

## URUGUAY

### 1. General trends

In 2020, Uruguay recorded a 5.9% drop in gross domestic product (GDP), which put an end to 17 consecutive years of expansion in the level of economic activity (although that expansion had already been very weak in 2018 and 2019). The coronavirus disease (COVID-19) pandemic had an impact on four different fronts. First, the movement restriction measures led to a drastic decrease in the activity of entire sectors of the economy. This was compounded by the almost total disappearance of income from tourism, one of the most important external sectors for the country. In addition, foreign trading partners reduced their demand for Uruguayan products, especially in the first half of the year. Lastly, the downturn in economic expectations and income dampened consumption.

The first measures enacted to deal with the health emergency caused a sharp contraction in the level of economic activity, especially in the second quarter of 2020. Given that, for several months of the year, the number of COVID-19 infections was comparatively low, the government and some analysts expected a robust recovery around the last quarter of the year. However, the health situation worsened from December onwards and, although the government did not order a general shutdown of activities, the health crisis slowed the recovery of the economy.

Although the current context remains one of great uncertainty, the massive vaccination campaign has reduced the level of infections and, at the time of writing of this report, most of the activities still under some form of restriction were being opened up. Likewise, the markets for Uruguay's main products appear to be reviving, and the reactivation measures in core countries created a context of high international liquidity. The Uruguayan economy is expected to grow by 3% in 2021, driven by a recovery in manufacturing, gross fixed capital formation and goods exports.

### 2. Economic policy

#### (a) Fiscal policy

In 2020, the overall public sector deficit was equivalent to 6% of GDP. As a share of GDP, tax revenues increased, but social security contributions fell as a result of lower employment. On the expenditure side, there was an increase in non-personnel expenses and transfers, mainly due to pandemic-related support measures. Since the beginning of the health emergency, with the establishment of the COVID-19 Solidarity Fund in April 2020, pandemic-related expenditures and resources have been recorded separately. The Ministry of Economy and Finance reported that the impact of the COVID-19 Solidarity Fund in 2020 was equivalent to 1.1% of GDP. The Fund's revenues were 0.3% of GDP and expenditures 1.4%. Revenues stemmed mainly from a levy on the earnings of the Banco de la República Oriental del Uruguay (BROU) and other State-owned entities, some private donations and, to a lesser extent, a tax levied for two months on the salaries of government employees whose earnings exceeded a certain threshold, with the exception of medical personnel. Spending was classified under several categories. Labour market and social security-related outflows accounted for 55% of the total and are made up of unemployment and sickness benefits and reallocation of social security contributions for sectors especially affected by the health measures. Other measures included increases in the loan guarantees fund for micro, small and medium-sized enterprises and, among those targeting the vulnerable population, the bolstering of existing social benefits and the creation of new benefits, for a total amount of US\$ 146 million (0.3% of GDP). The difference

between revenue and spending of the COVID-19 Solidarity Fund was financed mainly with contingent loans from international organizations that the country had set aside to address shocks. The government estimates that, in 2021, spending from the Fund will be equivalent to 1.7% of GDP. This calculation includes additional health costs for the purchase of vaccines and health supplies, amounting to 0.7% of GDP.

The new fiscal framework introduced at the beginning of the current government term establishes a threshold for government net borrowing. The legal cap on indebtedness was set at US\$ 2.3 billion for 2021, but, given that financing needs will be higher, a clause will be applied that allows for an increase of up to 30% under extraordinary circumstances. Indebtedness through the issuance of government securities --including a large issuance in July 2021-- has been the main source of financing for the fiscal deficit. In 2020, gross debt rose to 75% of GDP, while assets stood at 38% of GDP, leaving net debt at 37% of GDP, 4 percentage points higher than the previous year. This increase is due not only to new indebtedness, but also to exchange rate depreciation, which increases the real value of the debt. Half of the debt is denominated in local currency (nominal or indexed).

As has been the case in recent years, the debt profile is relatively long-term, as most of the commitments fall due in more than five years' time. At the same time, although it has made use of some contingent loans with international organizations for the health emergency, the country still has loans of this kind at its disposal in an amount equivalent to 3 percentage points of GDP. The risk-rating agencies ratified Uruguay's debt rating, so the country maintains its investment-grade rating.

