

## Uruguay

Uruguay's economy is estimated to have grown by approximately 1% in 2009, primarily due to an increase in private consumption, government consumption and public investment. Private investment, however, declined sharply. Annual inflation is estimated to reach 6% at the end of the year. Meanwhile, growth of 4.5% is being projected for 2010.

The non-financial public sector is expected to end the year with a deficit of 2.6% of GDP. For the rolling year ending September 2009, the sector posted a primary surplus of 0.4% of GDP, which, combined with debt interest payments (2.6% of GDP), resulted in a fiscal deficit of 2.2% of GDP. For that period, real income from the non-financial public sector rose 8%, on account of an increase of 17% in earnings from the Banco de Previsión Social (the bank dealing with social security funds), a rise of 3.3% in central government revenues and a 75% increase in earnings transfers to the treasury from public enterprises.

During the same period, primary outlays from the non-financial public sector grew by 13.7% in real terms, owing to an increase of 9.5% in current expenditures and of 49% in public investment. In terms of current expenditures, September saw a rise of 12.8% in transfers, while pensions grew 7.9% and wages increased 12.3%. The gross-debt-to-GDP ratio of the non-financial public sector as of mid-2009 was about 52%.

Country risk averaged approximately 253 basis points in October, representing a significant drop from the average of 608 registered the previous year, and the 341 basis points recorded in June 2009.

Monetary policy remained focused on ensuring price stability. The Central Bank of Uruguay decided to maintain this contractionary policy. Thus, in March 2009 the Bank set the monetary policy rate at 8%, after having kept it at about 10% since the end of 2008. This decision was based on the fact that although inflation had hovered between 3% and 7%, it was trending downward within a national and international context considered by the authorities to pose inflationary risks.

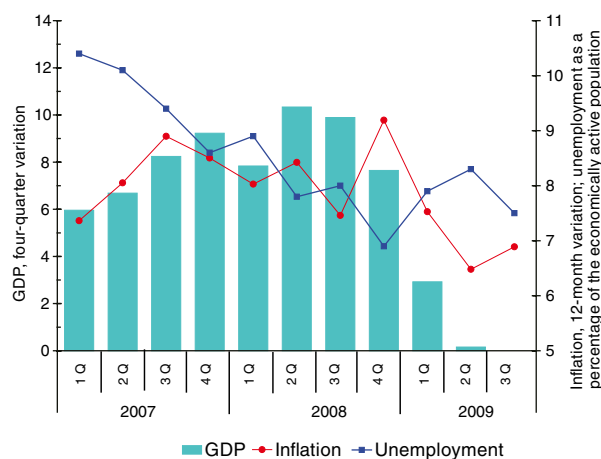
Towards the end of the second quarter, gross credit in domestic currency increased by 24% in nominal terms (16.3% in real terms) for the rolling year, while gross credit in foreign currency fluctuated within an annual range of 4.2%. After a decline in loans to the private sector in the first quarter of the year, there was a resurgence of loan activity in the second quarter. Despite the international

crisis, default rates have remained at historically low levels (about 1%), with a gradual decrease in defaults in the business sector and a gradual rise in defaults on loans denominated in domestic currency made to households. In June 2009 the default rate was about 2.7%.

In that same month, deposits in foreign currency increased by 21.9%, while those in domestic currency grew by 8.2%. The average interest rate on fixed-term deposits in dollars (the deposit interest rate) fell 55 basis points compared to the same month one year earlier, settling at 0.56%. The lending rate in United States dollars for loans to the non-financial sector was 6.04%.

The nominal exchange rate continued to float. After depreciating steeply in the second half of 2008—a period during which the international financial crisis worsened—the local currency remained stable in relation to the dollar for the first half of 2009, and the subsequently sharp appreciation failed to entirely reverse the earlier decline. By the end of the year, the Uruguayan peso is expected to have appreciated by about 11% with respect to the dollar.

URUGUAY: GDP, INFLATION AND UNEMPLOYMENT



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

The real effective exchange rate, in turn, fell by 5.6% in the 12 months up to October.

