

Uruguay

1. General trends

Uruguay posted an 8.5% rise in GDP in 2010, underpinned by strong domestic demand and driven by private sector investment and consumption. The most buoyant sectors were retail trade, restaurants and hotels, and transport, storage and communications, while industry managed only to recover from the sharp decline in 2009. After playing a much larger role in demand in 2009, public consumption and investment moderated in 2010. As a result, the fiscal deficit shrank and public borrowing fell in relation to GDP, although it rose in absolute terms. Annual inflation stood at 6.9%, just below the ceiling of the 3%-7% target range established in the monetary programme.

The deficit on the balance-of-payments current account widened since the significant growth in exports of goods and services was cancelled out by the substantial rise in imports, mainly comprising energy goods owing to the fall in hydroelectric power output and rising oil prices. Although foreign direct investment shot up by 29.3%, the account recorded a net capital outflow.

GDP is projected to grow by almost 7% in 2011, while inflation is expected to exceed the 4% to 6% target range set by the authorities. The central government primary fiscal surplus is expected to be around 1.1% of GDP, while the overall deficit is projected to be 1.3% of GDP.

2. Economic policy

In 2010, economic policy focused on reducing the fiscal deficit in a context of growing external demand and private investment and consumption. However, borrowing continued to rise in 2010 as the Central Bank of Uruguay issued monetary regulation notes worth around US\$ 1.5 billion in an effort to reduce liquidity. The Macroeconomic Coordination Committee set an annual inflation target of 5% in September 2011, with a 1% margin of tolerance from June 2011.

(a) Fiscal policy

In 2010, non-financial public sector (NFPS) revenue climbed from 27.7% of GDP in 2009 to 29.1% in 2010, while NFPS primary expenditure increased from 27.0% of GDP to 27.5%. These developments together with the positive performance of public enterprises for most of the year, led to a rise in the NFPS primary surplus from 1.1%

of GDP in 2009 to 1.9% in 2010. The overall deficit in 2010 was thus 1.1% of GDP after debt servicing (3% of GDP), compared with 1.7% in 2009, when debt servicing was equivalent to 2.8% of GDP.

With regard to revenue, the Tax Administration Department (DGI) took in the equivalent of 17% of GDP and the Social Insurance Bank (BPS) the equivalent of 6.1%. Profits transferred from public enterprises to the government and customs duties totalled 2.2% and 1% of GDP, respectively. Total NFPS revenue rose by 11.5% in real terms compared with 2009, owing to increases of 6.4% in DGI revenue, 8.6% in BPS revenue and 68.7% in profits transferred from public enterprises.

Public sector spending totalled 27.5% of GDP and consisted of current spending (24%) and investment (3.5%), reflecting an overall increase of 8.3% in real terms. The rise was seen in all expenditure headings, especially pensions (7.9%) and transfers (12.3%), while a smaller increase was seen in wages (3.6%) and operating expenses (6.2%). The first three components totalled 20.3% of GDP in 2010 compared with 20.1% in 2009. Public investment also stood out, growing by 11.7% in real terms in 2010, accounting for 28.8% of total investment (5.9% of GDP).

The overall public sector deficit narrowed in the first four months of 2011 to 0.9% of GDP but is projected to rise to around 1.1% of GDP by the end of the year.

At the end of 2010, the NFPS gross debt fell slightly to US\$ 17.116 billion, or 42.6% of GDP, and comprised mainly external debt (71%), rather than domestic debt (29%).

(b) Monetary policy

The interbank overnight (call) rate, which governs local-currency interbank loans, continued to serve as the main instrument of control in 2010. The annual rate was set at 6.25% in December 2009, raised to 6.5% in September 2010 in response to inflationary pressures and raised again to 7.5% in March 2011.

The planned reductions in the legal reserve requirement were completed in 2010, creating excess liquidity in the banking system and prompting the Central Bank of Uruguay to intervene in order to cover the demand for interest-bearing financial instruments. The lowering of the legal reserve requirement together with foreign currency purchases by the central bank to stabilize the exchange rate became the main drivers of liquidity growth. The central bank was able to contain these permanent increases by issuing monetary regulation notes and paper denominated in pesos and indexed units.

