URUGUAY

1. General trends

In 2019, economic activity continued to deteriorate in Uruguay, and the year ended with 0.2% growth. The main economic developments in 2019 were the worsening contraction of regional demand for goods and services, and the growing uncertainty in international markets, marked by the trade conflict between the world's two largest economies. At the same time, economic expectations also remained fairly pessimistic.

The year 2019 was marked by national elections, which in Uruguay are held every five years and involve the complete renewal of the legislative and executive branches. The election resulted in a change of party in government and, since March, the executive branch has been led by the National Party, which governs with a coalition of four other parties, ensuring it has a parliamentary majority. Meanwhile, after 15 years in government, the Broad Front will be the main opposition party. On the economic front, the new executive branch is focusing on restoring business profitability to encourage investment, reduce the fiscal deficit and reform public enterprises.

As in all countries in the region, the coronavirus disease (COVID-19) crisis has had a major impact on domestic activity. Exports in the first five months of 2020 contracted by 14%, the number of workers seeking unemployment insurance shook the labour market, and the production of goods and services declined. Data for the first quarter of 2020, which only reflect the effects of the pandemic to a limited extent, confirm that the country entered an economic recession from the last quarter of 2019. The data for the second quarter are expected to show the maximum effect of lockdown measures on economic activity as the country has been gradually easing these measures since the end of April. There is still no information that would allow an assessment of the social impacts of the measures.

2. Economic policy

(a) Fiscal policy

The fiscal deficit has been increasing in recent years and, at the end of 2019, it was 4.7% of GDP, 0.5 percentage points higher than the previous year. Overall, the public accounts deteriorated by 1.2% of GDP during the five-year term of government that ended in March. Although some fiscal adjustment measures were taken during the period and there was no explicit encouragement of an expenditure increase, in reality fiscal policy was fairly expansionary.

In 2019, non-financial public sector revenue represented 30.7% of GDP, down 0.5% of GDP from the previous year. This was mainly because of the reduction in revenue collected by the tax administration department, which was only partly offset by the improved performance of public enterprises. The non-financial public sector's primary expenditure, meanwhile, increased by 0.6% of GDP. This increase occurred in each component (wages, non-staff costs, liabilities and transfers). One of the factors responsible for the deficit trend is the increasing imbalance between assets and liabilities in social security, against the backdrop of the indexation of liabilities to average wages.

Interest payments on non-financial public sector debt amounted to 2.4% of GDP, 0.2 percentage points lower than the previous year, while overall, the central bank recorded a deficit of 0.5% of GDP, 0.4 percentage points lower than the year-earlier period.

The main source of financing for the fiscal deficit has been the decumulation of reserve assets resulting from central bank sales on the foreign exchange market and from debt swap operations. The broadening of the monetary base and deposits at the central bank also helped to finance the deficit.

Total gross public sector debt amounted to 70% of GDP at the end of 2019, while net debt stood at 35% of GDP, two percentage points higher than the previous year. In the five-year period ending in 2019, net debt increased by 12 percentage points. Following the trend towards dollarization of deposits, which is discussed below, and as a result of the increase in the exchange rate and two debt issues in dollars, the share of foreign currency increased by 7 percentage points over the previous year and came to represent half of the debt, of which more than 50% becomes due after 2025.

Concerns about the management of the fiscal deficit led the current authorities to send a bill to parliament to establish a fiscal rule that would limit public sector spending in Uruguay. The rule proposes a structural fiscal balance complemented by an expenditure ceiling. The current government understands that applying a fiscal rule to debt is not effective, and that the relationship between the rule and debt sustainability depends on the structural fiscal balance limit.

(b) Monetary policy

The instruments and objectives of the monetary policy implemented by the authorities in recent years have remained unchanged. The explicit aim of the policy is to monitor the year-on-year change in expanded M1 so that any increase remains within a range of two or three percentage points. All available instruments are used for this purpose, in particular monetary regulation bills, notes with different maturities and liquidity-providing instruments. In 2019, benchmark expanded M1 grew by 7.6%, which was within the range of 7.0% to 9.0% expected for the fourth quarter. Growth in expanded M1 accelerated in the first half of the year, but the situation reversed in the second half. Targets of 6.0%-8.0% in the first quarter and 3.0%-5.0% in the second quarter were set for 2020. The demand for money decreased at the beginning of the COVID-19 crisis, but has increased in the past two months. In particular, according to data as of April 2020, the year-on-year change in the monetary aggregate was 8.7%. However, the monetary policy committees that convened during the pandemic have made it clear that the instruments will be handled in such a way that there are no restrictions in the money market and liquidity is assured, maintaining the inflation objective in a 24-month term. Therefore, monetary policy is expected to be expansionary during the year. In particular, in recent months, the central bank has reduced reserve requirements and extended payment of loans granted by financial intermediaries.

