URUGUAY

1. General trends

In 2012 the Uruguayan economy marked a decade of uninterrupted growth, though the pace did slow somewhat. GDP was up by 3.9%, driven mainly by private sector domestic demand associated with both final consumption and investment.

The inflation rate, as measured by variation in the consumer price index, fell to 7.5% at the end of the year, from 8.6% at the end of the previous year. Nonetheless, inflation remained above the monetary policy target range (between 4% and 6%), as has persistently been the case in recent years.

The overall balance of the public sector weakened, with its deficit widening from 0.9% of GDP in 2011 to 2.8% in 2012. As a result of the worsening trade balance, the current account deficit reached 5.3% of GDP in 2012, surpassing the 2011 figure of 2.9%.

In this context, the main economic policy challenges involve effectively coordinating wage, fiscal and monetary policies in order to ease inflationary pressures, maintain the economy's competitiveness, as measured by the exchange rate and prices, and narrow the fiscal deficit.

Growth of about 3.8% is projected for 2013. In May 2013, the year-on-year inflation rate was 8.1%, but that is expected to decrease slightly towards the end of the year. The fiscal deficit is expected to narrow in 2013 to about 1.8% of GDP. As to the external sector, a smaller current account deficit of about 3.8% of GDP is projected.

2. Economic policy

(a) Fiscal policy

The expansion of public spending in 2012 had a detrimental effect on the fiscal balance. After nine years in surplus, in 2012 the public sector primary balance posted a deficit of 0.2% of GDP (from a surplus of 2% of GDP in 2011).

Non-financial public sector revenues contracted slightly from 29% of GDP in 2011 to 28.5% of GDP at the end of 2012. Meanwhile the primary expenditure of the non-financial public sector accounted for 28.7% of GDP in 2012, up by 1.5 percentage points on 2011.

Outlays in 2012 included a number of extraordinary items, such as the settlement of obligations arising under the liquidation agreement for Banco Comercial following its failure in the 2002 crisis (0.25% of GDP), the closure of Primeras Líneas Uruguayas de Navegación Aérea (PLUNA airlines) (0.1% of GDP) and a cost overrun in power generation owing to insufficient rainfall. The share of investments remained relatively steady, inching up from 2.8% of GDP in 2011 to 2.9% of GDP in 2012.

Including debt interest, the overall public sector deficit widened to 2.8% of GDP in 2012, compared with 0.9% in 2011. This was above the target of 1.7% of GDP set for 2012 in the Government's annual accountability report.

State-owned enterprises are expected to perform better in 2013, particularly in the generation of hydroelectric power, which, assuming the central government has no extraordinary outlays, would improve the overall balance for the year, narrowing the deficit to about 1.8% of GDP.

The 2012 deficit was financed through increased placements of financial assets in foreign currency, government bond issues, higher reserve requirements on dollar deposits and the issuance of monetary liabilities.

At the end of 2012, the gross debt of the public sector as a whole amounted to US$ 31.048 billion (60% of GDP). Between 2011 and 2012 net debt increased by US$ 429 million in nominal terms. In GDP terms, however, the share of net debt fell by almost 1 percentage point, representing 26% of GDP at year-end 2012. The larger share of public sector debt held in local currency (57% in 2012 compared with 52% in 2011) lowered the exchange-rate risk.

(b) Monetary and exchange-rate policy

In 2012 the Monetary Policy Committee maintained its tight policy stance in order to control inflation. The monetary policy rate was raised from 8.0% to 8.75% in December 2011 and remained unchanged during the first three quarters of 2012. The monetary authority then raised the rate to 9.0% in October, and to 9.25% in December.

As a complementary measure and in order to slow credit growth, the central bank raised the marginal reserve requirements on domestic- and foreign-currency deposits; these requirements refer to the growth of deposits since April 2011, when the scheme was introduced. The first rate rise took effect in August 2012, when it was set at 20% for local currency and indexed units and 40% for dollar deposits. That rate was then raised by a further 5 percentage points in April 2013 on deposits in both pesos and dollars.

