

## Uruguay

The Uruguayan economy grew by 11.5% in 2008. This was the fifth consecutive year in which GDP grew much more quickly than the historical average, with a cumulative increase of 55% for the period. Annual inflation remained at around 8.5%, owing to higher international commodity prices during the first half of the year and to the rise in import prices that was in turn a result of appreciation of the United States dollar in the final quarter. According to ECLAC estimates, given current international uncertainty, the growth rate is expected to be 4% in 2009.

The fiscal situation of the non-financial public sector recorded a primary surplus of some 2.0% of GDP and interest payments on debt of 3.0%. This resulted in a deficit of 1.0% of GDP in the rolling 12-month period to September 2008. The deficit is expected to close the year at about 1.2 percentage points of GDP. Fiscal revenues swelled as State-owned corporations recorded a rise in the primary balance and fiscal receipts expanded. Spending by the non-financial public sector increased by a similar proportion to income, which was attributable to purchases of petroleum and transfers carried out as part of social policy.

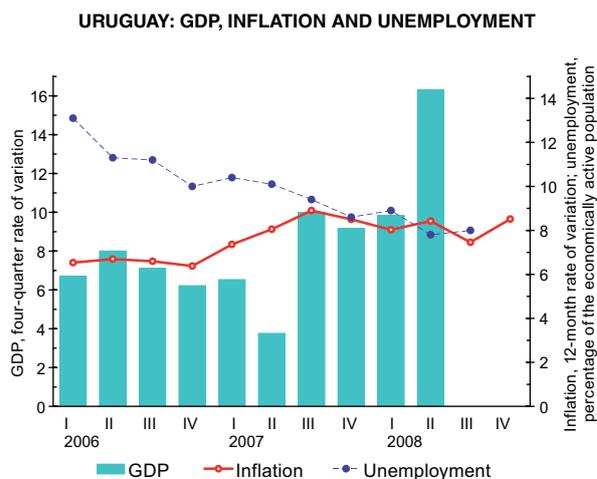
The gross-debt-to-GDP ratio of the non-financial public sector fell once again, to stand at 43% in mid-2008. External debt restructuring continued by means of bond issues and buy-back operations in the market. Country risk, which had been around 200 base points in the first half of the year, rose to about 700 base points in October 2008 as a result of international financial volatility. At the end of October, gross reserves amounted to US\$ 6.0 billion (approximately 20% of GDP), which was US\$ 2.0 billion more than in the year-earlier period. Of this increase, 38% was attributable to the higher reserve requirements adopted for short-term deposits in local and foreign currency in the national banking system, following the liquidity control measures introduced in October 2007 and reinforced in June 2008.

Measures put in place in June 2008 consisted of raising the reserve requirement for local-currency deposits of less than one month to 25% and raising the requirement for foreign-currency deposits of residents and non-residents of up to six months to 35%. For public-sector deposits with the Banco de la República Oriental del Uruguay, reserve requirements were set at 100%. Also, yields on reserve requirements

were eliminated, rules were introduced for the daily monitoring of reserve requirements and fines introduced for non-compliance.

Monetary policy continued to aim at preserving price stability, and maintained the system to set the short-term interbank interest rate. At the beginning of October, the rate set by the Monetary Policy Committee of the Uruguay Central Bank was raised to 7.75%, following 12 months at 7.25%.

Monetary policy measures combined with the implementation of price agreements in the main production chains of basic consumer goods. The agreements were in force principally between May and September 2008, but subsequently became unnecessary as prices for those products fell at the international level.



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

In June, credit to the resident private sector expanded by 31.5% (dollar equivalent) compared with the same month in 2007, with slightly higher growth of 33% for credit in foreign currency. The default rate was at a record low of around 1%. In the same period, deposits increased by 21.2% (dollar equivalent), with significant growth in local-currency deposits (43%). Deposits in current and savings accounts represented 75% of the total, which provided considerable liquidity for the system. The lending rate in United States dollars was an annual 5.9%, while the annual borrowing rate was 1.1% for fixed-term deposits in foreign currency.

