

Uruguay

1. General trends

With a GDP growth rate of 8.9% in 2008, the Uruguayan economy achieved strong expansion for the fifth consecutive year, but in the fourth quarter it began to feel the impact of the international crisis. The growth of the economy was driven by a rise in internal and external demand, causing high levels of growth in investment and consumption. The best performances were recorded by the industrial and transport and communications sectors. Annual inflation stood at 9.2%, exceeding the range established by the monetary programme. Because of the adoption of fiscal measures to contain the rise in internal prices, the non-financial public sector closed the year with a deficit of 1.3% of GDP.

The current account deficit was higher than in 2007, mostly because of rising prices for imported petroleum and electric power during the first half of the year, although falls in those prices from August onwards and rising tourism revenue produced a more favourable picture in the second half of 2008 and in early 2009. As in previous years, strong external capital flows continued in the form of direct investment and financial capital, and

there was once again a considerable rise in the level of reserve assets.

The annual rate of GDP growth for 2009 is projected by ECLAC at 1%. Inflation is expected to stand at the upper limit of the authorities' target range of 3%-7%. The primary fiscal surplus is projected at around 1.8% of GDP, while the overall balance is expected to be -1.9% of GDP.

2. Economic policy

In general, economic policy in 2008 continued to focus on macroeconomic stability amidst the shifting context of international markets and inflationary pressures from the domestic market. The strong economic growth recorded in previous years and rising prices of exports and imported intermediate consumer goods put constant pressure on domestic prices, which were controlled by means of a moderately restrictive monetary policy and fiscal measures to absorb part of the hike in energy costs in the first half of the year. Additionally, the quasi-fiscal deficit

increased in the first quarter of 2008 owing to monetary sterilization operations used to prevent an increased drop in the nominal exchange rate.

Beginning in September, the sudden change in international market conditions led to a temporary relaxation of monetary restrictions, in hopes that an adjustment in the nominal exchange rate following the revaluation of the dollar would lessen the impact of falling prices and weakening external demand on the most vulnerable sectors.

At the end of the year a set of fiscal measures was announced to reactivate the economy following the first signs of a slowdown in economic activity and international demand. These measures included government investment in infrastructure projects, incentives for private investment and for the export sector, and mechanisms to facilitate mortgage lending and access to financing for small and medium-sized enterprises.

In light of severe weather conditions (including a prolonged drought) and the worsening situation in international markets, a second set of measures to attenuate their effects was announced in March 2009. These initiatives were focused on safeguarding employment by subsidizing job training and job protection in the worst affected sectors (textiles, clothing, leather and motor vehicles). Other measures aimed at improving the profitability of the industrial sector included: tax exemptions on capital goods production, extension to the leather and motor vehicle sectors of preferential conditions for export pre-financing, liquidity improvements and reviewing the tariff policy for the motor vehicle sector, value added tax (VAT) deductions on diesel fuel used in manufacturing and temporary changes to the rules of origin regime for exports subject to tax reimbursement. Initiatives to mitigate the effects of the drought included financial support targeting small scale fish and dairy producers and subsidies for the purchase of feed and fodder. In addition, analysis of possible mechanisms for managing weather emergencies was initiated and a decision was made to reduce the cost of imported equipment for building irrigation systems.

Given the expected increase in the fiscal deficit, special lines of credit with multilateral lending institutions and the issuance of additional treasury bonds, for sale primarily in the domestic market, were negotiated. Placement of debt in international markets is under consideration for the second semester.

(a) Fiscal policy

In 2008 the non-financial public sector (NFPS) posted a primary surplus of 1.5% of GDP and an overall deficit of -1.3%. Payments for debt servicing made up 2.8% of GDP.

Income of the non-financial public sector remained steady throughout the year in real terms with respect to the year before. Central government tax revenue grew by 14.5%, with an increase of 4.9% in real terms. The primary result of public enterprises was negative, standing at -0.8% of GDP at year's end.

Central government primary expenditure grew by 10.9% in nominal terms (1.5% in real terms), recording a real increase of 24.5% in investments. Current expenditure remained constant in real terms, with a 2.3% reduction in

debt servicing payments. The gross external debt of the NFPS remained constant in dollars but once again fell in GDP terms, standing at 38.2% of GDP at year's end compared with 41.4% the year before.

In the year to March 2009, the fiscal deficit rose terms to approximately 2% in GDP terms. This result can be attributed to weaker tax revenues, which grew by 1% in real terms in the first semester, compared with the same period in the year 2008, while interest payments were up by 11% in real terms and current expenditure jumped 9%.