The stock of loans to the non-financial sector has been growing since 2009 and closed the year at just over US$ 13 billion. Loans to the resident private sector, in both domestic and foreign currency, grew by 18.3% in dollar terms in 2012, representing slower growth relative to the previous year (23%). In April 2013, the growth rate picked up once again and the total stock (resident and non-resident) reached US$ 13.750 billion.

Moreover, since Uruguay was granted an investment grade rating in April 2012, initially by Standard and Poor’s and later by other rating agencies, it has seen a large inflow of capital from non-residents into the domestic securities market. This demand was sustained in the first quarter of 2013.

This, coupled with the expansionary monetary policy in developed countries, has led to domestic currency appreciation. The resulting exchange-rate misalignments in early 2012, including with respect to Brazil, led to tension between maintaining price stability and aspiring to a competitive exchange rate. In view of this situation, in March 2013 the Monetary Policy Committee decided not to increase the benchmark rate.

Against this backdrop, in June 2013 the economic authorities announced a package of new measures to be implemented in 2013 and 2014. The tolerance range of the inflation target will be expanded to between 3% and 7% from July 2014. As of 1 July 2013 the Central Bank of Uruguay will abandon the use of the interest rate and begin to track a set of monetary supply variables to guide monetary policy. In addition, the Ministry of Economic Affairs and Finance will extend the reserve requirement to cover locally-issued securities held by non-residents, as is already the case for securities issued by the Central Bank.

In the banking market, business lending rates in national currency increased, closing the year at 12.0%, while the rates for families dropped sharply in December 2012 to 28.4% (compared with an annual average of 37.8%). In March 2013 lending rates stood at 12.2% for businesses and 34.8% for families. The average dollar lending rate was 4.8% for businesses and 9.1% for families at year-end 2012. In the first quarter of 2013 it rose slightly for businesses (5.1% in March 2013), while it decreased for families (8.7%).

Term-deposit interest rates held relatively low and steady. In 2012 the rate on deposits in national currency averaged 4.2%, rising to 4.3% in March 2013. Despite the fact that these rates were lower than inflation, which should discourage local-currency deposits, these actually increased by 13.1% in 2012, while dollar deposits rose by 11.9% in 2012 and by 10.4% to March 2013.

With respect to exchange-rate policy, the central bank intervened to ease the downward trend in the nominal exchange rate that began after the July 2012 peak at 21.8 pesos to the dollar. In April 2013 the exchange rate hit a low of 18.9 pesos to the dollar, though it bounced back slightly in May 2013.

The real effective exchange rate has trended downwards, especially with respect to the other countries in the region. The drop in 2012 averaged 3.3% over 2011, but 7.6% with respect to the rest of the region, and only 1.8% in relation to non-regional partners. The downtrend in the real effective exchange rate has continued in 2013, down by 10.2% year-on-year in April.

3. The main variables

(a) The external sector

In 2012, exports of services (mainly tourism and transport) declined by 5.7% and growth in goods exports slowed to 6.8%. As a result, growth in revenues from goods and services exports dropped to 3.3% in 2012, compared with rates of around 20% in the previous two years. Total exports of goods and services came to a record US 13 billion.

Imports continued to grow in 2012 (14.1%), though at a lower rate than in previous years (for example, growth of 26.3% had been recorded in 2011). The purchase of fuel and increased demand for inputs and capital goods accounted for this growth.

In terms of physical volume, exports of goods and services grew by only 3.4% in 2012, while imports expanded by 14.7%.