The proportion of foreign currency deposits by residents stood at an all-time low of about 70% in mid-2018, but has been rising since February 2019. The decline in preference for the national currency also continued in the first months of 2020. This measure of dollarization increased by 3 percentage points in 2019 and by almost 2 percentage points more this year.

In 2019, total credit in the banking system grew by 5.0% year-on-year in real terms, driven mainly by lending to businesses, which increased faster than consumer or mortgage lending.

(c) Exchange-rate policy

The year 2019 was marked by high volatility in the exchange rate market and particularly large increases associated with regional instability in April and August. On several occasions last year, the central bank intervened in the spot market to contain the sharpest swings. The dollar exchange rate on the local market jumped by 15% over the course of the year, and this trend was exacerbated in 2020, especially at the onset of the COVID-19 crisis. According to the data to May 2020, the dollar exchange rate climbed 23% year-on-year.

Based on an international comparison, the central bank's overall real effective exchange rate depreciated by 3.9%, which breaks down into a 9.4% depreciation of the peso against international currencies and a 3.3% appreciation against regional currencies, owing mainly to volatility in Argentina.

(d) Other policies

In addition to promoting a fiscal rule, the government submitted other policy changes to parliament for consideration, including repealing the requirement to pay wages, professional fees and government suppliers electronically, and repealing restrictions on cash payment for transactions up to US$ 100,000.

In 2019, the countries of the Southern Common Market (MERCOSUR) signed a trade agreement with the European Union and, months later, with the European Free Trade Association (Norway, Switzerland, Iceland and Liechtenstein). MERCOSUR and the European Union began talks to sign an agreement in 1995, but these have been suspended at least twice. By June 2020, the agreement was in the legal review phase and awaiting ratification by the European Parliament and the parliaments of the MERCOSUR countries. This agreement includes a clause establishing that the trade pillar will enter into force bilaterally between the European Union and those MERCOSUR countries that have ratified it, so it is not necessary for all MERCOSUR countries to ratify it. Uruguay has traditionally been the MERCOSUR country most interested in substantive agreements with third markets, and private and public actors see this agreement as a tool for improving the external competitiveness of domestic production and attracting investment.

3. The main variables

(a) The external sector

In 2019, the positive balance of the trade account in the balance-of-payments increased, resulting in a surplus equivalent to 0.7% of GDP. The increase in the surplus with respect to the previous year derived mainly from a reduction in goods imports and the fact that direct investment companies sent less profits and income abroad. Meanwhile, the services account surplus decreased because the tourist season was worse than the previous one and because outbound tourism increased owing to the exchange rate differences with Argentina. The remaining service exports (transport and other services, including business services) remained at the level seen the previous year, while imports associated with investments increased and those linked to transport services decreased.

Goods exports edged up by 0.7% in 2019, owing to larger soybean export volumes and higher meat prices. These two items more than offset the drop in exports of live cattle and forest products. China continues to consolidate its position as the main market for Uruguayan goods and now accounts for almost one third of total sales. Meanwhile, exports to major regional partners fell to historic lows: Brazil and Argentina accounted for 13% and 4% of goods exports, respectively.

Goods imports contracted by 6% compared to the previous year, owing mainly to the performance of processed industrial inputs and oil.

In 2020, exports of goods and services are declining considerably. In the first quarter, tourism revenues contracted by 14%. Meanwhile, goods exports declined by 18% in the first five months of the year, owing mainly to the reduction in pulp and beef exports. Imports of goods (excluding oil) fell by 9%, especially because of industrial supplies.

(b) Economic activity

In a 17-year cycle of positive GDP growth, 2019 was the year of least growth. In particular, domestic demand contracted slightly, but the volume of goods exports increased, which more than offset the decline. In a context of virtual recession and after five consecutive years of negative contributions to GDP, gross fixed capital formation performed positively, especially in the last quarter of 2019. Even though the pandemic has somewhat delayed schedules, the construction of a pulp mill and the related infrastructure will begin in 2020, in what will be the largest private investment in Uruguay's modern history.

Against the backdrop of generally negative trends in almost all sectors of the economy, the positive result stems from the performance of the transport and communications, especially the latter subsector. In the primary activities sector and the trade sector, restaurants and hotels recorded decreases of 3.8% and 2.1%, respectively. In 2020, as part of the complete adaptation of national accounts to the sixth edition of the *Balance of Payments and International Investment Position Manual*, the Central Bank of Uruguay will publish a new data series that retroactively changes the production and value added statistics of the economy.

