

## Uruguay

Uruguay's economy grew at a rate of 4.5% in 2013, driven mainly by domestic consumption, public investment and, to a lesser extent, private investment. Meanwhile, the biggest drag on growth came from abroad, as a result of the economic slowdown in the United States and the recession in Europe. Inflation is likely to remain a key economic policy concern in 2014, and GDP growth for the year is forecast at 3.5%.

In terms of fiscal policy, the most important measures were the amendment of the wealth tax to replace the tax on large holdings of rural real estate (ICIR), which was declared unconstitutional, and the extension to 2014 of the tax benefits for the tourism industry.

The central government's overall deficit is expected to come in at 1.8% of GDP for 2013, which would represent an improvement of 0.2% of GDP over the previous year's level of 2% of GDP. This fiscal gain can be attributed to an increase in current revenue (1% of GDP) that has easily offset the increase in current spending (0.8% of GDP). It is expected that the deficit will continue to shrink in 2014, falling to 1.6% of GDP.

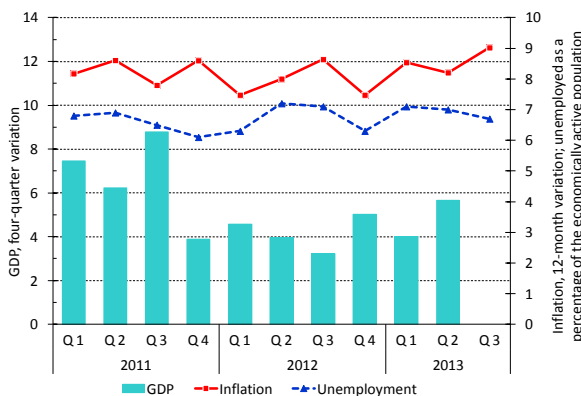
At the end of the second quarter of the year, the global public sector had gross debt of US\$ 30.877 billion (59.2% of GDP) and assets of US\$ 18.637 billion (35.7% of GDP), for net public sector debt of US\$ 12.241 billion, equal to 23.5% of GDP. In short, the country's debt remained at historically low levels.

The Monetary Policy Committee announced a package of policy measures in June 2013. The target band for inflation was widened by two percentage points in July 2014 (from 4-6% to 3-7%), and the monetary policy assessment horizon was extended to 24 months. On 1 July 2013, the interest rate was replaced by indicative growth targets for the money supply, using the M1 monetary aggregate, as the central bank's monetary policy benchmark instrument. In addition, reserve requirements were introduced for foreign purchases of securities issued locally by the government (the rate will increase from 40% to 50%), a step that had already been taken for central bank securities.

The effective real exchange rate rose nearly 8% on average during the first nine months of 2013, with respect to the 2012 average. Although Uruguay's currency generally weakened against the currencies of its main trading partners, including Brazil and Argentina, it strengthened against the currencies of its partners outside the region.

Exports of goods and services from January to October fetched a total of US\$ 7.858 billion, for year-on-year growth of 5.4%. Notably, there has been an increase in exports of various grains (with soybeans claiming the top spot), in addition to the country's traditional beef exports. Imports (excluding oil) cost the country US\$ 7.884 billion between January and October, or 11.9% more than in the same period in 2012.

Uruguay: GDP, Inflation and unemployment, 2011-2013



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

The current account for the rolling year to June remained in deficit, by US\$ 2.766 billion (-5.1% of GDP), although the second quarter numbers for 2013 showed an improvement, primarily due to fewer purchases of foreign energy products. There was a sharp increase in the accumulation of capital in the financial account (largely on the back of rising foreign direct investment in the private sector), such that reserve assets also improved.

Final consumption continued to be a key driver of Uruguay's economic growth in 2013, climbing 5.2% in the second quarter over the same period in the previous year. Gross capital formation contracted by 5.7%.

Uruguay's economy grew at a rate of 4.5% in 2013. In the first half of the year, the sectors that contributed the most to this expansion were the electricity, gas and water sector, the transportation, storage and communications sector, the services sector and the commerce, repairs, restaurant and hotel sector. All main activities grew with the exception of construction, which in the second quarter of 2013 had a negative effect of 0.3% on output and caused aggregate value to decline by 4.3%. This was largely due to the fact that construction of the Colonia pulp paper mill entered its final phase.

Inflation remained beyond the target range set by the authorities: the consumer price index (CPI) rose by 7.9% in 2013, continuing to trend upwards on higher prices for tradable goods.

The labour market slowed with respect to 2012, but employment indicators remain high. Considering the averages for the first three quarters of each year, the rate of economic activity for the country fell from 63.9% to 63.6%, and the employment rate dipped from 59.7% to 59.3%. Thus, national unemployment rose slightly from 6.5% to 6.7%, while urban employment held steady at 6.9%. Despite certain negative indicators, the overall data on the labour market continued to point to signs of vigour and improvements in job quality, with higher rates of formality and social security coverage.

In the period between January and September, average wages climbed by 3.0% in real terms over the same period in 2012.

In 2014, economic growth is expected to slow to a rate of 3.5%, moving closer to its potential. The main challenges facing the economy are related to better coordination of economic policies so that orderly steps can be taken to lower inflation and thus soften the impact that external shocks could have on real variables.

#### Uruguay: main economic indicators, 2011-2013

	2011	2012	2013 <sup>a</sup>
<b>Annual growth rate</b>			
Gross domestic product	6.5	3.9	4.5
Per capita gross domestic product	6.2	3.6	4.1
Consumer prices	8.6	7.5	8.7 <sup>b</sup>
Real average wage	4.0	4.2	2.8
Money (M1)	19.6	18.4	12.0 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-2.7	-3.1	-8.8 <sup>b</sup>
Terms of trade	1.8	3.8	2.0
<b>Annual average percentage</b>			
Open urban unemployment rate	6.6	6.7	6.8
Central government			
Overall balance / GDP	-0.6	-2.0	-1.8
Monetary policy rate	7.5	8.8	9.3 <sup>e</sup>
Nominal lending rate <sup>f</sup>	11.0	12.0	12.7 <sup>b</sup>
<b>Millions of dollars</b>			
Exports of goods and services	12 868	13 281	13 373
Imports of goods and services	12 779	14 618	15 804
Current account balance	-1 371	-2 690	-4 175
Capital and financial balance <sup>g</sup>	3 936	5 977	6 691
Overall balance	2 564	3 287	2 516

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

<sup>a</sup> Estimates.

<sup>b</sup> Figures as of October.

<sup>c</sup> Figures as of September.

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

<sup>e</sup> Figures as of June.

<sup>f</sup> Business credit, 30-367 days.

<sup>g</sup> Includes errors and omissions.