Soybean, beef, rice, wheat, powdered milk, wood and cheese accounted for over 50% of total goods exports in 2012. Unlike in 2011, in 2012 larger volumes and not higher prices were responsible for most of the growth in exports. Brazil remained Uruguay’s main trading partner, with 20% of exports and 18.5% of total imports. In Asia, China stood out, accounting for 10.5% of exports and 19.5% of imports. Within the Southern Common Market (MERCOSUR), Argentina was a more significant partner as a source of imports than as a destination for exports (5.7% of exports and 18.9% of total imports).

Oil and oil derivatives accounted for 25% of the total value of imports. Energy products aside, imports held steady compared with 2011. The breakdown of imports did not change, with automobiles and telephones being the main products.

The disparity between export and import performances resulted in a trade deficit equivalent to 2.5% of GDP in 2012, which widened the current account deficit to US 2.626 billion (5.3% of GDP, compared with 2.9% in 2011).

The current account deficit has been financed by larger capital inflows. The overall balance of the capital and financial account showed net revenues of around US 5.9 billion, up by US 2 billion on 2011.

Foreign direct investment (FDI) made up 46% of these capital inflows and exceeded US 2.7 billion (5% of GDP) in 2012, up by 7.8% on 2011. A noteworthy feature of that FDI was that much of it went to production activities and new areas for the Uruguayan economy.

The largest growth area in terms of capital inflows was portfolio investment in the public sector, which was up by more than US 1.10 billion on 2011. Measures implemented by the central bank in October 2012 decreased demand for monetary regulation bonds and steered non-resident demand towards central government securities. The variation in central bank reserve assets in 2012 exceeded US 3.2 billion (6% of GDP).

During the first quarter of 2013, the slackening pace of export growth that began in late 2012 continued, but it began to pick up again in April and May. The value of goods exports to May 2013 was 4.1% higher than the prior-year period, while imports (excluding oil) rose by 13.6%.

(b) Economic growth

GDP grew by 3.9% in 2012. Production increased in all activities, with the exception of the electricity, gas and water sector, which shrank by 21.9%, and primary activities, which contracted by 0.8%. The largest contributors to the overall balance were construction, which soared by 18.7% compared with 2011 (accounting for 0.9 percentage points of GDP growth) and transport and communications, which expanded by 7.4% (constituting 1.1 percentage points of GDP growth).

On the spending side, economic growth was driven by domestic demand associated with both final consumption and investment, with a notable contribution from the private sector. Household consumption spending grew faster than GDP, on the back of high employment rates, credit expansion and increases in real income.

The rapid expansion of gross capital formation in 2012 (14.2%) prompted a record 21.2% jump in the investment-to-GDP ratio. In the private sector, the building of the Montes del Plata pulp mill played a part in the growth in investment in construction and in machinery and equipment. The largest investment category for the public sector was construction, in particular in works in the port of Montevideo, the installation of fibre-optic cabling and laying pipelines for drinking water and sanitation services.

In 2012, 21% of investment in gross fixed capital formation was backed by the Committee on the Application of the Law on Investment (COMAP), which grants tax benefits to projects that meet certain requirements (projects totalling US 2.35 billion were supported in this way). The number of COMAP-backed projects is expected to continue growing: in the year to March 2013, 82 projects valued at some US 506.5 million had already been submitted for approval.

External demand, in turn, had a negative impact on GDP, as imports outpaced exports.

Growth began to slow in the second half of 2012 and wound down even further in the last quarter, especially in manufacturing and trade. Seasonally adjusted GDP was stable in the last quarter (down 0.1% on the third quarter and up by 4.8% in year-on-year terms).

(c) Inflation, wages and employment

After peaking at 9.1% in October 2012, year-on-year inflation fell by more than a percentage point in the last quarter to close the year at 7.5%, partly owing to the cut in electricity rates by the State energy agency (UTE). Despite this, inflation overshot the target range set by monetary policy (between 4% and 6%), as has persistently been the case in recent years.

