

URUGUAY

1. General trends

The pace of economic expansion slowed in Uruguay in 2018, ending the year with a growth rate of 1.6% of GDP. This was the country's sixteenth consecutive year of positive economic growth, an all-time record. Nevertheless, economic performance declined gradually over the course of the year owing to a variety of more adverse circumstances than in 2017. The slackening continued in 2019, leading to forecast economic growth of less than 1%. The main factors behind this sluggish economic performance are the drop in regional demand—primarily from Argentina—depressed global financial markets and the country's fiscal situation.

The most noteworthy trends in 2018, which have carried over into 2019, were the switch from a surplus to a deficit in the current account of the balance of payments—partly owing to a fall in exports of goods and services—, robust demand for local currency, fluctuations in the currency's exchange-rate value despite action by the monetary authority to stabilize it, an increase in the public sector deficit, moderate inflation, appreciation of the currency against the region and depreciation against the rest of the world, and investment near the weak levels seen in the period preceding the commodity supercycle.

This somewhat downbeat economic outlook in a general election year has created a great deal of political uncertainty, which looks set to intensify as the year progresses, reaching a crescendo during the second round of the elections in November. The government, which does not have fiscal space to stimulate demand, has been engaged in drawn-out negotiations with the Finnish company UPM to open a second pulp mill in the centre of the country. If the investment were to come to fruition, its magnitude and complexity would make it the most important in the history of Uruguay. The project includes repair and refurbishment of a railway from the centre of the country to the Port of Montevideo, reviving a mode of transport that has been practically inactive for decades. While no formal announcement had yet been made at the date of this report, one is very likely to be made. Once the plant is up and running, pulp will in all probability become the country's main export product for quite some time, outstripping meat, soybean and possibly tourism. The negotiation process has not gone uncriticized in the growing environmental debate in the country, partly owing to increased activity linked to natural resources.

2. Economic policy

(a) Fiscal policy

Since taking office in 2015, the government has maintained a pro-austerity line. It has taken measures to increase tax revenue (in particular direct taxes and taxes on imports), tightening controls on expenditure and attempting to improve the balance sheets of public enterprises, which in Uruguay play a prominent role in economic policy. However, the fiscal balance is tending increasingly towards deficits. Although fiscal policy cannot be said to have been expansionary, nor can it be classed as contractionary.

Official figures show an improvement in the fiscal balance in 2018, but this is due to the inclusion from October onward in the accounts of the Social Insurance Bank (BPS) of Social Security Trust (FSS) funds equivalent to 1.4% of GDP. The Trust was created in 2017 and established conditions for opting out

of the mandatory individual savings scheme for workers and retirees who were fifty or older at April 2016, a population group that had been adversely affected by the transition to an individual capitalization system.

Excluding the effect of this opt-out measure, the public sector balance at year-end 2018 was a primary deficit of 0.7%, half a point more than in the prior year. This is the largest deficit as a proportion of GDP since 2001. Public sector revenues, meanwhile, have shown stability, as the slight rise in central government revenues (to 21.6% of GDP) was offset by a decline in social security revenues and a smaller current primary surplus for public enterprises. In contrast, each of the components of expenditure (wages, liabilities, transfers, investments, outlays) increased by around one tenth of a point of GDP. Interest rates rose slightly to 3.4% of GDP. As a result, 2018 closed with a deficit of 4.2% of GDP, although in the 12 months ending April 2019 the deficit had already reached 4.8% of GDP, the highest figure in 30 years.

Despite the disheartening fiscal outlook, Uruguay's public debt retains its investment grade rating and the government issues debt regularly, including in local currency. Uruguayan public debt has a long-term maturity profile, with more than half maturing after 2024.

The creation of the aforementioned FSS, which is considered part of the public sector, led to a portion of the debt securities previously held by the retirement savings fund management companies (AFAP) being held by FSS; therefore, the debt was consolidated and reduced by 1.1%. Gross total public debt represented 68% of GDP at December, while assets stood at half that percentage. As a result, net debt was equivalent to around 34% of GDP, up two points from the previous year. This upswing is explained by financing of the deficit and the increase in the value of the dollar. In 2018, the tendency towards dedollarization of Uruguay's public debt reversed, with dollar-denominated liabilities reaching 44% of the total.

