

## Uruguay

After three years of positive growth, albeit at a decreasing rate, Uruguay's gross domestic product (GDP) stopped decelerating and will expand by about 3% in 2017, which will give 15 years of uninterrupted growth. This acceleration was on account of the recovery in regional demand for goods and services, increased shipments of the main export commodities, improving global financial conditions and an uptick in consumer confidence.

The most notable characteristics of the Uruguayan economy in 2017 were a high and persistent fiscal deficit, a record tourist season, a historically low rate of inflation, increased demand for the Uruguayan peso and a slight deterioration in labour market indicators.

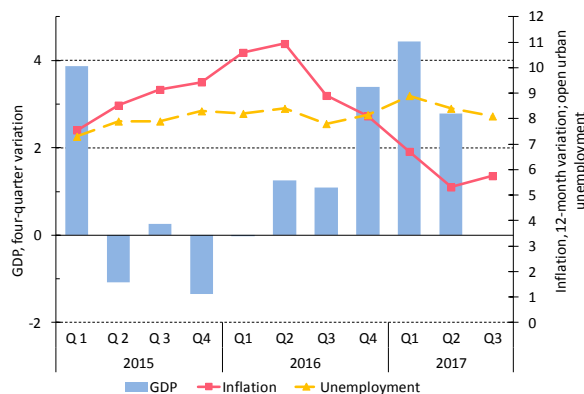
The Government's main concern is reducing the fiscal deficit, which stood at 3.6% of GDP at the end of September 2017. The increased personal income tax (IRPF) rates in force since 2017 have not been sufficient to meet the new contracted obligations, in particular those derived from the increase in social security benefits and from the conclusion of the timetable for establishing universal access to the National Health Fund. In its 2017 accountability report, the Government temporarily increased the consular rate for goods imports, from 2% for imports in general to 3% for imports from the South American Common Market (MERCOSUR) and 5% for goods from the rest of the world. It also raised taxes on gambling winnings and prizes. On the expenditure side, the determination of the 2019 and 2020 budgets was postponed until 2018, and control over the investments of autonomous entities was increased. The Government is also negotiating two social security reforms that would impact the public accounts: one to resolve the problem of the workers affected by the transition of the 1996 social security reform, and the other to modify the retirements and pensions service of the armed forces.

With regard to the financing of the public deficit, a five-year peso-denominated global bond was issued in June, marking the first time an issuance in the national currency has been placed on international markets. Demand for those bonds was very high, almost five times the amount on offer and, as a result, the yield rose to 9.785% per annum.

Gross public sector debt rose to 62% of GDP in June 2017. Meanwhile, net debt increased by three percentage points to stand at 30% of GDP. It should be noted that both the gross and net debt figures are at historic lows, that the maturity profile of the instruments falling due over the coming years presents no complications and that the share corresponding to the peso has risen and now accounts for 54% of total debt.

Monetary policy continues to use increases in monetary aggregates as its benchmark tool. At its three quarterly meetings held so far in 2017, the Monetary Policy Committee increased the target growth rate of the M1' aggregate, in line with the sharp increase in the demand for money. The benchmark for the current quarter is a year-on-year growth rate of between 13% and 15%. In particular, in the quarter from July to September,

**Uruguay: GDP, Inflation and Unemployment, 2015-2017**



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

year-on-year growth in M1' was 18.2%, well above the benchmark for the quarter.

In the new global context where dollars are in abundance, the dollar exchange rate has remained constant in 2017, at around 29 pesos. In keeping with this stability in the currency, there were no notable changes in the real effective global exchange rate; neither were there any significant changes in relative prices vis-à-vis either the region or the rest of the world.

During the first ten months of the year, goods exports rose by 10% compared to their 2016 levels, on account of increases in both prices and volumes, particularly for soybeans. China remains the leading destination for domestically produced goods. In 2017, after suffering a severe decline as an export destination in the previous biennium, Brazil—the second largest market—grew at a rate similar to the average. The dairy sector, which accounts for about 5% of exports, is facing a serious profitability crisis on account of difficulties in selling its products. Within the service sector, 2017 receipts from tourism will surpass US\$ 2.5 billion, making it the economy's leading export sector for the first time ever. Imports of goods and services will remain stable over the period, as a result of increased purchases of intermediate and consumer goods, lower purchases of capital goods and a degree of stability in the procurement of services. With this, the goods and services account will improve its positive balance over the period. The increase in primary income debits during the period (which includes the transfer of profits abroad) failed to offset this increase, and so the current account will post a positive balance of between two and three points of GDP.

GDP growth is the result of expanding net external demand and the recovery of consumption, which more than offsets the drop in gross fixed capital formation. For both investment and consumption alike, data from the private sector have been expansionary while those of the public sector have been on the side of contraction. In terms of output, once again the telecommunications sector made the largest contribution to growth. Other sectors—such as commerce, hospitality and the primary sector—also contributed to GDP growth. In contrast, manufacturing, energy and construction performed negatively. In manufacturing, this performance was due to the closure of the oil refinery during several months in 2017, which reduced GDP growth by about half a percentage point.

Inflation over the year stood at below 7% in year-on-year terms, within the central bank's target range of 3% to 7%. Thus, as a result of falling prices for fruits and vegetables (mainly in comparison with the first months of 2016) and the stable exchange rate, the year-on-year change in prices declined steadily over the first half of the year and in July posted an increase of 4.6%, the lowest reading in more than a decade. Likewise, in the recent context of falling official metrics, medium-term inflationary expectations were tempered and, in September, stood at less than 7%.

The main labour market indicators did not keep pace with the recent acceleration of economic activity. Thus, the employment rate was slightly below the previous year's result, averaging 58% during

#### Uruguay: main economic indicators, 2015-2017

	2015	2016	2017 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	0.4	1.5	3.0
Per capita gross domestic product	0.0	1.1	2.6
Consumer prices	9.4	8.1	6.0 <sup>b</sup>
Real average wage	1.6	1.4	3.1
Money (M1)	7.1	2.2	12.9 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-0.3	0.5	-6.7 <sup>c</sup>
Terms of trade	1.9	5.5	-1.6
	<b>Annual average percentage</b>		
Open urban unemployment rate	7.8	8.2	8.4
Central government			
Overall balance / GDP	-2.8	-3.7	-2.8
Nominal deposit rate <sup>e</sup>	5.3	5.1	4.7 <sup>c</sup>
Nominal lending rate <sup>f</sup>	17.0	17.6	15.9 <sup>c</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	15 633	14 947	16 363
Imports of goods and services	13 878	11 752	11 953
Current account balance	-395	888	1 661
Capital and financial balance <sup>g</sup>	-1 281	-3 076	265
Overall balance	-1 677	-2 189	1 926

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

f/ Business credit, 30-367 days.

g/ Includes errors and omissions.

the first nine months of the year, while the labour force participation rate fell slightly to 63%. As a result of these two decreases, the unemployment rate held at around 8%, a figure similar to that recorded in the same period in 2016. In spite of that, real wages rose significantly as a result of falling inflation. In particular, at September 2017, personal income —driven by private-sector wages and salaries— had grown 3.5% year-on-year in real terms.

GDP is forecast to grow by about 3% in 2018 as a result of the continuation of the favourable conditions that fuelled the current year's growth in output and on account of the recovery of public infrastructure investments.