In sectoral terms, the GDP growth seen in the first half of 2009 (1.5% compared to the same period in 2008) was led by the transportation, communications, services and construction sectors, while the industrial sector, primary activities and the sector supplying electricity, gas and water contracted. With respect to demand, the first half of the year saw an increase in government final consumption (5.5%), private consumption (0.7%) and exports (1.4%), and a reduction in gross capital formation (-28.3%, due primarily to adjustments in inventories) and in imports (-15.5%). Gross fixed capital formation declined by 4.6% for the period in question as the result of a drop in private investment, which was offset only partly by the increase in public investment.

With inflation at 6.5% for the 12 months ending in October, the year is expected to close with an increase in consumer prices that is within the range set by the central bank. The fall in the international price of commodities, attributable to the effects of the crisis, and the drop in the nominal exchange rate in the second half of the year helped stem the rise in domestic prices. The domestic producer price index (used to estimate wholesale inflation) rose by 8.6% in the first 10 months of 2009.

The employment rate continued to climb, though with fluctuations, throughout the year owing to the uncertainty caused by the international financial crisis. It reached a national level of 58.3% in the first 9 months of 2009—1.1 percentage points higher than that recorded in the same period of 2008. The activity rate increased one point, to 63.1%. Correspondingly, unemployment declined by 0.3 percentage points in the same period, to an average of 7.6%. The average wage index rose by 7.7% in real terms, on average, between January and September, compared to the same period one year earlier, with similar increases in the private and public sectors. In January-October, the national minimum wage was raised by 12% in real terms compared to one year earlier, to the equivalent of US\$ 210 per month.

The sharp drop in imports of goods and services, together with the moderate increase in exports, produced a net positive trade balance in value terms in the first semester

#### URUGUAY: MAIN ECONOMIC INDICATORS

|  | 2007  | 2008   | 2009 <sup>a</sup> |
|--|-------|--------|-------------------|
| <b>Annual percentage growth rates</b>              |       |        |                   |
| Gross domestic product                             | 7.6   | 8.9    | 1.2               |
| Per capita gross domestic product                  | 7.3   | 8.6    | 0.9               |
| Consumer prices                                    | 8.5   | 9.2    | 6.5 <sup>b</sup>  |
| Average real wage                                  | 4.7   | 3.6    | 7.3 <sup>c</sup>  |
| Money (M1)   | 31.8  | 17.3   | 7.8 <sup>d</sup>  |
| Real effective exchange rate <sup>e</sup>          | -1.0  | -8.7   | -0.2 <sup>f</sup> |
| Terms of trade                                     | 0.2   | 6.0    | 7.1               |
| <b>Annual average percentages</b>                  |       |        |                   |
| Urban unemployment rate                            | 9.6   | 7.9    | 7.7 <sup>c</sup>  |
| Central government                                 |       |        |                   |
| overall balance/GDP                                | -1.6  | -1.0   | -2.1              |
| Nominal deposit rate                               | 2.3   | 3.2    | 4.1 <sup>g</sup>  |
| Nominal lending rate                               | 10.0  | 13.1   | 16.9 <sup>g</sup> |
| <b>Millions of dollars</b>                         |       |        |                   |
| Exports of goods and services                      | 6 850 | 9 258  | 8 385             |
| Imports of goods and services                      | 6 722 | 10 069 | 8 171             |
| Current account balance                            | - 80  | -1 119 | - 152             |
| Capital and financial account balance <sup>h</sup> | 1 091 | 3 352  | 1 755             |
| Overall balance                                    | 1 010 | 2 233  | 1 603             |

**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 October 2009.

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

<sup>d</sup> Twelve-month variation to August 2009.

<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.

<sup>h</sup> Includes errors and omissions.

that persisted during the remainder of the year. Exports of goods rose in volume terms, driven by the increase in sales of agricultural and agribusiness products. Exports of services declined owing to the impact of the crisis on external demand and despite the fact that there was an increase in the export of tourist services to countries within the region.

The trade account surplus resulted in the balance on the current account being 0.1% of GDP in the first half of the year. This balance, however, is expected to turn negative (-0.5% of GDP) by the end of the year. Thus, during the first semester, the financial account had net revenues of US\$ 397 million. As a result of the balance-of-payments surplus, reserve assets in the period up to October exceeded US\$ 8 billion—US\$ 2 billion more than the previous year.