#### **(b) Monetary policy**

The central bank changed its monetary policy in 2020. Specifically, the monetary authority stopped monitoring the growth of monetary aggregates to focus instead on the interest rate as a way to maintain 24-month inflation within the target range. The instrument used is the one-day interbank money market rate (T1D), which was set at 4.5% per annum, in line with the level prior to the rule change. The central bank operates fine-tuning instruments to sterilize or inject currency into the market in order to maintain the reference rate.

In addition to this new instrument, the Monetary Policy Committee reduced the ceiling of the inflation target range by 1 percentage point and set it between 3% and 6% as of September 2022, in order to signal the new authority's commitment to maintaining lower inflation levels. Current monetary policy remains expansionary in order not to restrict access to credit in a context of reduced economic activity, but the Monetary Policy Committee has announced its preference for a more contractionary monetary policy as a way to bring inflation within the target range. In 2021, the T1D of 4.5% was maintained so as not to affect the level of economic activity, and the Committee announced in July that, inasmuch as the economy continues its recovery in the second half of the year, the T1D rate will be increased.

Since the new monetary policy was established, the monetary authority has resorted more to (liquidity) sterilization operations than to injection operations. In the last four months of 2020, roughly equal use was made of both instruments, but, in 2021, higher liquidity meant that more use was made of sterilization measures. The main factor driving the expansion of liquidity has been the issue of monetary regulation bills in dollars against the backdrop of an increasingly strong preference for local currency.

In line with the expansionary monetary policy, interest rates have been falling since mid-2020, both in pesos and dollars. In addition, foreign currency lending came to the end of an 18-month downward cycle at end-2021 and remained stable in the first months of 2021. For its part, local currency lending increased in the case of companies and remained stable for consumer and mortgage loans.

**(c) Exchange-rate policy**

The turbulence in financial markets during the first weeks of the pandemic led to a sharp depreciation of the local currency, which in March reached historically low levels. Subsequently, the market price of the dollar remained relatively stable. The real exchange rate depreciated slightly in 2020 and, as in the previous year, this was the result of a relative depreciation against the currencies of extraregional partners, which more than offset the relative appreciation vis-à-vis the region. In the current year, there has been a slight appreciation with respect to the region, as a result of an improvement in the macroeconomic situation of neighbouring countries, which has brought the bilateral real exchange rate back to equilibrium values.

**(d) Other policies**

One of the highlights of the economic policy discussion in the country was the formation of a commission of experts with broad political and social stakeholder representation to discuss a social security reform, aimed at increasing horizontal equity and enhancing the sustainability of the system. Among the alternatives under discussion are raising the retirement age and modifying replacement rates. The challenges of increasing the horizontal equity of the system stem from the differences found within the general regime and some private systems (sistemas particulares) and State-owned funds. At the same time, the idea is to strengthen the individual pillar as a way to improve intergenerational equity. The commission is due to submit a proposal in the second half of 2021.

Another key move for Uruguay's economic policy was its request to its partners in the Southern Common Market (MERCOSUR) to make the bloc's trade policy more flexible as regards trade agreements with third parties, so that the partners can enter into trade agreements with other countries with the approval of their regional partners. This request by Uruguay comes as no surprise with respect to the country's trade policy, which usually espouses a different mix of offensive and defensive interests from that of the bloc's main partners. In view of the possibility that the agreement signed between MERCOSUR and the European Union may ultimately not enter into force, there seems to be a certain consensus in the country that ways must be explored to effectively improve access to the primary goods that make up most of its export base. So far, MERCOSUR partners have not taken any decision providing for greater flexibility in this regard.

As part of a policy to stimulate investment, in 2020 Uruguay relaxed its rules for obtaining tax residency, with the aim of attracting residents from other countries who are interested in relocating to the country.

**3. The main variables****(a) The external sector**

In 2020, there was a turnaround in Uruguay's balance of payments, which recorded a deficit equivalent to 0.5% of GDP. This result was mainly due to the negative performance of exports of goods and services, which fell more than imports. In contrast, the primary income deficit narrowed, as a result of the decrease in income from foreign direct investment. Data for the 12-month rolling period ending in March, covering the first year of the pandemic, reflect a drop in tourism exports of 86%, equivalent to 3% of GDP. On the other hand, tourism imports posted an even greater drop, equivalent to 2% of GDP.

