. Following the BCU's decision, the authorities stated that they were cautious amid the uncertainties on the social security plebiscite, but the

decision would have been different in the absence of the plebiscite (lower rates).

### Annual inflation



### All eyes on October 27

**In our view, recent elevated domestic financial volatility is related to uncertainty on the referendum on social security matters.** Our base scenario is that the plebiscite will not be approved.

**We maintained our 2024 GDP growth forecast at 3.0%.** The leading indicators for 3Q24 support our call.

**We maintained our YE24 inflation forecast at 5.3% despite the inflation deceleration in September.** The recent depreciation of the UYU leads us to be cautious with our downside revision.

**We have revised our policy rate forecasts for YE24 to 8.25%, from 8.5% before, following the latest BCU decision.** In fact, the press conference following the decision surprised us given that the ex-ante real policy rate is currently at a neutral level and inflation expectations remain above the center of the target range (4.5%). As a result, we now expect at least one 25-bps rate cut before the end of the year.

**Finally, we revised our exchange rate forecast for YE24 and YE25 to UYU/USD 41 and UYU/USD 43, from 40.5 and 42.5, respectively given our new scenario for monetary policy.**

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## 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>3.0</b>	3.0	<b>2.5</b>	2.5	
Nominal GDP - USD bn	62.1	53.7	61.4	71.3	77.3	<b>81.5</b>	82.6	<b>83.7</b>	85.8	
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>22,767</b>	23,076	<b>23,320</b>	23,907	
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>5.3</b>	5.3	<b>5.5</b>	5.5	
<b>Interest Rate</b>										
Reference rate - eop - %	8.57	4.50	5.75	11.50	9.00	<b>8.25</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>41.0</b>	40.5	<b>43.0</b>	42.5	
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>-3.1</b>	-3.1	<b>-2.9</b>	-2.9	
Gross Public Debt Central Gov. - % GDP	45.1	48.0	61.2	58.5	58.3	<b>56.0</b>	56.0	<b>55.0</b>	55.0	

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

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

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