

## Uruguay

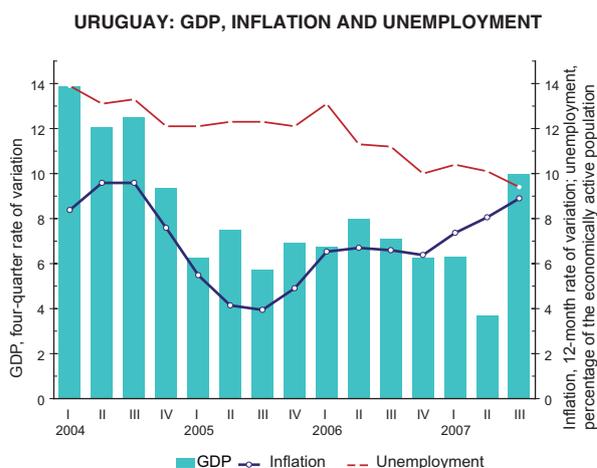
In 2007, Uruguay enjoyed its fourth consecutive year of economic expansion, achieving a growth rate of about 7.5% thanks to increases in both external and domestic demand. This higher demand, together with supply limitations in some sectors and upward trends in world commodity markets, led to inflationary pressure in the country's economy (8.6% in the 12 months to November 2007). For the year as a whole it is estimated that the value of goods and services exports will be up 14% and imports by 10%, so the balance of payments current-account deficit should stand at about 1% of GDP. If current conditions in local and international markets continue, economic growth in 2008 should be close to 6.5%.

The fiscal situation remained balanced, with a primary surplus of some 4% of GDP and interest payments on debt at a similar level. Tax receipts picked up thanks to increased activity and a growing formalization of the economy, as well as a slight improvement in profits from state-owned enterprises, against the background of rising production costs. Spending by the non-financial public sector once again diminished in relation to GDP, closing the year at about 29% of GDP.

A reform of the tax system came into force in mid-2007, with the main goals of improved efficiency and equity. On the efficiency side, the system was simplified with the abolition of certain taxes which had generated few receipts; value added tax (VAT) was applied more widely, but its rates were cut. As for equity, the tax reform introduced a dual personal income tax system with progressive rates, with separate regimes for work income and capital income.

The gross debt/GDP ratio of the non-financial public sector fell once again, standing at 60% in mid-2007. External debt restructuring continued by means of bond issues and buy-back operations in the market. Gross reserves were over US\$ 3.6 billion as of late October, about 16% of GDP.

Monetary policy continued to aim at preserving price stability, but its main instrument changed with the introduction of a system to set the short-term interbank interest rate. The interbank overnight rate (call rate) was initially set at 5% per year, and was then



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

raised by successive meetings of the Monetary Policy Committee of the Uruguay Central Bank, reaching 7.25% in November.

Monetary-policy measures were combined with fiscal measures to attenuate the impact of inflation. These included the establishment of a fund to subsidize urban public transport fares, holding fuel prices steady despite the hikes in international oil prices, and cuts in public and health service charges.

The total gross credit to the non-financial system rose by 4.1% in real terms to June 2007, with a further increase in the share of credit in national currency, which stood at 25.5% of the total compared with 21% a year earlier.

The nominal exchange rate continued to float, and the appreciation of the local currency against the dollar is estimated at about 9% in late 2007. This was due to the depreciation of the dollar on world markets and the increased availability of foreign exchange on the local market owing to tight monetary policy. Meanwhile, the overall real effective exchange rate is expected to appreciate by about 1% for the year.

The achievement of 7.5% economic growth was based on increased output in all sectors, especially manufacturing, transport, communications and electricity, gas and water, where growth was above the average level, although manufacturing and transport probably grew more slowly than in 2006. Growth in the commerce, restaurants and hotels sector is expected to be equal to or somewhat higher than the economy as a whole, but it will be below average in agriculture, construction and other branches of activity.

External demand for goods and services held steady in the course of the year, while internal demand continued its upward trend because of the recovery in household incomes. Consumption is estimated to be up by 8% at the end of 2007, while the increase in gross capital formation should be 10% higher than the average for 2006.

With year-on-year inflation of 8.6% as of November, estimates suggest that the year will close with a higher rate than had been forecast in the monetary programme, which placed it between 4.5% and 6.5%. The inflationary trend was due to rising prices for export goods and fruits and vegetables, as well as international oil prices. Wholesale inflation was well above the rate of increase of consumer prices; the producer price index was up 18.4% in the year to October.

The labour market remained strong in urban areas. The employment rate rose from 53.5% in the first nine months of 2006 to 56.4% in the same period in 2007, accompanied by a two-point rise in

#### URUGUAY: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	6.6	7.0	7.5
Per capita gross domestic product	6.6	6.8	7.2
Consumer prices	4.9	6.4	8.6 <sup>b</sup>
Average real wage	4.6	4.3	5.2 <sup>c</sup>
Money (M1)	22.4	28.9	22.0 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-9.9	-0.7	0.0 <sup>f</sup>
Terms of trade	-9.2	-2.2	0.0
<b>Annual average percentages</b>			
Urban unemployment rate	12.2	11.4	9.7 <sup>g</sup>
Central government overall balance / GDP	-1.6	-1.0	-1.5
Nominal deposit rate	2.3	1.7	2.1 <sup>h</sup>
Nominal lending rate	15.3	10.5	9.8 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	5 085	5 516	6 297
Imports of goods and services	4 693	5 708	6 537
Current account	42	-436	-579
Capital and financial account	753	2 832	1 641
Overall balance	796	2 396	1 062

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Estimate based on data from January to October.

<sup>d</sup> Twelve-month variation to September 2007.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October 2007.

<sup>g</sup> Estimate based on data from January to September.

<sup>h</sup> Average from January to October, annualized.

the labour force participation rate. Unemployment dropped by almost two percentage points, from an average of 11.9% in the first three quarters of 2006 to 10% for the same period in 2007. The average wage index posted a real increase of 4.6% in the twelve months to October 2007, with rises of 4.7% in the private sector and 4.4% in the public sector. The national minimum wage was adjusted upwards by 8.1% in nominal terms, and is now equivalent to approximately US\$ 150 per month. Household incomes are estimated to have risen by 4.5% in real terms for the year, thanks to rising wages and pensions and the growth of employment in 2007.

Urban poverty fell again, standing at 25% of the total population in the first half of 2007, compared with 27% 12 months earlier. Children under 12, among whom the poverty level remains at about 50%, continued to be particularly affected by the situation.

Goods exports rose by 11.6% year-on-year for the period from January to September, and the principal export destinations continued to be Brazil (16%), the

United States (12%) and Argentina (8.6%). The trend in goods imports was also positive in January to October, with the energy component taking a large share and

strong demand for consumer and capital goods. In the first half of 2007, the balance-of-payments current account posted a deficit of 2% of GDP.