In 2020, goods exports fell by 12.5%. Most of the decline was between February and August, returning in the last months to levels similar to those of the previous year. Except for rice and pharmaceuticals, sales of which increased, exports declined in the remaining sectors, most notably pulp,

owing to lower prices, and soybeans, owing to lower volumes. Dairy products, however, remained stable. In 2021, there has been a significant recovery in export values, and the first half of the year closed with a 32% increase in value, driven by beef, timber and soybeans. Although export growth is expected to slow in the second half of the year, a high annual growth rate of goods exports is projected.

Uruguay's main markets continue to be China (27%), Brazil (15%), the European Union (14%) and the United States (7%).

### **(b) Economic activity**

The drop-in economic activity is mainly explained by the decrease in final consumption expenditure (-6.2%), which was not offset by the strong expansion of gross fixed capital formation caused by the start of construction of the country's third pulp mill and the infrastructure associated with it. The contribution of exports net of imports to the change in GDP was negative. Among the main economic sectors, only construction posted increases, while trade, accommodation and food and beverage supply, education, health and real estate sectors recorded the steepest declines. Data for the first quarter show mixed trends, as the sectors that registered the largest contractions maintained a low level of activity, while a recovery was observed in industry.

### **(c) Prices, wages and employment**

In 2020, the consumer price index (CPI) rose 9.4%: an increase of 0.6 percentage points over the previous year, a rate of increase quite consistent with those of recent years. All CPI components posted changes in line with the average. The latest available figure is from June 2021, when the annual cumulative variation in the CPI fell to 7.3%, still above the inflation target range set by the Macroeconomic Coordination Committee, which is between 3% and 7% through to September 2022. Inflation expectations continue to trend downward, so it is expected that the target range will be reached in the coming months.

The average wage index increased by 7.7% in 2020, with real wages dropping by 1.7%, the largest fall in recent years. This downtrend continued in 2021: the latest available figure (for June) showed a real wage decrease of 3.1%, with no significant differences between the public and private sectors.

In 2020, the employment rate declined by more than 2 percentage points, falling from 56.7% on average for 2019 to 54.3% on average for 2020, reflecting a loss of approximately 60,000 jobs. Unemployment insurance and easier access to it helped cushion the impact of the pandemic on formal employment, so that job loss during 2020 occurred mainly in the informal sector. The informality rate fell by 2 points in 2020.

Unemployment insurance helped to mitigate the shock. There are three types of insurance: for dismissal, reduction of working hours and temporary suspension. In April 2020, a record 185,000 people were insured (10% of the economically active population) on the back of the relaxation of requirements for insurance against suspension. Subsequently, thanks to the gradual increase in economic activity this figure declined rapidly until August, then slowed considerably. There are currently 75,000 people on unemployment insurance, and the grounds for dismissal remain at levels recorded before the pandemic, which indicates that reduction in working hours and temporary suspension are widespread.

In 2020, the unemployment rate rose by 2 percentage points year-on-year and, since March 2021, has trended downward. In June 2021, it stood at 9.4%.