In mid-May 2011, the central bank adopted new measures to curb rising inflation, such as creating a 15% marginal reserve requirement for new deposits and raising the reserve rate applicable to deposits in Uruguayan pesos, indexed units or foreign currency as a means of reducing liquidity. In return, the interest rate on reserves was increased in an effort to avoid losses on financial institution balance sheets.

The financial system maintained a positive solvency ratio, with high capital and a prudent reserves regime established by the Superintendency of the Financial System. In 2010, credit to the resident private sector rose by more than US\$ 1.5 billion, a 26% increase compared with 2009. Both local and foreign currency loans rose, by 38% and 20% respectively. Credit arrears remained low at 1.1% for all loans and 1.9% for local-currency loans to households. NFPS deposits in both local and foreign currency amounted to the equivalent of US\$ 2.6 billion, 17% more than in 2009, with demand and savings deposits accounting for 80% of the total stock.

At the end of 2010, the average interest rate on term deposits was 0.44% per annum for deposits in dollars and 4.8% per annum on local currency deposits. The interbank interest rate and the rate for local-currency bills stood at 6.4% and 6.9% respectively. The lending rate in dollars applied to the non-financial private sector was 5.3% in December 2010, reflecting a drop of 40 basis points compared with the end of 2009. The average interest rate on domestic-currency loans to businesses was 12.2% at the end of 2010, while the rate on household loans was 30%, in both cases markedly lower than in 2009.

(c) Exchange-rate policy

A floating exchange-rate regime was maintained throughout 2010. Nevertheless, the State actively intervened in the currency market to stabilize the peso-dollar exchange rate. Between February 2010 and the end of May 2010, the dollar trended downward before rising as a result of State intervention. However, the downtrend resumed in August 2010 and continued throughout the first four months of 2011. In nominal terms, the local currency depreciated by 1.4% against the dollar in 2010, while it appreciated by 5.76% against the dollar and by 2.87% against the Brazilian real in the first four months of 2011.

The real effective exchange rate indicator fell by 13% in 2010 compared with the previous year, reflecting the strengthening of the local currency in the second half. This decline in the indicator reflected a loss of competitiveness vis-à-vis countries outside the region, as well as in relation to Argentina (12.5%) and to a lesser extent Brazil (1.2%).

3. The main variables

(a) Economic activity

As a result of low production levels in 2009, the electricity, gas and water sector grew by 90.2%, contributing 2.4 percentage points to GDP growth. Other sectors that performed well were retail trade, restaurants and hotels (with growth of 14.8% and a 2.2 percentage-point impact on GDP growth), transport and communications (with 14.6% and 2.0 percentage points), construction (4.3% and 0.2 percentage points), agriculture (0.9% and 0.1 of a percentage point) and services (0.7% and 0.1 percentage points). In addition, manufacturing output grew by 3.7% in 2010 to reach similar levels to those posted in 2008, accounting for 0.4 percentage points of GDP growth.

GDP grew in 2010 as a result of higher domestic consumption, with public-sector consumption climbing by 2.2% and private-sector consumption by 11.4%, adding 0.2 and 7.9 percentage points to GDP, respectively. Gross capital formation was up by 13.2% in 2010, contributing 2.7 percentage points to GDP. This was due to the 14.4% increase in gross fixed capital formation, which added 2.8 percentage points to GDP growth, bringing gross fixed capital formation to 20.5% of GDP in 2010.

External demand was also a driver of economic activity although its effects were neutralized by a sharp rise in imports. Exports were up by 9.1%, raising GDP by 2.8 percentage points, while imports rose by 16.5%, equivalent to a 5 percentage-point negative impact on GDP growth.

(b) Prices, wages and employment

The consumer price index rose by 6.9% in 2010, compared with only 5.9% in 2009, with the largest increases in education (11.0%) and food and beverages (9.1%). The national producer price index (IPPN) was up by 8.4% in 2010.

Between January and April 2011, the consumer price index rose by a cumulative 4%, while inflation stood at 8.34% in the fiscal year ending in April 2011. In May, the median of annual inflation expectations was 7.50%.

