## Uruguay

Although the international context was not as favourable as in previous years, Uruguay's economy is set to grow by 3.5% in 2014 as it continues to cool. Even so, growth has outperformed the country's historical averages. The labour market has remained strong, with real wages expected to rise by more than 2% on average and unemployment at a minimum. One of the main concerns of the Government of Uruguay has been to fight persistent inflation, which will likely come in slightly below previous years. The fiscal deficit has widened, to more than 3% of GDP. General elections were held in 2014; the ruling party retained the presidency and control of parliament.

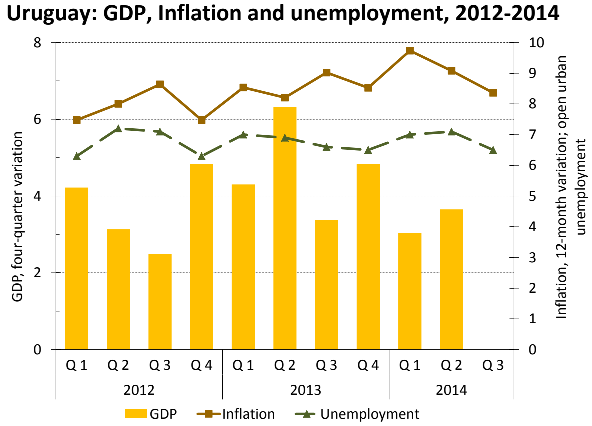
In the 12 months to June 2014 the primary balance fell to post a deficit equivalent to 0.8% of GDP, which is 0.2% larger than for the same period in 2013. The overall public sector deficit widened, too, to the equivalent of 3.6% of GDP at the end of June compared with 1.7% of GDP in the same period of 2013. Fiscal policy could be regarded as expansionary, especially in view of increased investment in the non-financial public sector and the tax cuts implemented in 2014 in order to contain inflation. In October annual inflation was running at 8.11%, down from more than 9% in early 2014 thanks to the Government's price containment policy that included the removal of VAT on certain goods and public tariff services and suspending it on specific foods, such as some vegetables.

In mid-2013 the central bank of Uruguay began to implement its monetary policy by managing the monetary aggregates. It has set targets for the trajectories of monetary aggregates, monitoring the broad M1 indicator (cash in circulation, demand deposits and savings accounts). After this change, the central bank has pursued a contractionary monetary policy, which has resulted in a gradual moderation of year-on-year increases in broad M1. In fact, the target ranges for year-on-year variations of the benchmark indicator fell steadily while actual variations were within the ranges –or even below the thresholds set, as was the case for much of 2014. The contractionary trend can also be seen in local-currency interest rates. For example, in the first five months of 2014, monetary regulation instrument rates have been kept above 14% for all maturities.

The gross public sector debt at the end of June topped US$ 34 billion, equivalent to 62.8% of GDP as of then. But net debt has held at relatively low levels throughout 2014, showing that the economy's payment capacity has grown. At the end of June it stood at 21.7% of GDP – slightly less than the previous year.

After closing 2013 below 21.5 Uruguayan pesos per dollar, the price of the dollar rose steadily during the first half of 2014 to stand at 23 Uruguayan pesos in April and hold at around that level over the following months. Overall, the real effective exchange rate index edged up, driven by improved price competitiveness compared with extraregional trading partners in the first quarter and with respect to other countries within the region in the second quarter.

**Uruguay: GDP, Inflation and unemployment, 2012-2014**




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

The law on financial inclusion was enacted in April 2014 with a view to making means of payment more efficient, encouraging use of the financial system, reducing informality and combating fraud. The new law mandates payment of wages, pensions and social benefits via bank debits, and provides that everyone must have free access to a bank account with basic services. It also cuts VAT on e-payments by 2 to 4 points.

**Uruguay: main economic indicators, 2012-2014**

| | 2012 | 2013 | 2014 [a] |
|---|---|---|---|
| | **Annual growth rate** | | |
| Gross domestic product | 3.7 | 4.4 | 3.5 |
| Per capita gross domestic product | 3.3 | 4.0 | 3.1 |
| Consumer prices | 7.5 | 8.5 | 8.1 [b] |
| Real average wage | 4.2 | 3.0 | 3.6 [b] |
| Money (M1) | 18.4 | 11.7 | 6.9 [b] |
| Real effective exchange rate [c] | -2.5 | -4.3 | 5.3 [b] |
| Terms of trade | 3.8 | 1.7 | 2.9 |
| | **Annual average percentage** | | |
| Open urban unemployment rate | 6.7 | 6.7 | 6.8 [d] |
| Central government | | | |
| Overall balance / GDP | -2.0 | -1.6 | -1.6 |
| Nominal deposit rate | 4.2 | 4.3 | 4.2 [b] |
| Nominal lending rate [e] | 12.0 | 13.3 | 17.2 [b] |
| | **Millions of dollars** | | |
| Exports of goods and services | 13,398 | 13,581 | 14,069 |
| Imports of goods and services | 14,685 | 14,776 | 14,934 |
| Current account balance | -2,706 | -3,006 | -2,728 |
| Capital and financial balance [f] | 5,993 | 5,951 | 4,245 |
| Overall balance | 3,287 | 2,945 | 1,517 |

**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.
d/ Figures as of September.
e/ Business credit, 30-367 days.
f/ Includes errors and omissions.

Between January and September 2014 goods exports (mainly meat, rice and leather) rose by 5%, more than offsetting the decline in agricultural product exports. Although exports of these products increased in volume, prices were down from the previous year. The opposite happened with agroindustrial products, where export volume did not increase but export prices did, especially for dairy products and tanned leather. Service exports slumped 10% because of a bad tourist season. Demand in Brazil and China (the main destinations for Uruguay’s goods exports) dropped off but the share going to Mexico and the Middle East almost doubled.

Imports of goods increased by 1.5% between January and September 2014. The sector that saw the greatest increase was machinery and equipment (19.2%), fuelled by massive public and private investments. Purchases of consumer goods grew by 6.4%, with particularly sharp rises in durable goods other than automobiles. Oil imports, which have a major impact on total imports, fell 13% in the first three quarters of the year. In services there was a sharp increase in foreign travel. As for the trade balance, the current account deficit in goods narrowed, but the historical balance-of-services surplus has disappeared and 2014 could well be the first year of the twenty-first century to close with a deficit. This has helped worsen the current account trade balance, which posted a 2.5% deficit in the 12 months to June 2014. This deterioration is somewhat more pronounced than in the previous floating year, when the deficit was 1.9%.

Foreign direct investment climbed 9% in the first half of 2014, but the increase is expected to drop back slightly by year's end. Manufacturing, real estate investment and land purchases are the top three destinations for foreign investment.

Cumulative GDP growth will barely top 3.5% in 2014, according to the survey of economic expectations published by the Central Bank of Uruguay. The information available for the first half of the year points to 3.3% expansion of GDP. The two sectors driving growth were power generation (thanks to heavy rains) and a steadily-growing telecommunications sector. Primary activities and manufacturing remained relatively stable, although some areas saw expansions and contractions. Construction sector activity was down.

From the point of view of aggregate demand, GDP growth was mainly due to a rise in private final consumption expenditure. Meanwhile, falling construction activity pushed gross capital formation down and the net balance of exports was negative.

In the labour market, activity, employment and unemployment rates have held relatively steady at historically positive levels. Real wages continue to rise at a pace between 2% and 3%.