

Uruguay

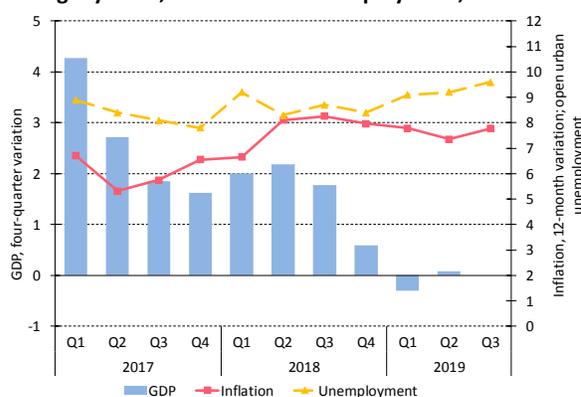
In 2019, the political agenda was a key factor in Uruguay, with elections resulting in a change in the governing parties. After 15 years in power with parliamentary majorities throughout almost the entire period, the governing party's presidential candidate lost in the second round of voting against an opposition candidate who managed to form a coalition of five parties, which, in principle, will enable him to govern with parliamentary support.

From the economic standpoint, the government that will take office in 2020 focused its discourse on restoring business profitability as a way to encourage investment and foster economic growth. Its priorities include reducing the large fiscal deficit through a programme involving austerity and rationalization of public spending, while maintaining benefits for the most vulnerable sectors. Other key elements are the commitment to open trade, the reform of labour relations, and regulatory and management changes in public enterprises, with the aim of reducing rates, particularly in the energy sector.

Although official data are available only for the first half of the year, the level of activity is expected to increase 0.3% in the current year. This weak performance is the result of an adverse regional environment and a highly turbulent international situation, marked by trade tensions between the world's two largest economies. There will also be economic uncertainties in 2020. Firstly, regional demand is expected to be weaker; and the tourism sector will be the worst hit by the reduction in purchasing power in Argentina, compounded by the appreciation of the Uruguayan peso with respect to the Argentine currency. Although Uruguay has been reducing its exposure to fluctuations in demand from Argentina for several years now, that country remains Uruguay's main tourism market. Favourable effects include the start of construction of the country's third pulp mill, along with the associated port, rail and road infrastructure. Overall, this investment will be the largest in the country's history and is expected to add 2% to GDP permanently. It is also expected to revitalize inward foreign direct investment, which in recent years has been virtually non-existent. By 2020 it is estimated that the growth would be 1.5%.

The fiscal situation was at the centre of the political debate in the electoral campaign. The fiscal accounts have been deteriorating for the past three years, and this has not been reversed either by the revenue-boosting measures taken at various junctures—such as a partial increase in personal income tax or in the consular fee levied on imports—or by the postponement of a number of social policies planned by the government for this period—such as the development of a care system, or the commitment to raise the education budget to the equivalent of 6% of GDP. Specifically, September data show a fiscal deficit of 4.9% of GDP, one and a half percentage points more than

Uruguay: GDP, Inflation and Unemployment, 2017-2019



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

three years ago and the highest level in the last 25 years. Interest payments on the debt were lower than in previous years and represented 2.7% of GDP. In addition to the meagre economic growth of recent years, which have resulted in a moderate fall in real revenue, one factor that explains the widening of the deficit is the increased share of transfers to social security and health care. The first of these is explained by an increase in the number of retirees, while the larger transfers to the health system reflect the entry of new groups of beneficiaries in the National Health Fund. Fiscal policy may be described as passively expansionary, since the increase was not due to any budgetary decision during this period. Both gross and net debt have trended upwards during the period, to reach 71% and 35% of GDP, respectively, in September; in particular, the net debt rose by 2 percentage points of GDP in the 12 months ending in September. A dollar bond issue in January, in conjunction with currency depreciation, led to a 5 percentage point increase in the dollar share of the public debt (to 47%), thereby reversing the debt de-dollarization trend of recent years.

Uruguay's monetary policy is based on the definition of a reference band for growth of the broad monetary aggregate M1 (money issuance, demand deposits and savings banks), which in the second half of the year ranged from 7% to 9%. In addition, monetary regulation bills, notes at different maturities and liquidity injection instruments continue to be used whenever undesired movements are detected in specific variables. According to the authorities' definition, monetary policy was moderately contractionary in 2019.

