



Insigneo Weekly Dispatch

Uruguaymandú: The Left Wave of El Río de la Plata.

Insights on last Sunday's elections in Uruguay.

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On a calm and sunny Sunday, the runoff election for the 2025-2030 term took place in Uruguay. The blue, white, and red flags of the Frente Amplio (FA), the left-wing party, were the predominant element in the capital city; Frente Amplio chants were the most heard sound in many neighborhoods. On the other side, the lack of promotion, flags, or celebrations from voters of the center-right coalition across most of the department foreshadowed a lack of conviction that would be reflected a few hours later with the first results.

The pre-election scenario was one of a very close race: most pollsters favored the FA candidate, Yamandú Orsi, but clarified that the margin of error was too large to have statistical confidence in determining a winner when predicting such a small difference of just 2 to 4%¹.

In the October elections, the parties involved in the coalition running against Orsi obtained 48% of the votes versus 44% for the Frente Amplio. In theory, if all voters of the coalition parties followed who their initial candidates asked them to vote for, the coalition's candidate Álvaro Delgado was the favorite to win the runoff. However, after a controversial choice of vice-presidential candidate, a campaign criticized for being heavily based on confrontation with the Frente Amplio, and some episodes during the government period that raised

¹ Data from Factum, Opción, Cifra, Nomade, Equipos and Usina polling companies.

suspicions of corruption and tarnished the image of the Presidential team in which Delgado worked during the current government, the coalition failed to convince all its voters to support Delgado, losing approximately sixty thousand votes between the October and November elections. All votes were lost outside the capital, Montevideo, where half of the population resides.

This means Yamandú Orsi will take office on March 1, 2025, becoming not only the third Frente Amplio leader of this century and since the party's inception in 1978, but also the first president in 100 years who is not from the capital city. His name, Yamandú, of indigenous origin, strikes a chord of cultural appreciation. Orsi led a party identified with the urban areas like the FA, faced a city-based candidate leading a party with historical roots in the country's rural areas like the National Party (leader of the coalition), and was crowned by the outskirts.

An ample victory, but with the need for agreements

Unlike previous Frente Amplio governments, this time Yamandú will govern without a parliamentary majority, as they will need to build agreements in the Lower House to secure at least two votes out of the fifty-one in the hands of other parties to enact new laws.

In a Frente Amplio that no longer has some of its most moderate leaders like Tabaré Vázquez and Danilo Astori, who passed away in 2020 and 2023 respectively, and which sees the representativeness

of its more extreme sectors growing, this lack of majorities is expected to serve as a buffer against potential proposals that could involve very abrupt institutional changes or potentially harmful ones for the macroeconomy, such as the social security referendum proposal that the population did not approve of in October.

The two seats the FA would need in the Lower House could come from the parties Identidad Soberana or Cabildo Abierto, which have stood out for having hard-to-predict opinions and reactions in the case of the former, and not always offering support to the coalition when voting in the case of the latter. Therefore, this parliamentary division should not create insurmountable obstacles for governance, but neither would it offer a free pass to approve new laws.

What the government plan outlines

The government program presented by the Frente Amplio before the election has as its most mentioned word "development": it is mentioned about 310 times in the 107 pages of the document. It is followed by the words "policies," "national," and "social." Perhaps more curiously, "sovereign" is mentioned 45 times. These terms set the tone for a document emphasizing the willingness to increase the presence and strength of the State, in a country that already offers free education and health care to all its inhabitants, pensions and social security benefits, accessibility to housing plans, among other guarantees.

In this context, most of the proposal aligns with the political trajectory of previous Frente Amplio governments and does not significantly diverge from the proposals made by the coalition or carried out by the current government, which always kept its distance from the liberal "chainsaw" of Milei emerging from the other side of the Río de la Plata. Economically, however, it is a proposal with a strong emphasis on increased spending or investment in multiple areas, focusing on education, health, social security, and care—this last being a system aimed at ensuring care for dependent elderly people and young children, which was a flagship of the last Frente Amplio government. In some pillars, concrete proposals are detailed, such as the increase in transfers to low-income families, while others take a more general form, such as improvements by achieving the goal of 6%+1 of GDP spending on education. There is also mention of raising wages above inflation through collective agreements.

Regarding how the increased expenditures will be financed, the programmatic bases propose reducing tax incentives for companies and generating tax changes, with increases in income, capital, and wealth taxes, and changes in VAT² structuring, alluding to the possibility of personalized VAT, under which those with higher incomes would pay more VAT and vice versa.

"There are no possible productive, social, and environmental policies without strong taxation," one page reads. "A significant adjustment in income distribution will be made," another says. "During Frente Amplio governments, major structural reforms were carried out accompanied by a significant increase in the budget allocation for social public spending," it mentions, before referring to a supposed major setback since the beginning of the current government in 2020 and the increase in poverty, which according to official national statistics institute, INE, is three-tenths above the 2019 level, standing at 9.1% in the first half of 2024.