The year-on-year inflation rate in May 2013 was 8.1%, reflecting a spurt in the first two months of the year and a subsequent slowdown. The Economic Research Centre (CINVE) expects lower inflation this year, in view of slower domestic economic activity, which, in addition to the smaller salary increments planned for 2013, will dampen domestic demand.

Job creation slowed during the first nine months of 2012, recovering only in the last quarter. Thus, the average employment rate nationwide at year-end was 59.9%, slightly lower than in 2011 (60.1%). The unemployment rate remained virtually unchanged in relation to the previous year, just edging up from 6.0% to 6.1%, then rose to 6.5% in the first quarter of 2013. According to the central bank's economic outlook survey, employment will hold steady or fall slightly in 2013 (by 0.4% on average for the year as a whole).

Under the aegis of the wage councils, the average wage index rose by 12.7% over the year as a whole. This translated into a 4.2% increase in average real wages, which helped to stimulate domestic demand.

Between March 2012 and March 2013, the average wage index went up by 11.8%, which was less than the increase recorded for the corresponding period in 2011-2012. Combined with high inflation, this resulted in a smaller increase in average real wages during the period (3.0%).

The national minimum wage rose by 20% in 2012 and has risen by a further 10% since 1 January 2013 to 7,920 Uruguayan pesos per month, which, according to the exchange rate at the end of April 2013, was equivalent to US 417.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
	Annual growth rates b/								
Gross domestic product	11.8	6.6	4.1	6.5	7.2	2.2	8.9	6.5	3.9
Per capita gross domestic product	11.9	6.6	3.9	6.3	6.8	1.9	8.6	6.2	3.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	10.6	4.6	5.3	-10.2	2.1	4.0	-3.6	12.4	-1.6
Mining and quarrying	7.2	4.4	19.0	6.3	1.7	68.3	-0.3	-9.4	15.5
Manufacturing	20.8	10.1	4.8	8.3	8.1	-3.8	3.3	2.8	1.6
Electricity, gas and water	1.8	5.8	-25.7	50.2	-51.1	12.8	88.0	-23.3	-21.9
Construction	7.5	4.2	7.0	9.3	2.6	-1.2	4.3	2.7	18.7
Wholesale and retail commerce, restaurants and hotels	21.3	10.1	4.6	8.7	11.9	-2.0	16.2	10.2	3.4
Transport, storage and communications	11.5	11.1	11.1	16.1	30.7	12.6	18.8	13.6	7.4
Financial institutions, insurance, real estate and business services	-1.7	-3.5	1.3	2.4	1.3	1.3	2.0	3.1	2.0
Community, social and personal services	10.3	-5.1	0.4	3.8	8.0	4.7	4.5	8.3	6.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	9.5	4.0	5.9	6.8	9.1	-0.9	12.0	8.3	6.4
Government consumption	2.5	0.0	2.1	4.7	9.3	4.1	1.0	3.6	5.4
Private consumption	10.6	4.5	6.5	7.1	9.1	-1.6	13.7	8.9	6.5
Gross capital formation	22.0	7.6	12.1	7.4	25.0	-7.5	8.1	11.4	14.2
Exports (goods and services)	30.4	16.3	5.6	4.8	8.5	4.2	7.8	6.3	1.6
Imports (goods and services)	26.8	10.8	15.7	5.9	24.4	-9.3	14.8	13.4	13.6
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	18.5	17.7	19.5	19.5	23.2	19.7	18.5	19.4	21.2
National saving	18.5	17.9	17.5	18.6	17.5	18.5	16.6	16.4	15.9
External saving	0.0	-0.2	2.0	0.9	5.7	1.3	1.9	2.9	5.3
Balance of payments	**Millions of dollars**								
Current account balance	3	42	-392	-220	-1 729	-382	-753	-1 367	-2 626
Goods balance	153	21	-499	-545	-1 714	-504	-527	-1 431	-2 310
Exports, f.o.b.	3 145	3 774	4 400	5 100	7 095	6 392	8 031	9 274	9 907
Imports, f.o.b.	2 992	3 753	4 898	5 645	8 810	6 896	8 558	10 705	12 217
Services trade balance	325	372	409	703	753	1 025	1 157	1 548	1 059
Income balance	-588	-494	-428	-516	-917	-1 041	-1 501	-1 612	-1 465
Net current transfers	113	144	126	137	148	138	118	128	91
Capital and financial balance d/	302	753	2 791	1 231	3 962	1 970	392	3 932	5 913
Net foreign direct investment	315	811	1 495	1 240	2 117	1 512	2 349	2 512	2 708
Other capital movements	-12	-58	1 296	-9	1 845	458	-1 957	1 420	3 205
Overall balance	306	796	2 399	1 010	2 233	1 588	-361	2 564	3 287
Variation in reserve assets e/	-454	-620	15	-1 005	-2 232	-1 588	361	-2 564	-3 287
Other financing	149	-175	-2 414	-5	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	111.8	100.0	99.1	99.0	92.1	90.7	78.7	76.6	74.1
Terms of trade for goods (index: 2005=100)	110.1	100.0	97.6	97.8	103.7	106.8	110.2	112.2	116.4
Net resource transfer (millions of dollars)	-137	84	-52	710	3 045	929	-1 109	2 319	4 447
Total gross external debt (millions of dollars)	14 082	13 717	12 977	14 864	15 425	17 969	18 425	18 345	21 072
Employment	**Average annual rates**								
Labour force participation rate g/	58.5	58.5	60.8	62.7	62.5	63.2	62.9	63.9	63.9
Open unemployment rate h/	13.1	12.2	11.4	9.6	7.9	7.6	7.1	6.3	6.4
Visible underemployment rate h/	15.8	17.1	13.6	12.9	10.8	9.1	8.6	7.2	7.1