Table 1  
URUGUAY: MAIN ECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	3.5	4.6	3.2	0.4	1.7	1.6	0.5	0.4	-5.9
Per capita gross domestic product	3.2	4.3	2.9	0.0	1.3	1.3	0.1	0.0	-6.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.8	2.0	0.3	-1.2	2.5	-8.2	4.5	-0.3	-0.4
Mining and quarrying	...	...	...	...	...	...	...	...	...
Manufacturing	-3.9	1.2	4.2	4.9	0.7	-4.2	5.8	-3.7	-5.6
Electricity, gas and water	-21.9	54.7	15.7	-6.7	9.6	-3.7	3.9	13.2	-12.5
Construction	16.3	0.9	0.7	-6.1	-2.6	-8.6	-4.4	5.2	1.8
Wholesale and retail commerce, restaurants and hotels	5.6	8.0	-0.6	-4.0	-2.8	6.6	-6.5	0.6	-9.1
Transport, storage and communications	10.0	6.9	7.4	4.8	8.1	11.1	-1.0	3.5	-6.5
Financial institutions, insurance, real estate and business services	5.3	4.0	3.7	2.7	0.8	4.6	0.7	0.4	-6.3
Community, social and personal services	1.5	2.7	2.9	0.1	-0.3	1.6	1.6	-0.8	-6.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.1	5.5	2.9	-0.2	0.4	3.2	2.2	0.6	-6.2
Government consumption	6.0	4.9	2.5	2.2	2.9	1.3	2.6	1.1	-6.4
Private consumption	4.9	5.5	3.0	-0.5	0.1	3.6	2.1	0.5	-6.2
Gross capital formation	14.5	4.8	0.0	-9.0	-3.9	-3.5	-4.8	-5.2	8.0
Exports (goods and services)	3.6	-0.1	3.5	-0.6	-0.2	4.9	-1.7	3.6	-16.2
Imports (goods and services)	13.6	2.8	0.8	-7.3	-6.2	7.1	0.0	1.5	-10.8
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	22.5	22.1	20.8	19.3	17.5	15.8	15.0	14.6	17.0
National saving	18.8	18.8	17.8	19.1	18.2	15.8	14.4	16.0	16.3
External saving	3.7	3.2	3.0	0.3	-0.7	0.0	0.5	-1.4	0.7
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-2 036	-2 016	-1 838	-147	428	-18	-336	832	-375
Goods balance	348	878	1 869	1 329	2 050	1 976	2 292	3 070	2 256
Exports, f.o.b.	13 134	13 268	13 908	11 430	10 612	11 122	11 628	11 732	10 064
Imports, f.o.b.	12 786	12 389	12 040	10 101	8 562	9 146	9 336	8 663	7 808
Services trade balance	1 344	125	-40	904	969	1 484	930	619	144
Income balance	-3 852	-3 065	-3 738	-2 448	-2 661	-3 564	-3 656	-3 047	-2 961
Net current transfers	124	45	71	68	70	86	99	190	186
Capital and financial balance d/	5 324	4 997	3 210	-1 529	-2 589	2 466	-72	-1 943	2 004
Net foreign direct investment	2 240	3 045	2 247	775	-1 828	-2 079	-500	1 248	2 685
Other capital movements	3 084	1 952	963	-2 304	-762	4 545	428	-3 190	-681
Overall balance	3 287	2 981	1 372	-1 677	-2 161	2 449	-408	-1 111	1 630
Variation in reserve assets e/	-3 287	-2 981	-1 372	1 677	2 161	-2 449	408	1 111	-1 630
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	76.3	70.8	71.7	69.8	69.3	65.4	63.5	64.7	67.8
Terms of trade for goods (index: 2010=100)	106.3	108.1	112.3	114.5	117.6	117.2	111.5	114.9	123.2
Net resource transfer (millions of dollars)	1 472	1 932	-528	-3 977	-5 250	-1 097	-3 729	-4 989	-956
Total gross external debt (millions of dollars)	36 403	38 092	41 194	43 752	40 002	41 274	42 611	44 584	46 098
Employment g/	<b>Average annual rates</b>								
Labour force participation rate	64.0	63.6	64.7	63.8	63.4	62.9	62.4	62.1	60.5
Open unemployment rate	6.46408	6.5	6.6	7.5	7.8	7.9	8.3	8.9	10.1
Visible underemployment rate	7.1	6.8	6.6	7.1	8.3	8.4	8.5	9.6	9.1