The labour market remained generally stable with an average urban unemployment rate of 7.1%. The

national employment rate increased by half a percentage point in 2010, to an annual average of 59.0%. The participation rate of the working-age population was 63.2% in 2010. Underemployment and unregistered employment continued to trend downward, with the proportion of unregistered workers averaging 30.7% and the underemployed 8.7% of the employed population. Real wages rose by an average of 3.3% in 2010, with private-sector wages rising slightly more than public-sector wages.

Nationwide, household purchasing power rose by an average of 3% in 2010. The indigence rate fell to around 0.6% of households and 1.1% of the population. Poverty fell by 2 percentage points compared with 2009, affecting 12.6% of households and 18.6% of the national population.

(c) The external sector

Over the course of 2010, the current account went from a surplus in 2009 to a deficit of US\$ 160 million. The reversal was partly due to the decline in the merchandise trade balance and the income account. As trade in goods and services recovered, current values of exports rose by 23.6% and of imports by 24.9%. The trade balance in goods was in deficit by US\$ 256 million at the end of 2010, which was offset by a similar rise in exports of tourism services.

The capital and financial account recorded a net capital outflow of US\$ 200 million, a marked shift from 2009 when it recorded a net capital inflow. This was chiefly due to the requirements of the public sector, since the private sector recorded a net inflow of more than US\$ 650 million in 2010, originating mainly from foreign direct investment. In December 2010, the Central Bank of Uruguay held over US\$ 7.7 billion in reserve assets, nearly US\$ 200 million less than at the end of 2009. This decrease stemmed from the US\$ 500 million fall in foreign currency deposits of financial institutions (due to lower bank reserve requirements), which was not offset by the substantial foreign currency purchases by the State. Despite the outflow of capital, the international situation of the dollar continued to exert downward pressure on the exchange rate.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	-11.0	2.2	11.8	6.6	4.3	7.3	8.6	2.6	8.5
Per capita gross domestic product	-11.0	2.2	11.9	6.6	4.1	7.0	8.3	2.2	8.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.1	10.6	10.6	4.6	3.4	-6.8	5.5	2.9	0.9
Mining and quarrying	-37.6	14.1	7.2	4.4	21.4	13.3	10.1	-2.5	4.6
Manufacturing	-13.9	4.7	20.8	10.1	8.1	7.1	17.3	-3.7	3.7
Electricity, gas and water	-0.6	-7.4	1.8	5.8	-28.6	57.8	-52.6	10.9	90.2
Construction	-22.0	-7.1	7.5	4.2	9.2	6.2	8.5	1.4	4.3
Wholesale and retail commerce, restaurants and hotels	-24.5	-1.0	21.3	10.1	6.8	13.4	11.3	0.6	14.8
Transport, storage and communications	-9.1	3.1	11.5	11.1	8.2	18.1	35.5	14.4	14.6
Financial institutions, insurance, real estate and business services	-0.9	-5.3	-1.7	-3.5	3.5	4.1	1.3	1.3	1.8
Community, social and personal services	-3.3	0.7	3.2	1.4	0.1	3.0	8.2	4.1	4.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	-15.9	1.1	9.5	4.0	5.9	6.3	8.2	2.3	10.1
Government consumption	-9.3	-4.8	2.5	0.0	6.7	5.6	5.6	3.9	2.2
Private consumption	-16.9	2.0	10.6	4.5	5.8	6.5	8.7	2.1	11.4
Gross capital formation	-34.5	18.0	22.0	7.6	16.8	8.1	28.9	-12.7	13.2
Exports (goods and services)	-10.3	4.2	30.4	16.3	3.2	7.4	10.0	2.5	9.1
Imports (goods and services)	-27.9	5.8	26.8	10.8	15.3	5.3	22.1	-8.6	16.5
Percentages of GDP									
Investment and saving^c									
Gross capital formation	16.3	17.8	18.5	17.7	19.4	19.6	22.3	17.2	17.9
National saving	19.2	17.0	18.5	17.9	17.4	18.6	16.7	16.9	16.8
External saving	-3.0	0.7	-0.0	-0.2	2.0	0.9	5.5	0.3	1.1
Millions of dollars									
Balance of payments									
Current account balance	382	-87	3	42	-392	-220	-1 729	-106	-443
Goods balance	48	183	153	21	-499	-545	-1 714	-269	-251
Exports, f.o.b.	1 922	2 281	3 145	3 774	4 400	5 100	7 095	6 408	8 069
Imports, f.o.b.	1 874	2 098	2 992	3 753	4 898	5 645	8 810	6 677	8 320
Services trade balance	153	135	325	372	409	703	753	959	1 042
Income balance	109	-488	-588	-494	-428	-516	-917	-934	-1 352
Net current transfers	72	83	113	144	126	137	148	138	118
Capital and financial balance ^d	-4 314	1 048	302	753	2 791	1 231	3 962	1 694	82
Net foreign direct investment	180	401	315	811	1 495	1 240	2 117	1 576	2 346
Other capital movements	-4 494	647	-12	-58	1 296	-9	1 845	118	-2 264
Overall balance	-3 932	961	306	796	2 399	1 010	2 233	1 588	-361
Variation in reserve assets ^e	2 328	-1 380	-454	-620	15	-1 005	-2 232	-1 588	361
Other financing	1 604	420	149	-175	-2 414	-5	-0	-0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	117.6	149.9	152.3	134.0	128.4	127.5	120.4	117.5	102.4
Terms of trade for goods (index: 2005=100)	113.1	114.0	110.1	100.0	97.6	97.8	103.7	106.8	110.2
Net resource transfer (millions of dollars)	-2601	979	-137	84	-52	710	3045	760	-1270
Total gross external debt (millions of dollars) ^g	10 548	11 013	11 593	11 418	10 560	12 218	12 021	13 935	13 646
Average annual rates									
Employment									
Labour force participation rate ^h	59.3	58.1	58.5	58.5	60.8	62.7	62.5	63.1	62.7
Open unemployment rate ⁱ	17.0	16.9	13.1	12.2	11.4	9.6	7.9	7.6	7.1
Visible underemployment rate ^j	18.4	19.3	15.8	17.1	13.6	12.9	10.8	9.1	8.9
Annual percentages									
Prices									
Variation in consumer prices (December-December)	25.9	10.2	7.6	4.9	6.4	8.5	9.2	5.9	6.9
Variation in producer prices, local products (December-December)	64.6	20.5	5.1	-2.2	8.2	16.1	6.4	10.5	8.4
Variation in nominal exchange rate (annual average)	58.9	33.3	1.9	-14.7	-1.8	-2.4	-10.8	7.8	-11.2
Variation in average real wage	-10.7	-12.5	0.0	4.6	4.3	4.7	3.6	7.3	3.3
Nominal deposit rate ^k	61.7	28.4	5.5	2.3	1.7	2.3	3.2	4.0	3.7
Nominal lending rate ^l	116.4	56.6	26.0	15.3	10.7	10.0	13.1	16.6	12.0

