Uruguay

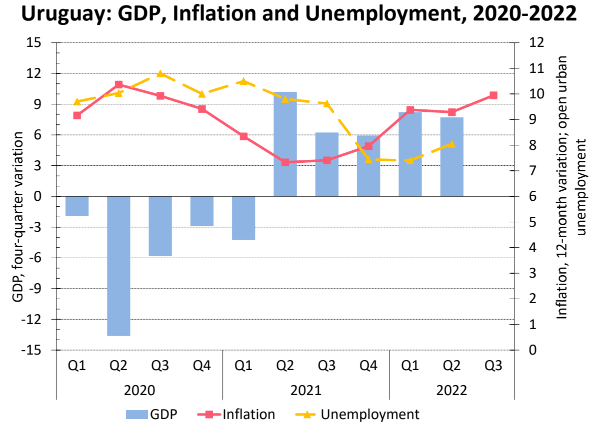
Uruguay's GDP is expected to grow by some 5.4% in 2022, driven by the full return to mobility, the performance of the external sector and private investment. For 2023, more moderate growth is expected, reflecting the end of the statistical impact of the health emergency caused by the coronavirus disease (COVID-19) pandemic on activity as well as heightened uncertainty regarding the global financial and trade conditions affecting the country .

Of particular note during the year was the narrowing of the fiscal deficit, which, in the 12 months ending in October, stood at 2.8% of GDP, two percentage points lower than the year-earlier figure. One quarter of the deficit corresponds to extraordinary expenditures related to the health emergency caused by COVID-19. The narrowing of the fiscal deficit reflects a contraction in central government current expenditure (including social security) of more than 2 percentage points of GDP and slightly lower revenues. The reduction of the central bank deficit was also a factor. The bulk of the deficit stems from interest payments on debt.

With respect to borrowing, the year was marked by the issuance of US$ 1.5 billion in green bonds, with a variable bond indexed to the achievement of environmental targets. More specifically, the government made a commitment to reduce greenhouse gases and preserve native forests. Failure to meet those targets will incur payment of a higher coupon. In February, the central government and the central bank performed a joint swap operation, through which the government issued indexed local currency treasury notes, primarily made up of central bank instruments with shorter maturities. This helped to dedollarize the economy, prefinance debts falling due that year, reduce the parafiscal deficit of the central bank and extend average debt maturities. At mid-year, gross public sector debt accounted for two thirds of GDP, while net debt represented 36%, down nearly one percentage point from the previous year. The country's debt will mature over the medium and long term, and more than half is denominated in local currency.

Over several months, the Monetary Policy Committee of the Central Bank of Uruguay raised the monetary policy rate at successive meetings to bring the 24-month inflation expectations down to the target range of between 3% and 6%. The current monetary policy rate is 11.25%. The stance has been considered contractionary since October 2021. However, the rate hikes have done little to anchor expectations, and inflation is expected to remain high owing to both external factors (such as international prices) and policy-related issues (such as wage negotiations, the exchange rate and administered prices). According to the most recent data —from October— the consumer price index (CPI) recorded an annual increase of 9%, one percentage point above the year-earlier figure.

Uruguay: GDP, Inflation and Unemployment, 2020-2022



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

The real exchange rate appreciated by 9% in the 12 months to September, driven by the appreciation of the local currency against those of countries outside the region, on the back of rising global inflation and relative stability of the exchange rate compared to the region.

The government introduced for parliamentary approval a social security reform bill which aims to improve the system's sustainability and increase horizontal equity amid a demographic transition with a projected decline in the economically active population in the coming decades. The bill combines contributory and non-contributory pillars and, over the long term, will unify several subregimes that have different conditions. It also provides for raising the minimum retirement age, with various exceptions.

In November, the government formalized its intention to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, with the aim of improving access to Asian markets for the country's export basket and establishing commitments on trade in services and investments. The goal is to increase the country's participation in global value chains. The government also announced its intention to sign a free trade agreement with China, although formal negotiations have yet to begin, and to seek greater flexibility in South American Common Market (MERCOSUR) trade negotiations. To date, the trading partners of the bloc have remained resistant to more flexible joint trade negotiations.

Uruguay: main economic indicators, 2020-2022

	2020	2021	2022 [a]
	Annual growth rate		
Gross domestic product	-6.1	4.4	5.4
Per capita gross domestic product	-6.4	4.0	5.1
Consumer prices	9.4	8.0	9.0 [b]
Real average wage	-1.7	1.3	...
Money (M1)	11.7	15.7	6.8 [c]
Real effective exchange rate [d]	2.6	1.0	-4.1 [b]
Terms of trade }	6.6	-2.8	-3.3
	Annual average percentage		
Open urban unemployment rate	10.1	9.3	8.1 [b]
Central government			
Overall balance / GDP	-5.1	-3.8	...
Nominal deposit rate [e]	4.2	3.2	5.1 [b]
Nominal lending rate [f]	12.7	8.7	10.9 [b]
	Millions of dollars		
Exports of goods and services	23 520	33 912	44 428
Imports of goods and services	19 062	26 180	32 423
Current account balance	-1 337	-2 689	-4 110
Capital and financial balance [g]	2 632	5 022	...
Overall balance	1 295	2 333	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
d/ Deposit rates in local currency for 30 to 61 days.
e/ Figures as of August
f/ Business credit, 30-367 days.
g/ Cumulative figures to the second quarter of 2020.
h/ Includes errors and omissions.

Driven by surging exports, the balance of payments current and capital account deficit narrowed by 0.8 GDP points in the 12 months to June relative to the previous rolling year, reaching 1.5%. A larger surplus in the goods and services account was partially offset by a wider primary income deficit. Specifically, debits in the primary income account represented 10% of GDP over the period.

Goods exports expanded by 23% in the first 11 months of the year, pushed up by high international prices and good harvests. Half of that growth is attributable to soybeans, which were second only to beef. Soybeans, beef and pulp accounted for 50% of the country's goods exports. After several difficult years, exports to the region regained momentum, led by growth in exports of motor vehicles, plastics and barley malt. Exports of tourism-related services have begun to pick up, but pre-pandemic levels have yet to be regained. Exports of non-traditional services, predominantly computer services, continue trending upward, although their positive contribution to the balance of payments is offset by an increase in imports.

According to June data, GDP posted year-on-year growth of 7.7%. The growth rate in the first half of the year was somewhat slower than that of the previous six months, and GDP is expected grow by around 5%. Growth has largely been fuelled by the primary sector, on the back of an excellent soybean harvest and strong performance in forestry, and by health and education , with the lifting of the restrictions that had remained in effect in those sectors in 2021. All components of demand contributed to growth. Some early indicators suggest that growth will slow during the second half of the year.

Regarding the labour market, the main indicators stabilized in 2022 as the country began to recover after the most difficult phase of the pandemic. Data to October 2022 show that activity and employment rates were around 1 percentage point below pre-pandemic levels. The unemployment rate, however, stood at 7.8%, a historic low for the country. Regarding workers' income, real wages remained 5% below pre-pandemic levels, although the decline halted in the previous 12 months and registered a slight reversal.

The labour informality rate, which had been driven down by the pandemic, remained low. In 2019, informal employment stood at approximately 25%, falling 4 percentage points in the first 10 months of 2022.