Table 1 (concluded)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	7.5	8.5	8.3	9.4	8.1	6.6	8.0	8.8	9.4
Variation in producer prices (December-December)	5.9	6.3	10.6	6.6	-1.9	5.4	10.0	20.1	3.6
Variation in nominal exchange rate (annual average)	5.1	0.9	13.6	17.5	10.3	-4.7	7.2	14.7	19.2
Variation in average real wage	4.2	3.0	3.4	1.6	1.6	2.9	0.2	1.3	-1.7
Nominal deposit rate h/	4.2	4.3	4.4	5.3	5.1	4.6	4.7	4.4	4.2
Nominal lending rate i/	12.0	13.3	17.2	17.0	17.6	15.4	14.2	13.3	12.7
<b>Central government</b>	<b>Percentages of GDP</b>								
Total revenue	24.8	25.7	25.4	25.0	25.6	26.7	28.2	27.5	27.0
Tax revenue	23.0	23.5	23.1	23.0	23.3	24.5	24.7	24.2	24.3
Total expenditure	26.6	27.1	27.5	27.6	29.0	29.4	30.1	30.3	32.1
Current expenditure	25.3	25.8	26.2	26.5	27.7	28.2	28.8	28.9	30.8
Interest	2.1	2.2	2.1	2.1	2.5	2.5	2.6	2.4	2.7
Capital expenditure	1.3	1.3	1.3	1.1	1.3	1.2	1.4	1.4	1.2
Primary balance	0.3	0.8	0.0	-0.5	-0.9	-0.2	0.7	-0.4	-2.4
Overall balance	-1.9	-1.4	-2.1	-2.6	-3.4	-2.7	-1.9	-2.8	-5.0
<b>Non-financial public sector debt</b>	40.2	36.9	39.2	47.2	46.1	47.9	50.3	60.8	61.4
Domestic	15.1	12.8	11.9	15.5	18.7	21.0	21.0	20.7	26.3
External	23.9	26.0	27.5	31.6	27.4	26.8	29.3	33.1	35.1
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	16.1	17.2	17.8	19.8	21.7	19.4	20.4	21.5	21.5
To the public sector	6.8	8.4	7.6	4.3	5.7	7.7	8.0	8.2	6.6
To the private sector	21.5	23.7	24.8	27.6	25.9	24.2	25.4	25.9	27.9
Others	-12.2	-14.9	-14.6	-12.0	-9.9	-12.6	-13.0	-12.6	-12.9
Monetary base	5.5	5.9	5.8	5.8	5.8	5.7	5.8	5.8	5.8
Money (M1)	9.1	9.1	8.2	7.8	7.7	7.9	7.8	7.5	8.4
M2	15.2	15.3	14.5	14.4	15.1	16.0	16.4	15.9	17.9
Foreign-currency deposits	23.7	26.0	29.1	34.9	31.8	28.8	30.2	33.6	41.2

**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/ Nationwide total.

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

i/ Business credit, 30-367 days.

Table 2  
URUGUAY: MAIN QUARTERLY INDICATORS

	2019				2020				2021	
	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/	-1.5	2.2	1.4	-0.5	-1.9	-12.9	-5.8	-2.9	-2.8	...
Gross international reserves (millions of dollars)	16 518	15 651	14 764	14 568	15 100	15 742	16 707	16 424	16 134	16 802
Real effective exchange rate (index: 2005=100) c/	62.1	65.4	64.7	66.5	67.7	67.8	67.7	68.0	68.6	70.4 d/
Open unemployment rate e/	8.8	8.9	9.2	8.8	9.7	10.0	10.8	10.0	10.5	...
Employment rate e/	56.9	56.2	56.2	57.1	55.6	52.9	53.8	54.8	55.0	...
Consumer prices (12-month percentage variation)	7.8	7.4	7.8	8.8	9.2	10.4	9.9	9.4	8.3	7.3
Wholesale prices (12-month percentage variation)	12.7	9.6	12.4	20.1	18.2	10.8	8.5	3.6	7.1	8.5 f/
Average nominal exchange rate (pesos per dollar)	32.8	34.9	35.8	37.5	39.6	43.1	42.7	42.6	43.1	43.9
Nominal interest rates (average annualized percentages)										
Deposit rate g/	4.5	4.2	4.4	4.5	4.4	4.8	4.0	3.7	3.4	3.3 f/
Lending rate h/	13.7	13.4	12.6	13.6	13.4	13.9	12.4	11.0	9.6	8.2 f/
Sovereign bond spread, Embi Global (basis points to end of period) i/	170	172	177	148	298	215	186	135	125	129
International bond issues (millions of dollars)	850	-	1 055	-	-	2 505	150	-	-	1 250
Domestic credit (variation from same quarter of preceding year)	7.2	36.1	26.3	17.9	26.3	13.6	3.8	5.4	8.2	8.4 f/

**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/ Quarterly average, weighted by the value of goods exports and imports.

d/ Figures as of May.

e/ Nationwide total.

f/ Figures as of April.

g/ Local-currency fixed-term deposits, 30-61 days.

h/ Business credit, 30-367 days.

i/ Measured by J.P.Morgan.