Uruguay

The global health crisis caused by the coronavirus disease (COVID-19) pandemic hit Uruguay just as a new government was taking office. As the first cases of the virus were being detected in the country, President Luis Lacalle decreed a health emergency twelve days after taking over as head of government. Up to the time of writing, the country had performed well in containing the pandemic and had the smallest number of cases and fewest deaths of all South American countries. The government chose not to impose very strict lockdown measures, so the movement of people, while significantly reduced, did not decrease as much as in other countries in the region.

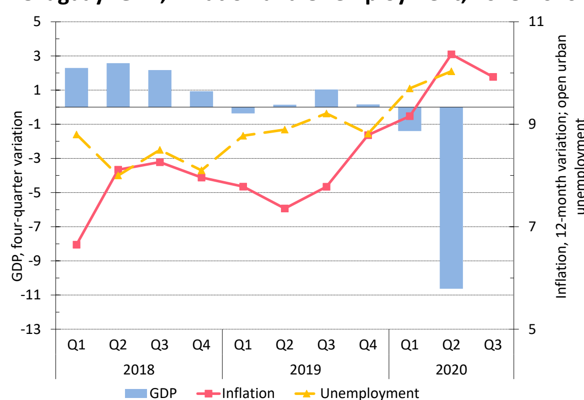
At the onset of the crisis several quarters ago, economic activity was basically stalled and the country was running a large fiscal deficit. The economic and social impact of the health crisis will be very severe, albeit comparatively less than in other countries in the region. Although Uruguay is soon to publish new national accounts, which means that the measurement will be revised as from December, it is estimated that economic activity will contract by around 5% this year. Following a sharp depreciation of the Uruguayan peso against the dollar in March, partly owing to the pandemic's effects on markets, the exchange rate has since remained stable.

In terms of activity levels, in the first quarter of the year the pandemic mainly affected the goods market; but in the second quarter the effects were more widespread, impacting the services sector in particular. In the third quarter, activity in the goods sector is expected to start recovering, while the sectors most affected by the health measures are likely to remain depressed. In some of these sectors, such as transport, commerce and leisure, activity levels will probably remain subdued until the end of the year at least. Foreign trade data show that exportable goods could help fuel a recovery in activity in the last quarter of this year and the first quarter of 2021. Construction work began on the country's third cellulose plant in the second quarter of the year, so it is possible that private investment will revive, having been very depressed over the last six years.

Inflation has been slightly higher than in 2019, driven by food prices. In October, the consumer price index (CPI) was up by 9.76% over the last twelve months, above the target range of between 3% and 7%.

In the first 10 months of 2020, goods exports were 15% lower than in the year-earlier period, although recent data suggest that this decline could be slowing down, and, by the end of the year they could be down by about 10%. Poor results in the soybean sector, which, after a worse harvest than in 2019, fell by 22%, and in the cellulose sector, were output was down by 29%, explain the reduction in exports. In contrast, exports of rice and, to a lesser extent, dairy products, are higher this year, thanks to the supply plans of other countries. Other sectors that were particularly affected by the reduction in exports were automobiles and autoparts, leather articles and combed wool, which suffered cumulative falls

Uruguay: GDP, Inflation and Unemployment, 2018-2020



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

of around 40%. Imports, on the other hand, were down by 9% over the first nine months of the year, with intermediate goods more sharply lower and capital goods broadly unchanged from the previous year's level.

Given the importance of the tourism sector for Uruguay's economy, especially in the coastal area, the arrival of the summer season confronted the government with the dilemma of either imposing strict controls at the border or allowing a certain level of circulation to facilitate the flow of tourists from the region. In the end, it decided to maintain a strict policy to prevent the uncontrolled spread of the virus in summer. This will affect the level of activity in the first quarter of 2021, which largely depends on income from tourism.

