

Uruguay

In 2012 economic growth in Uruguay slowed slightly to 3.8%, with extraregional exports and domestic consumption being the variables that helped maintain growth. Inflation climbed to 9.1% in October, which was higher than in 2011 and well above the target range of 4% to 6% set by the Central Bank of Uruguay. As for public finances, the fiscal deficit rose to 2.3% of GDP, while the primary balance was very close to equilibrium (0.1% of GDP). Growth is expected to be about 4% in 2013.

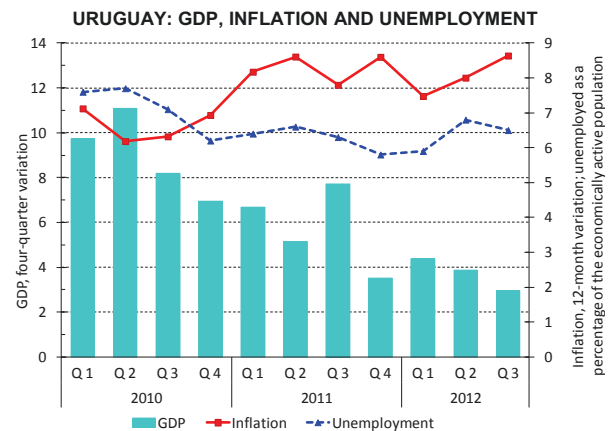
The fiscal policy measures implemented during the year included raising the maximum rates for the specific domestic tax on motor vehicles, removing the value-added tax (VAT) on sales to end consumers paid for with debit cards used for receiving family allowances and implementing a number of measures to promote tourism in Uruguay. As for monetary policy, actions taken to control inflation included a further rise in the monetary policy rate and agreements with businesses for cutting or freezing the price of some consumer goods. On the labour front, Convention No. 189 of the International Labour Organization (ILO) (bringing working hours and rights for domestic workers in line with those of other workers) was ratified and a partial unemployment benefit scheme was implemented.

The public account deficit widened considerably, from 0.6% of GDP to 2.3% of GDP at the central government level. This was largely the result of the surge in spending (1.4% of GDP), which stood at 23.1% of GDP at the end of 2012. Current expenditure went up from 20.2% of GDP to 21.5% of GDP while capital spending rose to a lesser extent (0.1% of GDP). The rise in current expenditure was due in part to a number of extraordinary items, particularly payment of some US\$ 120 million under a ruling related to the 2002 banking crisis and approximately US\$ 30 million in expenses for closing down Pluna airlines. Revenue declined by 0.4% of GDP (to 20.8% of GDP) as non-tax revenue fell.

In accordance with the focus on controlling inflation, the monetary authority has strengthened its contractionary policy bias and in 2012 continued the monetary policy rate hikes that began in December

2010, reaching 9% in September. In August the Central Bank of Uruguay implemented a 40% reserve requirement for the purchase of securities by foreign investors and authorized the direct purchase of securities in dollars.

Growth began to slow in the second half of 2012, as reflected in falling labour demand, manufacturing output and industrial exports. The trend for these three variables was shaped by the shrinking market for Uruguayan manufactures as a result of the slowdown in Argentina and Brazil. This points to a two-speed economy, with regional trade cooling while the rest of the economy (such as exports of primary goods and agro-industry products, and domestic consumption) continued to expand at a healthy clip. Extraregional and domestic market activity continued to surge while regional economic activity lost momentum during the year.



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

On the spending front, the increase in GDP was due to expanding domestic demand thanks to higher final consumption expenditure and gross capital formation.

In the first half of the year, the sectors of the economy making the greatest contribution to producing global value-added were construction (thanks to public and private sector expansion), transport, storage and communications. In the second half, the best-performing sectors were electricity, gas and water, on the back of increased hydropower output. The construction sector continued to perform well, thanks to residential construction and some large construction projects, including the new Montes del Plata pulp mill. The sectors associated with domestic demand also continued to expand, fuelled by the rise in household income, foreign trade and, to a lesser extent, tourism, which was impacted by restrictions on access to foreign currency by Argentine tourists. External demand continued to be a drag on industry, and the agricultural sector showed slow growth.

Annual inflation was 9.1% to October 2012. It remained above the target range set by the monetary authority, due to domestic currency depreciation, the rising international price of wheat (significantly impacting several components of the consumer basket) and higher household income and domestic consumption.

Competitiveness measured by the real effective exchange rate fell again, by 2.1% in the first 10 months of 2012 compared with the same period the previous year, in keeping with downtrend since August 2010 as the currencies of Uruguay's main trading partners depreciated at a faster pace than its own.

The authorities implemented a number of policies to prevent temporary price shocks from spilling over into core inflation, especially by indexing mechanisms such as consumer price index adjustments in wage agreements. Examples of these policy measures include agreements with the National Meat Institute (INAC) and supermarkets to lower the price of a consumer basket of 200 products by 10% and freeze prices through the end of the year. The specific domestic tax (IMESI) on certain personal care products was removed.

Job creation on the labour market slowed, and the

URUGUAY: MAIN ECONOMIC INDICATORS

	2010	2011	2012 ^a
Annual growth rates			
Gross domestic product	8.9	5.7	3.8
Per capita gross domestic product	8.5	5.3	3.5
Consumer prices	6.9	8.6	9.1 ^b
Real average wage	3.3	4.0	4.0
Money (M1)	24.6	19.6	21.1 ^c
Real effective exchange rate ^d	-13.2	-2.7	-2.1 ^e
Terms of trade			
Annual average percentages			
Open urban unemployment rate	7.1	6.3	6.2
Central government			
overall balance / GDP	-1.2	-0.6	-2.3
Monetary policy rate	6.3	7.5	8.8 ^f
Nominal lending rate ^g	12.0	11.0	12.0 ^f
Millions of dollars			
Exports of goods and services	10 737	12 808	13 666
Imports of goods and services	10 093	12 705	13 667
Current account balance	-739	-1 324	-1 399
Capital and financial balance ^h	378	3 888	3 973
Overall balance	-361	2 564	2 574

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

^a Estimates.

^b Twelve-month variation to October 2012.

^c Year-on-year average variation, January to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f January-October average.

^g Business credit, 30-367 days.

^h Includes errors and omissions.

national employment rate fell from 60.2% for January-September 2011 to 59.4% for the same period in 2012. The national unemployment rate remained at 6.2%. Within the framework of the wage councils, the average wage index rose by 12.7% between January and October 2012 compared with the same period in 2011. As a result, average real wages rose by 4.3% during that period, which helped boost domestic demand.

Goods exports posted cumulative year-on-year growth of 10.4% from January to November 2012 to stand at US\$ 8.122 billion, which is higher than the record reached in 2011. Imports (excluding crude oil and petroleum products) edged up by 0.3% over the same period in 2011, totalling US\$ 7.838 billion.

Growth is projected to be 4% in 2013, in line with a more favourable external environment. The main economic policy challenges for next year include effectively coordinating wage income, fiscal and monetary policies in order to curb inflationary pressures while maintaining the economy's price competitiveness and reducing the fiscal deficit.