"We carried out the tax reform at the time, simplifying and finally resolving the national tax system, and I clarify: we will not raise taxes," said Orsi during the mandatory debate before the runoff. "Claiming not to raise taxes has a lot of populism," he contradicted himself two days later on Encuentro 970, a program on Radio Universal³, before being inquired regarding the contradiction and insisting again that he stated this because the party does not plan to raise taxes. The truth is that not only has Orsi made specific contradictory statements or ones that have gone against the party's opinion and the government program during the campaign, but also Oddone, his possible Minister of Economy, was involved in a controversy by mentioning his ideas regarding de-indexing high

² See page 29 of the government program for 2025-2030: <https://www.frenteamplio.uy/programa/propuesta-de-bases-programaticas-aprobadas-por-el-plenario-para-construir-el-uruguay-del-futuro/>

³ <https://970universal.com/2024/11/19/es-horrible-que-te-pasen-estas-cosas-y-no-nos-podamos-defender-dijo-orsi-en-relacion-al-caso-pluna/> Programa emitido el 19 de Noviembre de 2024.

salaries⁴⁵, so that they no longer adjust (or adjust less frequently) according to inflation. This will be another variable to consider as the government unfolds: whether it will be a government strictly following the program, party consensus, and the party president, Fernando Pereira, or if Yamandú Orsi, as President of the Republic, and his ministers will impose their opinions at times.

The truth is that Uruguay already has a high tax burden, a high cost of living, and debt relative to GDP that is mid-range in Latin America⁶. It was not considered concerning by the IMF and is expected to remain so, provided the fiscal rule imposed in 2020⁷ is respected, which, as suggested by S&P, serves as a reference point in their review of the country's credit risk rating, currently at BBB+ with an stable outlook⁸.

Lacalle Pou ends his government with economic activity being good and strong: GDP grew 3.4% year-on-year in August⁹, compared to the 2.5% annual potential estimated for 2024–2033. Year-on-year inflation was 5.01% in October, historically low for a country with 6–10% inflation in the previous decade. The monetary policy rate stands at 8.75%, average-to-high when looking at historical rates. The dollar has remained relatively stable, having started March 2020 at approximately

38–39 USD/UYU and being currently at aprox. 42 USD/UYU, and the government has let it fluctuate freely. According to the data from the Big Mac Index of January 2024, Uruguay is the third most expensive country in USD globally, behind only Switzerland and Norway¹⁰, which has given rise to numerous criticisms during the campaign, with Frente Amplio's leaders expressing they believe the dollar price should be higher.

Macroeconomic Implications

Throughout its previous terms in office, the Frente Amplio has maintained a certain level of fiscal discipline and debt management that initially enabled Uruguay to achieve investment-grade status. In its programmatic foundations and Orsi's rhetoric, the party has reaffirmed its commitment to preserving these aspects and ensuring the country's macroeconomic stability. However, the spending outlined in its program is significant. Its previous administrations implemented tax reforms and benefited from years of sharp global commodity price increases between 2000 and 2014, which allowed for increases in social spending. Today, with taxes already high and plans to significantly increase social spending and raise

⁴ <https://mediospublicos.uy/oddone-planteo-flexibilizar-consejos-de-salarios-y-utilizar-descuelgues/>

⁵ <https://www.telenoche.com.uy/nacionales/cruce-el-frente-amplio-propuesta-desindexar-salarios-planteada-gabriel-oddone-n5372306>

⁶ <https://www.statista.com/statistics/813474/public-debt-gross-domestic-product-latin-america/>

⁷ <https://www.imf.org/es/News/Articles/2024/05/06/pr-24139-uruguay-staff-concluding-statement-of-the-2024-article-iv-mission>

⁸ <https://www.gub.uy/ministerio-economia-finanzas/comunicacion/noticias/sp-subio-calificacion-uruguay-bbb-perspectiva-estable-respaldado-politica>

⁹ [https://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Informe-del-Indicador-Mensual-de-Actividad-Economica-\(IMAE\).aspx](https://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Informe-del-Indicador-Mensual-de-Actividad-Economica-(IMAE).aspx)

¹⁰ <https://es.statista.com/estadisticas/635750/indice-big-mac-precios-mundiales-de-una-hamburguesa-big-mac-en/>

real wages, the lingering question is: where will those funds come from? The answer appears to be debt and higher taxes.

This is why our baseline scenario is one of a trendline between neutral and slightly negative regarding macroeconomic indicators, with potential challenges in maintaining inflation levels within the current target range in the medium term. While no immediate changes to the monetary policy rate are anticipated, a gradual depreciation of the Uruguayan peso is expected to continue. Under Orsi's government, exchange rate policy will likely return to a dirty float—determined by supply and demand with occasional Central Bank interventions to minimize price volatility—or, alternatively, a free float.

A rising U.S. dollar in Uruguay would benefit the agricultural export and tourism sectors in terms of international competitiveness, especially as tourism has not yet fully recovered to pre-pandemic levels. It would also help Uruguay maintain its appeal to investors in the region, particularly as Argentina may slowly begin to emerge from the worst of its latest economic crisis.

Conclusion

When analyzing proposals from both sides, the country appears to remain firmly at the center of the political-ideological spectrum compared internationally. No drastic economic changes are expected due to endogenous factors stemming from the election results. Despite the apparent growing social polarization between supporters of each party, the most unanimous and repeated message throughout the day was an appreciation for Uruguayan democracy, which continues to be perceived as solid, respectable, and transparent by the general public. A highly valid hallmark for a country that emphasizes positioning itself to investors as a gateway to investing in the region while minimizing country risk.



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