In 2019 resident deposits in foreign currency have reversed their declining trend and the degree of dollarization of deposits has confirmed the upward trend discerned since mid-2018, when it had reached a minimum of 70%. Overall, all indicators for 2019 show a declining preference for national currency.

Inflation has been at levels slightly above the upper limit of the target range of 3% to 7% for 18 months. In November, 12-month inflation reached a level of 8.4%, driven by price increases among tradable goods, high meat prices and the depreciation of the local currency, which amounted to 17% up to 30 November 2019. This trend was fuelled in part by steep currency depreciation in Argentina, which generated upward pressures on the exchange rate. However, in the September year-on-year comparison, the real exchange rate had depreciated by 4.0% overall, with similar values for the region and the rest of the world.

Uruguay: main economic indicators, 2017-2019

	2017	2018	2019 ^a
	Annual growth rate		
Gross domestic product	2.6	1.6	0.3
Per capita gross domestic product	2.2	1.2	-0.1
Consumer prices	6.6	8.0	8.3 ^b
Real average wage	2.9	0.1	1.8 ^c
Money (M1)	13.1	5.5	7.3 ^c
Real effective exchange rate ^d	-5.7	-2.9	0.9 ^c
Terms of trade ^e	-0.4	-4.8	0.5
	Annual average percentage		
Open urban unemployment rate	7.9	8.3	8.9
Central government			
Overall balance / GDP	-3.0	-2.1	-2.1
Nominal deposit rate ^f	4.6	4.7	4.4 ^g
Nominal lending rate ^h	15.4	14.2	13.5 ^g
	Millions of dollars		
Exports of goods and services	16 078	16 397	16 257
Imports of goods and services	12 428	13 116	12 387
Current account balance	419	76	623
Capital and financial balance ⁱ	2 030	-484	-1 418
Overall balance	2 449	-408	-795

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/ Economic Development Division, calculations for Preliminary Overview 2019.

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

g/ Figures as of July.

h/ Business credit, 30-367 days.

i/ Includes errors and omissions.

With respect to spending, the recent quarters' reduction in activity levels is explained by the nil contribution of private consumption, which had been the main driver of the economy in the two preceding years. In 2019, the decrease in imports in the first quarter and the expansion of exports in the second both contributed positively to growth. In terms of individual sectors, positive contributions were made by transport and communications (due to growth in telecommunications and primary activities), along with energy, gas and water. By contrast, the largest negative contribution to the economy's performance came from commerce and taxes net of subsidies. The construction sector is experiencing its fifth consecutive year of recession, as the country's gross fixed capital formation continues to contract.

Balance-of-payments data for the moving year ending in June show that the country has a small current account surplus. The merchandise trade surplus increased as imports retreated, but trade in services detracted from this owing to larger purchases by residents abroad. By contrast, there was a deficit in primary income, which records transfers between resident and non-resident agents not included in foreign trade transactions, or between the State or non-profit institutions. In Uruguay, this deficit is mainly explained by the remittance of profits abroad and stayed constant throughout the period under review.

In terms of merchandise exports, the first 10 months of the year show growth of 1.4% in value terms, led by soybeans, beef, beverage concentrate and wheat. The first of these items grew strongly following the previous year's bad harvest, while meat benefited from a price shock caused by swine flu in China. Live cattle, timber, cellulose, rice and hides had the greatest negative impact on exports during the year. In the case of services, the reduction in Argentine demand in the summer season was not offset by demand from other destinations, so tourism revenues in the first nine months fell by 20% measured in dollars at current prices. The overall effect of weaker tourism in the year will be just under 1 percentage point of GDP. Exports from the information technology sector continued to trend upwards.

The labour market maintained the downward trend of recent years. Although the economic activity rate in the third quarter was the same as in the year-earlier period (61.9%), global data at the year-end will show the lowest rate since 2006. The same is true of the employment rate, while unemployment will end the year at roughly 9.0%, also the highest level in the last 12 years. By contrast, real wages rose by 2.0% in the 12 months ending in September.