(b) Monetary policy

Broadly speaking, monetary policy did not change in 2018 compared to previous years. The country's monetary authority maintained the monetary policy goal of monitoring growth in monetary aggregates within a range of two to three points of nominal increase in the broad aggregate M1, which comprises cash in circulation and demand and savings deposits. Growth in monetary aggregates slowed throughout 2018, from year-on-year growth of 12% in the first quarter to just over 4% in the fourth. However, in 2019 the preference for deposits in local currency began to gain ground, as also reflected in a moderate reversal in dedollarization of deposits, 70% of which are currently dollar-denominated. In early 2018 there was an abrupt fall in the foreign-currency position of the local banks, which gradually reverted during the period.

Led by private banks, bank credit in local currency, which was steady in 2017, increased by 6% in real terms in 2018. In 2019 the upward trend has continued. Credit denominated in foreign currency remained stable in 2018 but is expanding in 2019.

In May 2019, the monetary authority announced an extensive buyback of short-term Monetary Regulation Bills (LRM) in pesos for up to US\$ 1 billion, to be settled in local currency or in dollars. In a statement, the monetary authority reaffirmed its commitment to stabilizing the local market.

(c) Exchange-rate policy

The exchange rate was highly volatile in 2018 and 2019. The Central Bank of Uruguay (BCU) maintains its policy of taking action only when currency movements are abrupt or depart too far from

reference rates. Originally driven by movements in international markets but further fuelled by the run on the Argentine peso in May 2018, the dollar rose sharply mid-year but subsequently flattened. Towards the end of summer 2019, the dollar began to climb once more.

Since the start of 2018, the real bilateral exchange rate has appreciated, as a result of a sharp depreciation of the Argentine peso. However, there has been stability against the currencies of trading partners outside the region. As a result, the country has lost competitiveness in relation to Argentina, as clearly reflected in the tourism sector, but also in logistics and other service sectors where it competes in regional markets with its neighbour.

(d) Other policies

The mounting social security deficit and the prospect that the imbalance between income and expenditure may only increase in coming years has put the issue of reform at the forefront of debate on economic policy. However, in 2018, only two measures were adopted in this area, addressing very specific population groups. As previously mentioned, FSS was created to resolve the problems faced by workers affected by the transition arising from the 1996 pension reform. In addition, there was a partial reform of the armed forces retirement and pension service, which also has a deepening deficit; in 2018 it stood at 1% of GDP.

3. The main variables

(a) The external sector

The current account of the balance of payments closed 2018 with a deficit of 0.6% of GDP, reversing the surplus seen in 2017. This trend reflected an increase in imports of goods, a smaller surplus in the services balance and an increase in the primary deficit of the public sector. Although there are no official data for the first quarter, 2019 is expected to show a slight improvement in the goods account, owing to a bountiful soybean harvest and a worsening of the services account, caused by a drop in summer tourism compared to the prior year's very upbeat vacation season.

In 2018, exports of meat, pulp, dairy and other forest products grew, offsetting a decline in soybean sales prompted by weather events in late 2017. Although it imported less than in the previous year, China remains the primary destination of Uruguayan output, although the European Union has pushed Brazil out of second place, due to its high volume of pulp purchases. The larger volume of exports of commercial goods was offset in the current account by a rise in imports by the same companies and by increased repatriation of profits.

Imports of goods increased in 2018 as a result of growth in the quantity of crude oil purchased and its price, offsetting the fall in purchases of refined fuels.

Exports of services contracted by 1.8% as a result of the decline in tourism, which was largely balanced out by growth in the transport and other services sector. Meanwhile, service imports expanded, mainly owing to the higher expenses incurred by transport companies operating in the country.

At the institutional level, the shift in the current account is a result of a smaller private sector surplus and a half-point rise in the public sector deficit.