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	7.6	4.9	6.4	8.5	9.2	5.9	6.9	8.6	7.5
Variation in producer prices (December-December)	5.1	-2.2	8.2	16.1	6.4	10.5	8.4	11.1	5.9
Variation in nominal exchange rate (annual average)	1.9	-14.7	-1.8	-2.4	-10.8	7.8	-11.2	-3.7	5.1
Variation in average real wage	0.0	4.6	4.3	4.7	3.6	7.3	3.3	4.0	4.2
Nominal deposit rate i/	5.5	2.3	1.7	2.3	3.2	4.0	3.7	4.4	4.3
Nominal lending rate j/	26.0	15.3	10.7	10.0	13.1	16.6	12.0	11.0	12.0
Central government	**Percentajes of GDP**								
Total revenue	20.7	20.9	21.6	21.0	20.6	21.2	21.5	21.2	20.5
Tax revenue	17.7	17.9	19.0	18.4	18.2	18.8	18.7	18.9	18.5
Total expenditure	23.1	22.4	22.6	22.6	21.7	22.8	22.7	21.8	22.5
Current expenditure	21.6	21.1	21.2	21.1	19.8	21.1	21.0	20.3	21.0
Interest	4.7	4.2	4.2	3.8	2.9	2.8	2.5	2.5	2.4
Capital expenditure	1.4	1.3	1.4	1.5	1.8	1.6	1.7	1.5	1.5
Primary balance	2.3	2.7	3.2	2.1	1.8	1.3	1.3	1.9	0.4
Overall balance	-2.4	-1.6	-1.0	-1.6	-1.1	-1.5	-1.2	-0.6	-2.0
Non-financial public sector debt	75.5	67.4	61.8	53.3	52.4	49.4	43.5	44.2	43.6
Domestic	14.5	14.4	13.9	10.4	11.9	14.5	12.6	14.8	15.3
External	61.0	52.9	47.9	42.9	40.5	35.0	30.9	29.4	28.3
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	17.2	13.7	19.1	15.1	13.2	11.4	15.5	16.9	13.8
To the public sector	11.8	5.9	7.6	1.3	3.1	3.7	9.7	6.4	7.6
To the private sector	29.7	26.1	26.2	25.1	30.2	23.5	25.4	26.2	26.0
Others	-24.4	-18.4	-14.6	-11.3	-20.1	-15.9	-19.5	-15.7	-19.8
Monetary base	3.9	4.9	4.6	5.7	5.6	5.7	5.6	5.9	6.2
Money (M1)	64.8	58.0	57.8	50.6	57.7	51.8	54.0	52.2	50.6
M2	9.1	10.7	11.8	13.2	13.4	14.3	16.3	17.3	17.0
Foreign-currency deposits	56.0	47.6	46.3	37.7	44.7	37.8	37.6	34.9	33.6