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central government									
Total revenue	20.3	20.5	20.7	20.9	21.4	20.6	20.0	20.5	20.7
Tax revenue	16.8	17.8	17.7	17.9	18.8	18.1	17.8	18.1	18.1
Total expenditure	24.9	24.9	23.1	22.4	22.4	22.2	21.1	22.0	21.9
Current expenditure	23.6	23.7	21.6	21.1	21.0	20.7	19.3	20.4	20.2
Interest	3.9	5.4	4.7	4.2	4.2	3.7	2.8	2.8	2.4
Capital expenditure	1.4	1.2	1.4	1.3	1.4	1.5	1.8	1.6	1.7
Primary balance	-0.8	1.0	2.3	2.7	3.2	2.1	1.7	1.3	1.2
Overall balance	-4.6	-4.4	-2.4	-1.6	-1.0	-1.6	-1.1	-1.5	-1.1
Non-financial public sector debt									
Domestic	103.3	97.9	76.9	68.6	61.1	52.2	51.1	47.7	42.6
External	24.7	18.4	14.8	14.7	13.7	10.2	11.6	14.0	12.4
	78.6	79.5	62.1	53.9	47.4	42.0	39.4	33.7	30.2
Money and credit^m									
Domestic credit	51.8	29.2	17.2	13.7	18.9	14.8	12.9	11.0	15.0
To the public sector	22.3	14.1	11.8	5.9	7.5	1.3	3.0	3.6	9.3
To the private sector	72.0	44.5	29.7	26.1	25.9	24.6	29.4	22.7	24.5
Others	-42.5	-29.5	-24.4	-18.4	-14.4	-11.1	-19.6	-15.3	-18.8
Liquidity (M3)	86.0	79.6	64.8	58.0	57.1	49.6	56.2	49.9	51.7
Currency outside banks and local-currency deposits (M2)	8.7	9.3	8.8	10.4	11.3	12.6	12.7	13.5	15.4
Foreign-currency deposits	77.4	70.3	56.0	47.6	45.8	37.0	43.6	36.5	36.3

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 2005 prices. Up to 2005, 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 Percentage of the working population, urban total.