(b) Monetary policy

Monetary policy remained restrictive in 2008 in order to keep inflation within the target range of 3%-7% annually with an 18 month horizon. Initially, the interbank overnight rate (call rate)—which regulates interbank loans in local currency—was the main instrument of control. This rate was set at an annual 7.25% until September 2008 and was raised to 7.75% in October, although less emphasis was placed on its control in the last quarter, owing to the turmoil in international markets. At that point, exchange-rate operations were favoured with the expectation that the local currency would follow the international trend of dollar revaluation. Following the stabilization which occurred at the end of the year, the interest rate was once again controlled, and was set at 9.5% in December and raised to an annual 10% at the beginning of 2009. In March 2009 it was adjusted back down to 9%.

The figure for monetary expansion (M1) was 7.4% in real terms by the end of 2008, following a sharp deceleration towards the end of the year. Likewise, the money supply (M2) grew by 7% in real terms with respect to the average in 2007, slackening in the last months of the year owing to slower growth in term deposits. The central bank held assets totalling over US\$ 6.3 billion at year's end, 54% more than in 2007. This growth was fuelled by the increase in the reserve requirement on short-term deposits implemented as one of the anti-inflationary measures.

Activity in the financial sector continued expanding throughout 2008, with 19% growth in the volume of operations (measured as total current bank loans and bank obligations to the non-financial sector). Non-financial private sector deposits in the banking system grew by 21%, standing at about US\$ 12.8 billion. Growth slowed in the last four months of the year owing to greater uncertainty. The share of sight deposits increased, accounting for 77% of the total, compared with 73% the year before. The share of foreign currency deposits rose starting in September from 78% in August to 82% between October and December, and the share of non-resident deposits went from 20% at the end of 2007 to 23% in December 2008.

Lending to the resident private sector increased by 32.6% in current dollars, standing at approximately US\$ 7.3 billion (27.8% of GDP) in late 2008. Loans in local currency had grown by 57% at year's end, while those in foreign currency expanded by 16%. Thus, the local-currency portfolio made up 48% of all lending. Liquidity in the financial system at 30 days stood at 65%, with levels of net asset responsibility exceeding the required minimum.

In December 2008, lending rates averaged 27.5% in local currency and 6.9% in dollars, up 5 and 0.3 percentage points respectively compared with the average rates in December 2007. Deposit rates in local currency averaged 5.4% in December 2008 and 1% for dollar denominated deposits. So far in 2009 average lending rates have fallen slightly to 24% in local currency and 6.4% in dollars, while deposit rates averaged 5.6% for local currency and 0.7% in dollars.

(c) Exchange-rate policy

A floating exchange-rate regime was maintained throughout the year. By August the dollar had fallen some 11%, consistent with its international depreciation and heavy inflows of foreign exchange from exports. Both of these trends reversed beginning in September which caused the dollar to be revalued in the local market during the last four months of the year and to appreciate by nearly

27%. As a result, the local currency dropped 12% against the dollar in 2008. The dollar dipped at the beginning of 2009, reaching a degree of stability at around 23.50 pesos to the dollar in February.

(d) Other policies

The retirement system was modified in late 2008 based on evidence that showed that under the current system workers were unlikely to be able to retire with pensions before age 70. The required number of years worked with contributions to obtain benefits was reduced, as were the corresponding replacement rates. An old-age pension for people aged 65 and older who met certain contribution requirements was established and a special subsidy for people who were unemployed for more than one year when approaching retirement age was instituted as a way to allow for early retirement. The pension systems for police officers and bank employees, which suffered from large deficits and unfavourable ratios of workers to pensioners, were reformed to bring them in line with the general pension system.

Lastly, the central bank's charter was modified, giving it a more active role in controlling inflation and supervising the banking system. In this context, a deposit insurance agency (COPAB) was created as an autonomous entity outside the central bank, in charge of administering deposit insurance and carrying out the process of bank liquidations.

3. The main variables

(a) Economic activity

Output of goods and services increased in 2008 in all sectors except electric power, gas and water. The industrial sector spearheaded GDP growth with an increase of 17.3%, accounting for 2.6 percentage points of the 8.9% GDP growth. The transport and communications sector grew faster (27%) as in previous years, but accounted for only 2.4 percentage points of GDP expansion. Other services (personal and business services) made up 1.7 percentage points of growth, with a year-on-year variation of 5%. The commerce, restaurants and hotels sector benefited from 10.5% growth over the year and contributed 1.4 percentage points to GDP variation. The construction sector grew by 9% with an incidence of 0.5 percentage points, while the primary sector increased by 5.7% and was responsible for 0.4

percentage points of growth. Output of electric power, gas and water fell by 38% during the year and had an incidence of -1.2 percentage points on annual GDP growth.