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 2005 prices.
c/ Based on values calculated in national currency and expressed in current dollars.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Nationwide total. Up to 2005, urban total.
h/ Urban total.
i/ Local-currency fixed-term deposits, 30-61 days
j/ Business credit, 30-367 days.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2011				2012				2013	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	7.5	6.3	8.8	3.8	4.4	3.7	2.9	4.8	3.7	…
Goods exports, f.o.b. (millions of dollars)	1 656	2 140	2 178	1 938	1 881	2 290	2 523	2 031	1 678	1 767 c/
Goods imports, c.i.f. (millions of dollars)	2 600	2 750	2 652	2 724	2 889	2 968	2 859	2 930	2 649	1 996 c/
Gross international reserves (millions of dollars)	7 755	9 768	10 221	10 302	11 285	12 090	12 810	13 605	13 478	14 939 c/
Real effective exchange rate (index: 2005=100) d/	78.0	76.4	75.5	76.4	74.6	74.7	77.0	70.2	66.9	65.3 c/
Open unemployment rate e/	6.4	6.6	6.3	5.8	5.9	6.8	6.4	6.1	6.7	…
Employment rate f/	59.9	60.4	60.2	59.7	59.6	59.9	59.7	60.7	59.1	…
Consumer prices (12-month percentage variation)	8.2	8.6	7.8	8.6	7.5	8.0	8.6	7.5	8.5	8.1 c/
Wholesale prices (12-month percentage variation)	23.3	19.3	12.0	11.1	4.5	7.4	9.1	5.9	3.2	1.2 c/
Average nominal exchange rate (pesos per dollar)	19.58	18.75	18.85	19.86	19.52	20.35	21.41	19.69	19.11	19.60
Nominal interest rates (annualized percentages)										
Deposit rate g/	4.2	4.3	4.2	4.7	4.3	4.2	4.5	3.7	4.1	4.3 c/
Lending rate h/	10.8	10.7	11.2	11.2	11.9	12.1	11.9	11.9	12.2	12.1 c/
Interbank rate	6.6	7.6	8.0	8.0	8.8	8.8	8.8	9.0	9.3	9.2 c/
Monetary policy rates	6.5	7.5	8.0	8.0	8.8	8.8	8.8	9.0	9.3	9.3
Sovereign bond spread, Embi Global (basis points to end of period) i/	176	151	312	213	127	173	139	127	173	235
International bond issues (millions of dollars)	-	693	-	1 000	-	-	-	500	-	-
Domestic credit (variation from same quarter of preceding year)	44.1	41.3	37.7	37.3	27.5	13.3	18.1	-4.6	10.3	6.5 j/
Non-performing loans as a percentage of total credit	3.2	2.9	2.8	2.7	2.6	2.5	2.5	2.3	2.3	2.3 j/

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.
c/ Figures as of May.
d/ Quarterly average, weighted by the value of goods exports and imports.
e/ Urban total.
f/ Nationwide total.
g/ Local-currency fixed-term deposits, 30-61 days
h/ Business credit, 30-367 days.
i/ Measured by J.P.Morgan.
j/ Figures as of April.