Direct investment in Uruguay, whose net flows have been in the red for three years, saw the negative figures retreat from -1.5% to -1% of GDP. Direct investment flows were negative because the balance of net borrowing between linked resident and non-resident companies was outweighed by equity lending and reinvestment of earnings. These last two items, which are more associated with the traditional concept of FDI, rose compared to the prior year to 4.2% of GDP.

(b) Economic activity

The economic growth rate in 2018 was 1.6% of GDP for the full year. The main driver of these gains was the transport and telecommunications sector, which accounted for 80% of growth, owing to continued expansion of physical volume in the telecommunications sector. The other fast-growing sector, which explained the remainder of the increase, was the primary sector, which recorded a substantial improvement in the fourth quarter compared to the previous year. The other sectors had a minimal impact on growth. Additionally, there was a significant increase in industrial activity, owing exclusively to the fuel refinery operating throughout 2018, after closing for maintenance for much of 2017. The construction sector also appears to have bottomed out, having accumulated several years of declines from record highs, and is expected to contribute positively to activity in 2019.

On the expenditure side, growth was sustained by household final consumption expenditure and by the positive performance of gross capital formation. The accumulation of agricultural inventories more than offset the negative performance of fixed capital. The net impact of the external sector was negative, since exports fell more than imports (in terms of physical volume), again owing to soybean.

(c) Prices, wages and employment

The latest consumer price index data (from May 2019) shows that over the preceding 12 months the rate of inflation was 7.7%, slightly below the 8.0% at year-end 2018. After falling within the target range set by the Central Bank of Uruguay (3%–7%) in the first four months of 2018, inflation then rose on the back of the depreciating peso, subsequently showing a moderately bullish trajectory.

The average wage index rose by 8.2% in the year, bringing real wage growth of 0.2%. The gains were almost identical in the private and public sectors. The computing and related activities and research and development segments showed larger-than-average upswings. The national minimum wage, set by the Executive Branch, was raised by a nominal 12% in January 2019. It currently stands at 15,000 Uruguayan pesos (equivalent to US\$ 427 at the exchange rate on 31 May 2019).

For some years, the labour force participation rate has shown a slightly downward trend, especially outside the capital city. Although a sharp rise was estimated for the last quarter of 2018, the figure for the first quarter of 2019 once again puts the rate at 62.4%. Meanwhile, the employment rate fell four tenths of a percentage point year-on-year, with a markedly negative trend from November 2018 onward. According to the same estimates, of those in work, 73% are employed in standard conditions, while the rest are underemployed or in informal work. Mirroring the labour force participation rate, in the first quarter of 2019 the employment rate continued to slide following an atypically upbeat end to 2018. The point estimate for the first quarter of 2019 was 56.9%. For its part, the unemployment rate rose in the quarter, putting it close to the levels of 12 months earlier, but with an upward trend. The latest quarterly point estimate places the rate at 8.8%