Uruguay: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	1.6	0.2	-4.5
Per capita gross domestic product	1.2	-0.1	-4.9
Consumer prices	8.0	8.8	9.9 [b]
Real average wage	0.2	1.3	-1.7 [b]
Money (M1)	5.5	7.1	9.7 [b]
Real effective exchange rate [c]	-2.9	1.9	5.7 [b]
Terms of trade }	-4.9	3.6	7.3
	Annual average percentage		
Open urban unemployment rate	8.3	8.9	9.9 [d]
Central government			
Overall balance / GDP	-2.1	-3.1	...
Nominal deposit rate [e]	4.7	4.4	4.4 [b]
Nominal lending rate [f]	14.2	13.3	13.2 [b]
	Millions of dollars		
Exports of goods and services	16 241	16 286	6 666 [g]
Imports of goods and services	13 093	12 924	5 464 [g]
Current account balance	-81	744	106 [g]
Capital and financial balance [h]	-327	-1 855	898 [g]
Overall balance	-408	-1 111	1 004 [g]

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 extraregional real effective exchange rate.
d/ The figure correspond to the measurement of the first semester.
e/ Deposit rates in local currency for 30 to 61 days.
f/ Business credit, 30-367 days.
g/ Cumulative figures to the second quarter of 2020.
h/ Includes errors and omissions.

In addition to health issues, the approval of the 2020–2025 budget occupied much of the economic policy debate. The government plans to start reducing the fiscal deficit as from next year, aiming to bring it down to 2.5% by the end of the period. In the current year, the fiscal deficit is set to be around 6% of GDP —1 percentage point higher than in 2019, owing to the additional expenditures incurred to combat the adverse effects of the pandemic.

Starting this year, and in order to ease the upward pressure on public spending, Uruguay will implement a new fiscal rule that will restrict its ability to widen the deficit. The rule, which has been approved but not yet regulated, specifies a structural fiscal outcome together with a spending cap. As a result of the exchange rate depreciation, dollar-denominated debt increased relative to GDP. The gross and net debt grew to the equivalent of 80% and 40% of GDP, respectively. However, these figures will be revised downwards when the new national accounts series is published in December.

The new authorities at the Central Bank of Uruguay announced a change to the monetary policy that has been implemented in recent years. Specifically, they will no longer monitor the growth of monetary aggregates, but instead use the interest rate as a tool to keep 24-month inflation within a target range. The specific instrument used is the overnight interbank money market rate (T1D), which was initially set at 4.5% per year, in line with previous behaviour. In addition to announcing the new instrument, in September the Monetary Policy Committee lowered the upper bound of the 24-month inflation target by 1 percentage point, to set a target range of 3%–6%. This move is intended to signal the new authorities' commitment to maintaining lower levels of inflation. Currently, given the context of the health emergency and the contraction of activity, an expansionary monetary policy is being applied to avoid restricting access to credit; but this situation is expected to be reversed next year, with the country shifting towards a contractionary monetary policy.

As one of the key outcomes of the economic policy debate in Uruguay, a group of experts with broad political and social representation has been set up to discuss a reform of the social security system,

with a view increasing horizontal equity and making the system more sustainable. The alternatives under discussion include raising the retirement age and altering replacement rates.

At the onset of the pandemic there were inflationary pressures in the Uruguayan economy; but the government negotiated with retailers a three-month price freeze on a number of products, which kept inflation in check. In addition to not breaching the symbolic threshold of 10%, the government was worried that wage agreements included “trigger clauses” requiring firms to hike wages if inflation rose above 12%. In connection with wage policy, the agreements approved this year generally envisage increases that are below inflation, particularly in the sectors most affected by the pandemic, with possibilities for recovering lost ground as from next year. Employers are calling for flexibility to enable firms in difficulty to raise wages by less than the rates negotiated for each branch of activity; but no specific measures have yet been agreed on this. Unemployment insurance, for which administrative flexibilities were introduced in response to the pandemic, operated as a stabilizer in the labour market. Whereas in the months prior to the pandemic an average of 30,000 people were protected by insurance, in March and April 2020 the figure rose to over 190,000. Currently, the number of people on unemployment insurance is gradually decreasing, and the latest available data indicate that, in September 109,000 people (7% of the country’s employed) were receiving the benefit, including those whose activities were only partially restricted. The September data also show that the real wage had fallen by 2% in the last 12 months. The unemployment rate had already started to rise in the months before the pandemic and stood at 11% in September, 2 percentage points higher than a year earlier.