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

^l Business credit, 30-367 days.

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

Goods exports other than those from free-trade zones rose to US\$ 6.733 billion in 2010, a 24.6% increase over 2009.¹ The items that accounted for the largest share of total exports were beef (2.8%), livestock (3.8%), timber (2.8%) and mineral products (2.4%), which correspond to the export of fuel to Southern Common Market (MERCOSUR) members. Exports to MERCOSUR countries totalled US\$ 2.15 billion at the end of 2010, marking a 40.4% increase over 2009, which was chiefly due to the increase in sales to Argentina (64.3%) and to a lesser extent Brazil (29.4%). This bloc accounted for 31.9% of total exports from Uruguay. Exports to the European Union declined compared with 2009, accounting for 14.3% of total exports.

Imports other than those into free-trade zones totalled US\$ 8.622 billion, 24.8% more than in 2009. Crude oil, automobiles, mobile phones and cargo vehicles accounted for the largest import shares. Brazil is the largest exporter of goods to Uruguay (US\$ 1.578 billion), followed by Argentina (US\$ 1.469 billion).

In the first two months of 2011, goods exports totalled US\$ 1.118 billion, which represents a 38.2% year-on-year increase. Brazil was the leading destination for Uruguayan products in this period, with exports to the country totalling US\$ 1.422 billion.

¹ The disaggregation of foreign trade data by goods type and country of destination or origin is based on data from the Customs Registry, which do not include exports and imports from free-trade zones.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	2.2	-0.1	1.9	3.7	9.2	10.3	7.7	6.5	6.8	...
Goods exports, f.o.b. (millions of dollars)	1 079	1 488	1 454	1 383	1 288	1 959	1 764	1 729	1 681	675 ^d
Goods imports, c.i.f. (millions of dollars)	1 485	1 656	1 886	1 880	1 756	2 045	2 118	2 703	2 598	811 ^d
Gross international reserves (millions of dollars)	6 965	7 438	8 068	7 987	8 061	7 509	7 914	7 743	7 755	8 733
Real effective exchange rate (index: 2000=100) ^e	117.6	122.7	119.4	110.1	100.3	99.9	105.7	103.7	101.4	99.8
Urban unemployment rate	7.9	8.3	7.5	6.9	7.6	7.7	7.1	6.2	6.4	...
Consumer prices (12-month percentage variation)	7.5	6.5	6.9	5.9	7.1	6.2	6.3	6.9	8.2	8.5
Producer prices, national products (12-month percentage variation)	5.7	-1.0	-2.3	10.5	2.7	4.6	10.5	8.4	23.3	22.7
Average nominal exchange rate (pesos per dollar)	23.5	23.7	22.7	20.3	19.6	19.6	20.8	20.0	19.6	18.9
Average real wage (variation from same quarter of preceding year)	6.2	8.4	8.4	6.1	4.0	3.4	2.9	2.8	2.4	...
Nominal interest rates (annualized percentages)										
Deposit rate ^f	4.3	4.0	3.9	3.8	3.6	3.7	3.7	3.8	4.2	4.4 ^d
Lending rate ^g	18.0	17.0	15.8	15.5	13.0	12.4	11.5	11.1	10.8	10.6 ^d
Interbank rate	9.4	8.9	7.9	7.9	6.2	6.2	6.2	6.5	6.5	7.5
Domestic credit (variation from same quarter of preceding year)	1.8	5.3	-15.8	-7.7	10.8	8.4	25.2	56.2	44.5	50.3 ^d
Non-performing loans as a percentage of total credit	14.8	13.6	14.7	7.6	7.5	7.4	6.8	4.6	3.2	3.3

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2005 prices.

^d Data to April.

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

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

^g Business credit, 30-367 days.