

## Uruguay

The Uruguayan economy has showed a slack performance over recent quarters, in keeping with the weak international and regional context. At the aggregate level, annual growth is expected to fall again in 2016, to 0.5%, on the back of stagnating private consumption and investment and decreased international demand.

Nonetheless, the coming quarters are expected to bring an upturn as international demand picks up. Recent indicators of economic activity point to a slight uptick in domestic demand and manufacturing production, as well.

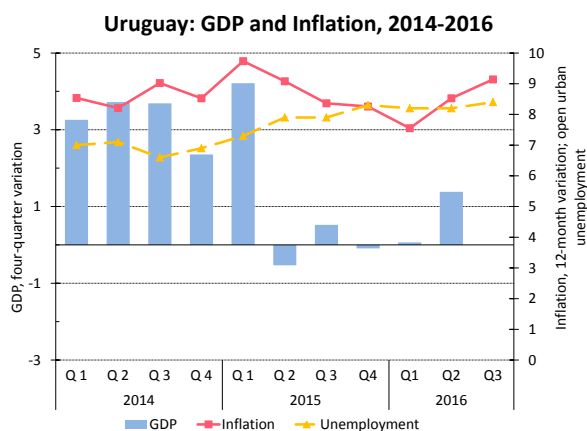
Fiscal policy turned less expansionary than in past years. Even so, the general public sector deficit came to 3.5% of GDP in September 2016, a tenth of a percentage point wider than a year earlier, essentially owing to lower tax revenues following on from the weakness in economic activity. In the latest figures, the primary balance returned to a deficit (-0.1 of GDP) after posting a surplus in 2016 thanks to efforts to improve the fiscal outturn, including tariff increases early in the year and cuts in investment by public enterprises. In this context, the government announced a fiscal consolidation plan in May aimed at narrowing the fiscal deficit to 2.5% of GDP by 2019. Part of the plan consists of increasing rates in the higher personal income tax bands, reducing deductible items from the economic activities profits tax as of 1 January 2017, and reducing spending projections for the rest of the administration. By June 2016, net public debt stood at US\$ 13.73 billion, 10% above the prior-year value, while the main credit agencies ratified the investment grade rating enjoyed by Uruguayan sovereign debt since the beginning of the decade.

Inflation exceeded 10% in the year-on-year figures in the first few months of the year, reaching a 12-year high. However, as the Uruguayan peso rose against the United States dollar and fruit and vegetable prices stabilized, inflation slowed and returned to levels similar to those seen in past years. The annual consumer price inflation stood at 8.5% in October, above the target range of 3%-7%.

Starting in March, the exchange rate fell steadily after exceeding 32 pesos to the dollar—a 10-year high—to reach about 28 pesos in August. It has remained at that level since, representing a drop of less than 5% with respect to the 2015 year-end close.

In this context, since August, the central bank has maintained a long position in the foreign-exchange market to smooth out exchange-rate movements. It also eliminated dollar payments on loans in pesos and indexed units. At the same time, the Ministry of Economy and Finance limited the sale of foreign exchange to public companies, in order to force those transactions to be conducted on the foreign-exchange market.

The central bank maintained its contractionary slant of recent years in monetary policy. In fact, expanded M1 (the central bank's quarterly target reference) showed year-on-year



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

variations of less than 4% in 2016. In this context, the monetary authority lowered the expanded M1 target range from 7%-9% to 4%-6%.

The trade balance continued to improve in the first nine months of 2016, despite an annual decline of 11% in exports, owing to an even greater drop in the cumulative value of imports (around 18% to September). Of the fall in imports, 60% is accounted for by machinery and equipment, transport materials and oil and oil derivatives. Meanwhile, half of export shrinkage is explained by decreased revenues from exports of soybeans and animal products. Additionally, the services account posted a surplus in the rolling 12 months to June 2016, driven by the travel sector, which increased its export surplus. Because the deficit on the income account remained larger than the surplus on the trade and current transfers accounts, the balance-of-payments current account posted a cumulative four-quarter deficit of 1.4% of GDP at the end of June.

On the international trade front, the government signed a free trade agreement with Chile, the first bilateral compact of this kind signed by Uruguay since its accord with Mexico in 1999. Negotiations sought not only to strengthen trade relations with Chile, but also to harmonize fiscal and tax matters.

Foreign direct investment (FDI) dropped by 24% in the first half of 2016, compared with the prior-year period, maintaining the downward trend after the peak of US\$ 3 billion achieved in 2013. Nevertheless, Uruguay continues to attract FDI, which is expected to start picking up again as from the end of 2016. Although the results will not be seen in the immediate future, there are plans for investment of about US\$ 4 billion in the country's third paper pulp mill, as well as some US\$ 1 billion in logistics.

On the supply side, the negligible annual GDP growth in 2016 reflected several factors. The electrical power, gas and water sector registered significant growth in the second quarter, as power generation returned to normal levels after the drought of 2015. However, this was offset by the drop in other sectors, such as construction—influenced by lower private investment—and primary activities—as a consequence of slack external demand.

Amid weak economic conditions, labour market indicators deteriorated over the year. While the participation rate remained at about 63% on average from January to September, the national employment rate dropped to 58.4%, compared with 59% posted in the prior-year period. Consequently, the unemployment rate stood at 8.0%, or 0.5 percentage points above the 2015 average. Although higher than the average for the last decade, this figures still falls short of the country's historical highs. Meanwhile, after stagnation in the second half of 2015, real wages appear to have resumed an upward trend, showing a year-on-year improvement of 2% in September 2016.

#### Uruguay: main economic indicators, 2014-2016

	2014	2015	2016 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	3.2	1.0	0.6
Per capita gross domestic product	2.9	0.6	0.2
Consumer prices	8.3	9.4	8.9 <sup>b</sup>
Real average wage	3.4	1.6	1.4
Money (M1)	6.1	7.1	1.1 <sup>b</sup>
Real effective exchange rate <sup>c</sup>	5.8	4.1	2.2 <sup>b</sup>
Terms of trade	3.9	1.9	3.3
	<b>Annual average percentage</b>		
Open urban unemployment rate	6.9	7.8	8.3
Central government			
Overall balance / GDP	-2.3	-2.8	-3.0
Nominal deposit rate <sup>e</sup>	4.4	5.3	5.1 <sup>d</sup>
Nominal lending rate <sup>f</sup>	17.2	17.0	17.8 <sup>d</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	13,688	12,074	11,056
Imports of goods and services	14,458	11,944	10,417
Current account balance	-2,580	-1,241	-697
Capital and financial balance <sup>g</sup>	3,940	-547	-963
Overall balance	1,360	-1,788	-1,660

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

a/ Estimates.

b/ Figures as of September.

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

d/ Figures as of October.

e/ Deposit rates in local currency for 31 to 60 days.

f/ Business credit, 30-367 days.

g/ Includes errors and omissions.

GDP growth is expected to pick up slightly to 1% in 2017, likely driven in part by regional demand for goods and services. In addition, private sector expectations have brightened regarding domestic demand. The main factors of economic uncertainty for the year include the behaviour of global demand and of the financial markets and FDI.