The increase in GDP in 2008 was fuelled by higher domestic demand, with an annual variation of 8.8% and an incidence of 6.3 percentage points from private consumption and 0.9 percentage points from public consumption. Gross fixed capital formation stood at 16.4% of GDP, following an 18.1% total variation for the year. Public investment grew by 28.1%, while private investment increased by 15.7%. The areas with the greatest variation in investment were machinery and equipment (29.8%) and cultivated assets (11.2%). Exports grew by 10.5% and accounted for 3.1 percentage points of the increase in GDP, while imports rose by almost 20%, with an incidence of -6.2 percentage points.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	-1.4	-3.4	-11.0	2.2	11.8	6.6	4.6	7.6	8.9
Per capita gross domestic product	-1.8	-3.6	-11.0	2.2	11.9	6.6	4.4	7.3	8.6
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	-3.0	-7.1	5.1	10.6	10.6	4.6	3.5	-5.4	5.7
Mining and quarrying	-8.8	-5.2	-37.6	14.1	7.2	4.4
Manufacturing	-2.1	-7.6	-13.9	4.7	20.8	10.1	7.9	7.0	17.3
Electricity, gas and water	5.0	1.7	-0.6	-7.4	1.8	5.8	-26.4	55.3	-38.4
Construction	-11.1	-8.7	-22.0	-7.1	7.5	4.2	10.1	5.5	9.0
Wholesale and retail commerce, restaurants and hotels	-5.3	-3.2	-24.5	-1.0	21.3	10.1	6.0	12.7	10.5
Transport, storage and communications	1.5	0.3	-9.1	3.1	11.5	11.1	8.8	12.2	27.1
Financial institutions, insurance, real estate and business services	2.2	1.7	-0.9	-5.3	-1.7	-3.5	2.2	6.2	4.8
Community, social and personal services	-0.6	-2.3	-3.3	0.7	3.2	1.4	3.1	3.7	5.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	-1.4	-2.1	-15.9	1.1	9.5	4.0	7.1	7.3	8.8
Government consumption	-0.3	-2.9	-9.3	-4.8	2.5	0.0	6.0	5.0	8.6
Private consumption	-1.6	-2.0	-16.9	2.0	10.6	4.5	7.2	7.7	8.8
Gross domestic investment	-13.0	-9.1	-34.5	18.0	22.0	7.6	13.3	6.3	25.0
Exports (goods and services)	6.4	-9.1	-10.3	4.2	30.4	16.3	2.7	8.2	10.5
Imports (goods and services)	0.1	-7.1	-27.9	5.8	26.8	10.8	14.8	6.7	19.9
	-1.4	-3.4	-11.0	2.2	11.8	6.6	4.6	7.6	8.9
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	20.1	21.5	19.3	26.9	22.7	15.7	20.3	21.0	23.0
National saving	17.3	19.0	22.3	26.1	22.7	15.9	18.4	20.6	19.5
External saving	2.7	2.6	-3.0	0.8	-0.0	-0.2	2.0	0.3	3.5
Millions of dollars									
Balance of payments									
Current account balance	-566	-498	382	-87	3	42	-392	-80	-1 119
Goods balance	-927	-775	48	183	153	21	-499	-555	-1 554
Exports, f.o.b.	2 384	2 139	1 922	2 281	3 145	3 774	4 400	5 043	7 100
Imports, f.o.b.	3 311	2 915	1 874	2 098	2 992	3 753	4 898	5 598	8 654
Services trade balance	394	316	153	135	325	372	409	683	744
Income balance	-60	-68	108	-488	-588	-494	-428	-345	-454
Net current transfers	28	30	72	83	113	144	126	136	146
Capital and financial balance ^d	733	775	-4 314	1 048	302	753	2 791	1 091	3 352
Net foreign direct investment	274	291	180	401	315	811	1 495	1 139	2 049
Other capital movements	459	484	-4 494	647	-12	-58	1 296	-49	1 303
Overall balance	166	277	-3 932	961	306	796	2 399	1 010	2 233
Variation in reserve assets ^e	-166	-278	2 328	-1 380	-454	-620	15	-1 005	-2 233
Other financing	0	0	1 604	420	149	-175	-2 414	-5	-0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	100.0	94.5	91.1	91.9	93.6	91.0	89.1	87.6	83.0
Terms of trade for goods (index: 2000=100)	100.0	104.0	102.6	103.5	99.9	90.7	88.6	88.7	92.3
Net resource transfer (millions of dollars)	672	707	-2602	979	-137	84	-52	741	2897
Total gross external debt (millions of dollars) ^g	8 895	8 937	10 548	11 013	11 593	11 418	10 560	12 218	12 027
Average annual rates									
Employment									
Labour force participation rate ^h	59.6	60.6	59.1	58.1	58.5	58.5	60.9	62.7	62.6
Open unemployment rate ⁱ	13.6	15.3	17.0	16.9	13.1	12.2	11.4	9.6	7.9
Visible underemployment rate ⁱ	11.9	15.3	18.4	19.3	15.8	17.1	13.6	12.8	17.2
Prices									
Annual percentages									
Variation in consumer prices (December-December)	5.1	3.6	25.9	10.2	7.6	4.9	6.4	8.5	9.2
Variation in producer prices, local products (December-December)	9.5	3.8	64.6	20.5	5.1	-2.2	8.2	16.1	6.4
Variation in nominal exchange rate (annual average)	6.7	10.1	59.6	32.7	1.8	-14.7	-1.9	-2.4	-10.8
Variation in average real wage	-1.3	-0.3	-10.7	-12.5	0.0	4.6	4.3	4.7	3.3
Nominal deposit rate ^j	14.7	18.6	61.7	28.4	5.5	2.3	1.7	2.3	3.2
Nominal lending rate ^k	32.1	38.1	116.4	56.6	26.0	15.3	10.7	10.0	13.1