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	7.8	5.2	3.5	4.6	3.2	0.4	1.7	2.6	1.6
Per capita gross domestic product	7.5	4.8	3.2	4.3	2.9	0.0	1.3	2.2	1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-1.5	13.2	-0.8	2.0	0.3	-1.2	2.5	-5.7	6.0
Mining and quarrying	35.5	-21.1	-2.3	2.5	-10.8	-15.5	18.2	-19.7	-5.7
Manufacturing	2.6	2.0	-3.9	1.2	4.2	4.9	0.7	-3.5	1.9
Electricity, gas and water	89.3	-24.2	-21.9	54.7	15.7	-6.7	9.6	1.2	2.2
Construction	2.4	2.4	16.3	0.9	0.7	-6.1	-2.6	-2.1	-2.8
Wholesale and retail commerce, restaurants and hotels	11.6	7.0	5.6	8.0	-0.6	-4.0	-2.8	6.2	-1.3
Transport, storage and communications	15.0	10.7	10.0	6.9	7.4	4.8	8.1	9.4	6.8
Financial institutions, insurance, real estate and business services	4.3	6.5	5.3	4.0	3.7	2.7	0.8	-1.3	-0.4
Community, social and personal services	1.4	2.4	1.5	2.7	2.9	0.1	-0.3	-0.3	0.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	8.6	6.7	5.1	5.5	2.9	-0.2	0.4	3.9	1.4
Government consumption	3.1	3.7	6.0	4.9	2.5	2.2	2.9	-0.7	0.8
Private consumption	9.4	7.2	4.9	5.5	3.0	-0.5	0.1	4.6	1.5
Gross capital formation	15.2	9.9	14.5	4.8	0.0	-9.0	-3.9	-13.0	7.3
Exports (goods and services)	7.2	5.8	3.6	-0.1	3.5	-0.6	-0.2	6.9	-4.8
Imports (goods and services)	13.6	12.4	13.6	2.8	0.8	-7.3	-6.2	0.5	-2.0
Investment and saving c/	Percentages of GDP								
Gross capital formation	19.4	20.9	22.9	22.5	21.2	19.7	17.8	15.2	16.5
National saving	17.6	18.1	18.9	18.9	18.0	18.8	18.4	16.0	15.9
External saving	1.8	2.7	4.0	3.6	3.2	0.9	-0.6	-0.8	0.7
Balance of payments	Millions of dollars								
Current account balance	-731	-1 315	-2 069	-2 087	-1 814	-491	325	465	-348
Goods balance	-527	-1 431	305	1 077	1 985	1 307	1 916	2 135	2 365
Exports, f.o.b.	8 031	9 274	13 055	13 277	13 769	11 145	10 379	10 804	11 488
Imports, f.o.b.	8 558	10 704	12 750	12 200	11 783	9 838	8 463	8 668	9 123
Services trade balance	1 157	1 592	1 201	-266	-366	413	820	1 500	1 193
Income balance	-1 501	-1 631	-3 700	-3 077	-3 614	-2 388	-2 594	-3 362	-4 098
Net current transfers	140	156	125	180	181	176	183	192	193
Capital and financial balance d/	370	3 879	5 356	5 068	3 186	-1 185	-2 513	1 984	-61
Net foreign direct investment	2 349	2 511	2 175	2 792	2 512	815	-1 117	-2 164	-636
Other capital movements	-1 979	1 368	3 181	2 276	674	-2 001	-1 397	4 148	576
Overall balance	-361	2 564	3 287	2 981	1 372	-1 677	-2 189	2 449	-408
Variation in reserve assets e/	361	-2 564	-3 287	-2 981	-1 372	1 677	2 189	-2 449	408
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	79.7	77.9	76.3	70.7	74.3	74.1	74.7	72.2	64.4
Terms of trade for goods (index: 2010=100) g/	100.0	102.4	106.3	108.1	112.3	114.5	117.6	117.1	111.4
Net resource transfer (millions of dollars)	-1 131	2 248	1 657	1 990	-428	-3 573	-5 107	-1 378	-4 159
Total gross external debt (millions of dollars)	18 425	18 345	36 104	37 767	40 898	43 311	39 970	41 157	41 994
Employment	Average annual rates								
Labour force participation rate h/	62.9	64.8	64.0	63.6	64.7	63.8	63.4	62.9	62.4
Open unemployment rate i/	7.5	6.6	6.7	6.7	6.9	7.8	8.2	8.3	8.6
Visible underemployment rate h/	8.6	7.2	7.1	6.8	6.6	7.1	8.3	8.4	8.5

