
Commentary

Uruguay's Social Security Plebiscite Could Derail The Next Administration's Agenda

Morningstar DBRS

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Uruguayans will go to the polls on October 27, when the country will determine the presidency in addition to all the seats of both legislative houses. With elections less than two weeks away, the presidential and parliamentary races look too close to call. The clear front-runner in the first round of the presidential contest is the Frente Amplio candidate, Yamandú Orsi, who is leading in the polls with approximately 42-44% of the vote. The incumbent National Party candidate, Álvaro Delgado, has 21-24%, followed by the Colorado Party candidate, Andrés Ojeda, who has about 15%. If no presidential candidate gets an absolute majority of the votes in the first round, there will be a run-off election between the top two candidates on November 24. Most polls show a very tight race in the second round between Orsi and either Delgado or Ojeda, who would represent a coalition of right-leaning parties.

We expect broad continuity in macroeconomic policy regardless of who wins the election. All three major parties are aligned on the importance of sustainable public finances, price stability, and sound regulation of the financial system. No candidate is proposing major changes, if any, to the fiscal framework, which was legislated at the beginning of the current Lacalle Pou administration. Moreover, all of the presidential candidates aim to improve economic growth through a combination of micro reforms, deregulation, and increasing integration into international markets, even as specific measures may differ.

Voters on October 27 will also be asked to vote on two plebiscites which would introduce changes to the constitution. One involves a public security measure that would enable the police to conduct night raids. Given the public's increasing unease with crime, this measure appears to have widespread support. According to an Equipos poll last week, 60% of voters were in favor of the constitutional amendment.

Of greater concern from a credit risk perspective is the plebiscite on social security. Led by the national trade union (PIT-CNT), this initiative would lower the retirement age to 60, raise the lowest pensions to equal the minimum wage, and eliminate private pension administrators (AFAPs). The difficulties that could arise from such a large-scale overhaul of the pension system are multifold. The increased cost would put a significant stress on public finances over the medium term, especially in light of Uruguay's aging society. The outcome could have adverse reputational effects in the market and lead to higher borrowing costs for the government. In addition, eliminating the private pension managers and transferring the funds' assets to the public pension system would leave the government exposed to legal challenges.

While the social security plebiscite represents a clear risk to public finances, it appears unlikely to pass. Most polls show the 'Yes' vote falling short of the 50% threshold, although there is a sizable number of undecided voters. Importantly, the plebiscite is opposed by the ruling coalition as well as most factions of the opposition, including Frente Amplio presidential candidate Orsi and former president José Mujica. Furthermore, only 4 of the last 11 plebiscites were passed, and those that passed had significantly more support at this stage in the campaign.

Uruguay's predictable and pragmatic macroeconomic policymaking and strong governing institutions are key credit strengths. We expect this to continue when a new president and General Assembly take office in March 2025. Moreover, Uruguay's near-term economic outlook looks pretty good. The IMF expects GDP growth of 3.0% in 2025 and 2.6% in 2026. However, the next administration will inherit relatively limited fiscal space. As of August 2024, the central government fiscal deficit came in at 3.6% of GDP. Even if the social security plebiscite fails, the next administration will need to find ways to pursue its policy objectives in a fiscally sustainable manner. If the plebiscite succeeds, the next government will likely need to put its election promises on the backburner and focus on containing the fallout.

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