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
	Percentages of GDP								
Central government									
Total income	19.4	19.9	20.3	20.5	20.7	20.9	21.2	20.3	19.4
Tax income	16.1	16.7	16.8	17.8	17.7	17.9	18.6	17.8	17.2
Total expenditure	22.8	24.2	24.9	24.9	23.0	22.4	22.1	21.8	20.4
Current expenditure	21.0	22.4	23.6	23.7	21.6	21.1	20.7	20.3	18.7
Interest	2.0	2.4	3.9	5.4	4.7	4.2	4.1	3.6	2.7
Capital expenditure	1.8	1.7	1.4	1.2	1.4	1.3	1.4	1.5	1.7
Primary balance	-1.4	-1.9	-0.8	1.0	2.3	2.7	3.2	2.1	1.7
Overall balance	-3.4	-4.3	-4.6	-4.4	-2.4	-1.6	-1.0	-1.6	-1.0
Non-financial public sector debt	34.4	44.7	101.4	96.1	75.5	67.4	60.4	51.4	49.4
Domestic	8.3	14.9	24.3	18.0	14.5	14.4	13.6	10.0	11.2
External	26.1	29.8	77.2	78.0	61.0	52.9	46.9	41.4	38.2
Money and credit^l									
Domestic credit	...	43.3	51.8	29.2	17.2	13.7	18.7	14.6	12.5
To the public sector	4.0	6.5	22.3	14.1	11.8	5.9	7.4	1.3	2.9
To the private sector	54.8	65.0	72.0	44.5	29.7	26.1	25.6	24.2	27.8
Others	...	-28.2	-42.5	-29.5	-24.4	-18.4	-14.3	-10.9	-18.9
Liquidity (M3)	71.1	89.9	86.0	79.6	64.8	58.0	56.5	48.8	54.5
Currency outside banks and local-currency deposits (M2)	11.0	9.9	8.7	9.3	8.8	10.4	11.2	12.4	12.3
Foreign-currency deposits	60.2	80.0	77.4	70.3	56.0	47.6	45.3	36.4	42.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 1983 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Figures include the private sector and do not include memorandum items on external liabilities and assets.

^h Economically active population as a percentage of the working-age population, urban total.

ⁱ Percentage of the economically active population, urban total.

^j Average rate for fixed-term deposits, 30-60 days.

^k Business credit, 30-367 days.

^l The monetary figures are end-of-year stocks.

GDP rose by 2.3% in the first semester of 2009 with respect to the first semester of 2008. In seasonally adjusted terms, however, it fell 2.9% in the fourth quarter of 2008. In the first quarter of 2009, compared with the same period the previous year, the transport and communications sector grew by 12% and the construction sector by 6%, while agriculture, industry, and supply of electric power, gas and water contracted by 1.8%, 2.2% and 7% respectively. In terms of physical volume, final government consumption posted 6% growth in the first quarter (with respect to the first quarter of 2008) and gross capital formation increased by 5%. In that same period, exports expanded by 1.5%, private consumption grew by 1.2% and imports of goods and services decreased by 7%.