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prices	Annual percentages								
Variation in consumer prices (December-December)	6.9	8.6	7.5	8.5	8.3	9.4	8.1	6.6	8.0
Variation in producer prices (December-December)	8.4	11.1	5.9	6.3	10.6	6.6	-1.9	3.4	10.0
Variation in nominal exchange rate (annual average)	-11.2	-3.8	5.1	0.9	13.6	17.5	10.3	-4.7	7.2
Variation in average real wage	3.3	4.0	4.2	3.0	3.4	1.6	1.6	2.9	0.2
Nominal deposit rate j/	3.7	4.4	4.2	4.3	4.4	5.3	5.1	4.6	4.7
Nominal lending rate k/	12.0	11.0	12.0	13.3	17.2	17.0	17.6	15.4	14.2
Central government	Percentages of GDP								
Total revenue	26.9	27.0	26.9	28.0	27.6	27.2	27.8	28.8	30.6
Tax revenue	24.2	24.7	25.0	25.5	25.1	25.0	25.3	26.4	26.8
Total expenditure	28.0	27.6	28.9	29.5	29.9	30.0	31.5	31.8	32.7
Current expenditure	26.3	26.1	27.5	28.1	28.5	28.8	30.1	30.5	31.2
Interest	2.4	2.4	2.3	2.4	2.3	2.3	2.7	2.7	2.8
Capital expenditure	1.7	1.5	1.4	1.4	1.4	1.2	1.4	1.3	1.5
Primary balance	1.3	1.9	0.3	0.9	0.0	-0.5	-1.0	-0.3	0.7
Overall balance	-1.1	-0.6	-2.0	-1.5	-2.3	-2.8	-3.7	-3.0	-2.1
Non-financial public sector debt	39.9	38.4	40.2	36.9	39.2	47.2	46.1	47.9	50.3
Domestic	13.6	14.9	15.1	12.8	11.9	15.5	18.7	21.1	21.0
External	26.3	23.6	23.9	26.0	27.5	31.6	27.4	26.8	29.3
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	18.4	18.3	17.5	18.6	19.3	21.5	23.6	20.9	22.0
To the public sector	9.1	6.9	7.4	9.2	8.2	4.6	6.2	8.4	8.6
To the private sector	22.0	22.9	23.3	25.7	26.9	30.0	28.1	26.2	27.5
Others	-12.7	-11.5	-13.2	-16.2	-15.8	-13.1	-10.7	-13.6	-14.1
Monetary base	5.4	5.7	6.0	6.4	6.3	6.3	6.4	6.1	6.3
Money (M1)	9.8	10.2	9.9	9.9	8.9	8.5	8.3	8.5	8.5
M2	15.8	16.8	16.5	16.6	15.7	15.7	16.4	17.3	17.8
Foreign-currency deposits	26.5	26.7	25.8	28.3	31.7	37.9	34.6	31.1	32.7

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/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.

h/ Nationwide total.

i/ Urban total.

j/ Local-currency fixed-term deposits, 30-61 days

k/ Business credit, 30-367 days.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	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/	4.3	2.7	1.9	1.6	2.0	2.2	1.8	0.6
Gross international reserves (millions of dollars)	12 919	13 253	14 735	15 741	16 201	17 921	16 835	15 743	16 518	15 668 c/
Real effective exchange rate (index: 2005=100) d/	70.4	70.9	72.9	74.8	66.5	64.7	62.6	63.7	62.4	65.2 c/
Open unemployment rate e/	8.9	8.4	8.1	7.8	9.2	8.3	8.7	8.4	9.1	...
Employment rate f/	57.8	57.8	57.7	58.1	57.1	57.1	56.6	58.1	56.9	...
Consumer prices (12-month percentage variation)	6.7	5.3	5.8	6.6	6.7	8.1	8.3	8.0	7.8	7.7 c/
Wholesale prices (12-month percentage variation)	-1.9	0.1	3.3	5.4	4.9	12.6	12.9	10.0	12.7	10.1 c/
Average nominal exchange rate (pesos per dollar)	28.5	28.3	28.7	29.1	28.5	30.1	31.8	32.6	32.8	34.7 c/
Nominal interest rates (average annualized percentages)										
Deposit rate g/	4.8	4.8	4.5	4.4	5.0	4.5	4.3	4.8	4.5	4.0 c/
Lending rate h/	17.1	15.7	15.7	14.2	14.3	14.3	14.1	14.1	13.7	12.8 c/
Sovereign bond spread, Embi Global (basis points to end of period) i/	209	193	165	146	168	200	156	207	170	194 c/
International bond issues (millions of dollars)	-	1 250	1 100	-	-	1 750	-	-	850	-
Domestic credit (variation from same quarter of preceding year)	12.9	3.0	2.7	-1.7	-11.2	-18.0	4.0	12.2	7.1	38.4 c/

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.