

Uruguay

The economic environment in Uruguay deteriorated in 2018, which will continue for at least the first months of 2019. Although the global financial conditions and strong regional demand meant that the outlook was favourable at the beginning of the year, both factors, especially demand, have contributed to depressing the level of activity in the country, with annual growth estimated to be around 2%. As a result of limited economic activity, the measures implemented in previous years were insufficient to reduce the fiscal deficit, which reached levels that caused concern among the government and analysts. On the back of the expectations that global financial conditions will remain unfavourable towards emerging markets and regional demand for goods and services will continue to decline, gross domestic product (GDP) growth is likely to be less than 2% in 2019.

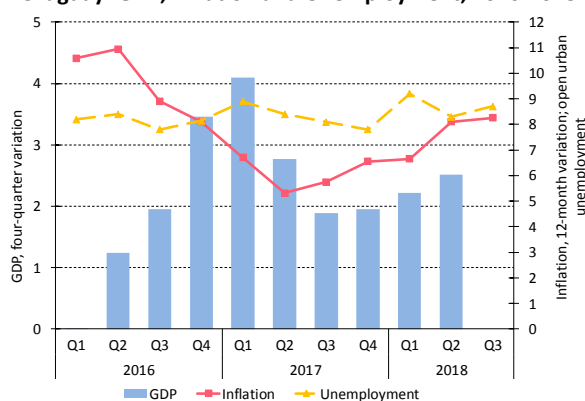
The most significant economic policy measures of 2018 focused on two social security issues. One sought to address the problem of workers affected by the transition from the 1996 pension reform, while the other reformed the armed forces retirement and pension service. In both cases, laws were passed that will have conflicting effects on public accounts, but whose real impact will only be felt in the medium or long term. The movement of money from workers affected by the 1996 social security reform to the central system has cut the deficit by one percentage point. However, this money is not available to the government since it has been set aside to pay future pensions. For this reason, 2018 will close with an overall public sector balance (excluding the aforementioned effect) down by nearly 4%, of which approximately 3.5% corresponds to interest payments. Following the trend of recent years, the ratio of public sector gross debt to GDP will worsen by between three and four percentage points and net debt will increase by the same amount. The trend towards the de-dollarization of public sector debt continued in 2018, as the government made a series of placements in pesos that allowed it to extend the repayment period and obtain cash. Currently more than half of the debt will mature after 2024.

Monetary policy was contractionary in 2018. At its last meeting, the Monetary Policy Committee confirmed the trend towards reducing the growth of the expanded M1 aggregate benchmark, which ranged from 7% to 9% year-on-year. To date, the data indicate that growth is below that benchmark.

This contractionary monetary policy helped to partially contain the inflationary pressures generated by the depreciating exchange rate, so the inflation rate will be around 8% and 9% by the end of the year. Although inflation was within the target range of 3% to 7% at the beginning of the year, the mid-year exchange rate appreciation was passed on to prices, causing inflation to exceed that range.

The dollar exchange rate followed international macroeconomic conditions to a certain extent, appreciating strongly between May and September, when it reached a maximum of just over 33 pesos. The trend then evened out, but the United States dollar is expected to continue to

Uruguay: GDP, Inflation and Unemployment, 2016-2018



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

strengthen in the coming months. In this context, private banks increasingly preferred that currency. The monetary authority responded to this by selling dollars and repurchasing monetary regulation bills.

Growth in the exports of goods is slowing, so the total amount exported in 2018 will be similar to that of 2017, at slightly less than US\$ 10 billion. Meat exports have been partially restricted by the lower growth of cattle stocks, but the country managed to continue opening foreign markets and closed the year with higher export values. The product that has had the greatest positive impact on growth is wood pulp, while soybeans had a very disappointing season, meaning that dairy products became the country's third main export. The share of exports going to neighbouring countries has fallen again, while that of China, which has been the main destination for a number of years, continues to grow despite the poor soybean harvest. With regard to services, the very good summer tourist season was offset by a tightening of credit for tourism purposes in the following quarters, meaning that total exports will have contracted in 2018.

Imports of goods and services are expected to increase moderately, so the current account trade balance will be slightly negative. Following the trend of recent years, greater repatriation of profits will make the primary income account negative and therefore, overall, the country will close the year with a current account deficit of around one point of GDP.

Although official data are only available for the first half of the year, GDP is expected to grow by around 2%, concentrated in the first period of the year. This has been positively influenced by the resumption of oil refinery activity, which was offline for a large part of 2017 due to maintenance work. In contrast, the agricultural sector has faced issues of profitability and indebtedness and been hurt by bad weather conditions during the first half of the year, so its contribution to the level of activity has been low. On the expenditure side, domestic demand has been the engine of growth, thanks to the boost from the commerce, restaurants and hotels sector. Meanwhile, gross fixed capital formation has stopped falling after several years of negative results and is expected to contribute positively to GDP growth; however, the external sector will have a negative impact.

The economic sluggishness was partially reflected in the labour market. On average for the first three quarters of the year, the national unemployment rate stood at 8.4%, three base points higher than for the same period in 2017, and the labour force participation rate fell by 0.7 percentage points. Data to October show that real wages were down by 0.6% over the last 12 months, although a downtrend in inflation in the latter part of the year could offset that decline.

Uruguay: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	1.7	2.7	1.9
Per capita gross domestic product	1.3	2.3	1.5
Consumer prices	8.1	6.6	8.0 ^b
Real average wage	1.5	2.9	0.1
Money (M1)	2.2	13.1	6.8 ^c
Real effective exchange rate ^d	0.9	-2.4	-4.5 ^c
Terms of trade	2.7	-8.0	1.5
	Annual average percentage		
Open urban unemployment rate	8.2	8.3	8.6
Central government			
Overall balance / GDP	-3.7	-3.0	-2.6
Nominal deposit rate ^e	5.1	4.6	4.6 ^c
Nominal lending rate ^f	17.6	15.4	14.2 ^c
	Millions of dollars		
Exports of goods and services	14 535	15 851	15 703
Imports of goods and services	11 799	12 265	12 987
Current account balance	324	441	-1 085
Capital and financial balance ^g	-2 512	2 007	769
Overall balance	-2 189	2 449	-316

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

a/ Estimates.

b/ Figures as of October.

c/ Figures as of September.

d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.

e/ Deposit rates in local currency for 30 to 61 days.

f/ Business credit, 30-367 days.

g/ Includes errors and omissions.