(b) Prices, wages and unemployment

The consumer price index (CPI) rose by 9.2% in 2008, the highest increase since 2003. The category with the highest incidence was food and beverages (3 percentage points), with a cumulative yearly variation

of 10.6% in December 2008. In order of magnitude, it was followed by housing (13.8%), recreation (12.6%) and education (10.4%). In the same period, the national producer price index rose by 6.4%. From January to May 2009, the increase in consumer prices stood at 1.7%, while annualized inflation hit 6.6% in May 2009.

The labour market continued to be favourable throughout the year and the urban employment rate reached an annual average of 57.7%, growing by one percentage point. The participation rate of the working age population stood at 62.6% —similar to the previous year's figure. Thus, the average unemployment rate (7.9%) dropped by almost two percentage points with respect to the year before. Real wages rose by 3.3% on average in 2008, with similar increases in both public and private sectors. The market continued its trend towards formalization and the percentage of non-registered workers fell from 26.2% in 2007 to 23.9% in 2008. In April 2008, the unemployment rate rose slightly to 8.8% in urban areas, owing to the fall in the employment rate, particularly in the country's interior.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2007				2008 ^a				2009 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	6.0	6.7	8.2	9.2	7.8	10.3	9.9	7.6	2.3	...
Goods exports, f.o.b. (millions of dollars)	932	1 136	1 217	1 230	1 297	1 667	1 637	1 348	1 091	...
Goods imports, c.i.f. (millions of dollars)	1 151	1 205	1 655	1 617	1 780	2 686	2 371	2 096	1 442	...
Gross international reserves (millions of dollars)	3 458	3 686	3 540	4 121	4 993	6 101	6 344	6 360	6 965	7 100 ^c
Real effective exchange rate (index: 2000=100) ^d	129.6	129.1	126.4	122.8	119.2	115.1	112.2	117.2	113.9	118.7 ^c
Urban unemployment rate	10.4	10.1	9.4	8.6	8.9	7.8	8.0	6.9	7.9	...
Consumer prices (12-month percentage variation)	7.4	8.1	8.9	8.5	8.0	8.4	7.5	9.2	7.5	6.5
Average nominal exchange rate (pesos per dollar)	24.30	23.95	23.53	21.95	20.90	19.77	19.58	23.36	23.48	23.68
Average real wage (variation from same quarter of preceding year)	5.1	3.9	5.7	4.3	4.3	4.0	1.9	4.0	6.2	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	1.7	2.0	2.3	3.0	2.9	2.8	2.5	4.6	4.3	4.0
Lending rate ^f	9.5	10.3	9.3	10.8	11.1	11.2	12.2	18.0	18.0	17.0
Interbank rate	1.3	3.0	4.6	7.1	7.0	7.2	7.2	19.0	9.4	8.9
Sovereign bond spread (basis points) ^g	172	147	202	223	310	265	376	578	586	335
Domestic credit (variation from same quarter of preceding year)	22.9	23.1	9.9	-7.9	-7.1	1.1	6.6	1.2	1.4	...
Non-performing loans as a percentage of total credit	19.7	18.3	18.4	13.7	14.5	20.5	20.2	16.6	14.9	13.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 1983 prices.

^c Data to May.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Average rate for fixed-term deposits, 30-61 days.

^f Business credit, 30-367 days.

^g Measured by JP Morgan's EMBI+ index.

(c) The external sector

The overall balance of payments in 2008 was US\$ 2.232 billion. The balance-of-payments current account recorded a deficit of US\$ 1.119 billion (equivalent to 3.5% of GDP), offset by a capital and financial balance surplus of US\$ 3.352 billion, thanks to private sector investments totalling US\$ 2.386 billion, specifically foreign direct investment at US\$ 2.049 billion.

The value of exported goods increased by 31.8% in 2008, totalling US\$ 5.95 billion. The main export products were beef (20% of all exports), grains (10%), rice (7.5%) and wood products (7%). Although exports to Brazil did pick up, continued to lose ground in terms of sales abroad. Imports of goods grew by 58.7%, totalling around US\$ 8.9 billion. Crude oil made up 27% of all goods imports, followed by machinery and equipment imports, with 15.5% of the total.