The nominal exchange rate continued to float. In the 12-month period up to June 2008, the local currency registered a 19% nominal appreciation, although this was mainly reversed in September and October, when the currency depreciated by 14% in relation to June. Meanwhile, the real effective exchange rate appreciated by an average of around 10% in the first 10 months of 2008 compared with the year-earlier period.

In 2008, the economic growth rate of 11.5% was attributable to increased output in almost all sectors. This was especially true of manufacturing (16%) and transport and communications (33.7%), which grew by more than the average for the economy. Growth in other sectors, such as commerce, restaurants and hotels (7.2%), agriculture (6%), construction (4.7%) and other branches of activity (5.3%), was below the average for the economy. Electricity, gas and water declined by 23%, as severe drought affected hydroelectric power generation.

In the first half of the year, external demand for goods and services held steady in the course of the year, while internal demand rose because of the rise in household incomes (4.9%) and increased credit. Investment grew by 25% during the year, and represented 2.2 percentage points of GDP growth.

In 2008, goods exports are estimated to have risen by 25.1% compared with the year-earlier period. The main destinations were Brazil (16.5%), Argentina (8.4%) and the Russian Federation (6.3%). Goods imports, f.o.b. expanded by 35.6% for the year, with a surge in imports of machinery and equipment and of intermediate goods. In the first half of the year, the balance-of-payments current account deficit represented 2.1% of GDP, mainly because of the trade deficit of US\$ 391 million (in contrast to the US\$ 292 million surplus posted in the first six months of 2007). The current account is expected to close the year with a deficit of around 3.5 percentage points of GDP. The financial account recorded capital inflows of US\$ 2.2 billion between January and July, as a result of inflows to the private sector.

## URUGUAY: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	7,0	7,4	11,5
Per capita gross domestic product	6,8	7,2	11,2
Consumer prices	6,4	8,5	8,5 <sup>b</sup>
Average real wage	4,3	4,7	3,3 <sup>c</sup>
Money (M1)	20,0	31,8	12,0 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-4,4	-1,0	-10,0 <sup>f</sup>
Terms of trade	-2,2	1,9	-4,4
<b>Annual average percentages</b>			
Urban unemployment rate	11,4	9,6	7,9 <sup>g</sup>
Central government overall balance / GDP	-1,0	-1,7	-1,0
Nominal deposit rate	1,7	2,3	3,0 <sup>g</sup>
Nominal lending rate	10,7	10,0	12,0 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	5 785	6 796	8 310
Imports of goods and services	5 882	6 840	9 037
Current account	- 400	- 235	- 1 096
Capital and financial account	2 798	1 245	3 388
Overall balance	2 399	1 010	2 291

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2008.

<sup>c</sup> Estimate based on data from January to October.

<sup>d</sup> Twelve-month variation to October 2008.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October.

<sup>g</sup> Average from January to October, annualized.

Inflation up to November stood at 8.5%, which means that it will end the year higher than the rate set in the monetary programme (a target range of between 4.5% and 6.5%). The inflationary trend was the result of higher export prices, especially for derivatives of wheat, meat and dairy products, as well as rising international oil prices in the first half of 2008. In the third and fourth quarters, the prices of these goods fell, although local-currency prices of imported products rose as the dollar appreciated. Wholesale inflation stood at an annual rate of around 20% in the first six months of the year, although this was followed by deflation which brought down the annual rate to 8.6% in November.

The labour market remained in a growth phase at the national level, with the employment rate rising from 56.5% in the first 10 months of 2007 to 57.3% in the same period of 2008. The participation rate remained stable at around 62%. Unemployment dropped from an average of 9.4% between January and October 2007 to 7.8% in the same period of 2008. The average wage index posted a real increase of 3.1% between January and October, with rises of 2.9% in the private sector and 3.8% in the public sector. The national minimum wage was adjusted upwards by 28% in nominal terms in relation to the previous year, which means it now represents the equivalent of about US\$ 175 per month in prices of early November.

Wage councils completed their third round of collective negotiations since they were reintroduced in 2005, reaching agreements through tripartite consensus in 80% of sector groups and subgroups. In the remaining 20%, agreements were

reached thanks to the support of government representatives for a given position. These agreements represent a significant recovery of wage levels and increases in real wages, and will remain in force for between a 24 and 30 months.