(c) Prices, wages and employment

By the end of 2019, the consumer price index had increased by 8.8% for the year, above the target range of 3.0% to 7.0%. Food prices, particularly of meat, fruits and vegetables, drove the index upwards. In March and April 2020, inflation accelerated in part because of the rise in the dollar, the increase in the price of fruits and vegetables, and the adjustment of public tariffs. In light of inflation of at 10.5% in April, and in order to avoid an escalation, the government concluded an agreement with retailers and intermediaries to freeze the prices of products in the basic food, hygiene and cleaning basket for a period of three months. In addition to other general considerations, the government is keen to avoid inflation exceeding 12.0%, which is the threshold defined in labour agreements for triggering wage adjustment clauses.

Over the course of 2019, the average wage index increased by 8.5%, which means that real wages contracted by 0.3%. According to the latest information available, which corresponds to April 2020, the real wage has been reduced by just over 3 percentage points. On the one hand, inflation was exceptionally high in April, and on the other hand, wages reflect the impact of the COVID-19 Sanitary Emergency Tax, which was applied for two months to public sector workers (except health workers) who received more than a certain threshold. Owing to the COVID-19 crisis, the government, workers and employers agreed to postpone wage council negotiations, and although these were still continuing in mid-June, it was agreed that wage corrections will be established below inflation and that adjustment mechanisms will be applied taking into account the differentiated impact of the crisis on each sector, with the aim of losing as few jobs as possible. Given that the special measures implemented at the beginning of the pandemic to allow workers to seek partial unemployment insurance are still in force, it would be premature to predict the effect that the health measures will have on employment.

In 2019, the activity rate and the employment rate decreased by 0.2 and 0.5 percentage points, respectively, to 62.2% and 56.7%. The unemployment rate, meanwhile, rose by 0.6 percentage points to 8.9%. This confirms the trend of slow deterioration in labour market indicators which began three years ago. In particular, this deterioration has been slightly more pronounced in the interior of the country than in the capital.

Table 1

URUGUAY: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	Annual growth rates b/								
Gross domestic product	5.2	3.5	4.6	3.2	0.4	1.7	2.6	1.6	0.2
Per capita gross domestic product	4.9	3.2	4.3	2.9	0.0	1.3	2.2	1.2	-0.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	13.2	-0.8	2.0	0.3	-1.2	2.5	-5.7	6.0	-3.8
Mining and quarrying	-21.1	-2.3	2.5	-10.8	-15.5	18.2	-19.7	-5.7	-2.8
Manufacturing	2.0	-3.9	1.2	4.2	4.9	0.7	-3.5	1.9	-1.1
Electricity, gas and water	-24.2	-21.9	54.7	15.7	-6.7	9.6	1.2	2.2	5.7
Construction	2.4	16.3	0.9	0.7	-6.1	-2.6	-2.1	-2.8	-2.0
Wholesale and retail commerce, restaurants and hotels	7.0	5.6	8.0	-0.6	-4.0	-2.8	6.2	-1.3	-2.1
Transport, storage and communications	10.7	10.0	6.9	7.4	4.8	8.1	9.4	6.8	3.5
Financial institutions, insurance, real estate and business services	6.5	5.3	4.0	3.7	2.7	0.8	-1.3	-0.4	0.4
Community, social and personal services	2.4	1.5	2.7	2.9	0.1	-0.3	-0.3	0.4	0.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.7	5.1	5.5	2.9	-0.2	0.4	3.9	1.4	0.5
Government consumption	3.7	6.0	4.9	2.5	2.2	2.9	-0.7	0.8	0.8
Private consumption	7.2	4.9	5.5	3.0	-0.5	0.1	4.6	1.5	0.5
Gross capital formation	9.9	14.5	4.8	0.0	-9.0	-3.9	-13.0	7.3	-2.9
Exports (goods and services)	5.8	3.6	-0.1	3.5	-0.6	-0.2	6.9	-4.8	1.2
Imports (goods and services)	12.4	13.6	2.8	0.8	-7.3	-6.2	0.5	-2.0	0.2
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	20.9	22.9	22.5	21.2	19.7	17.8	15.2	16.5	16.2
National saving	18.1	18.9	18.9	18.0	18.8	18.4	15.9	16.5	16.8
External saving	2.7	4.0	3.6	3.2	0.9	-0.6	-0.7	0.0	-0.6
Balance of payments	**Millions of dollars**								
Current account balance	-1 315	-2 069	-2 087	-1 814	-491	311	409	-28	350
Goods balance	-1 431	305	1 077	1 985	1 307	1 911	2 391	2 418	2 916
Exports, f.o.b.	9 274	13 055	13 277	13 769	11 145	10 374	11 059	11 528	11 498
Imports, f.o.b.	10 704	12 750	12 200	11 783	9 838	8 463	8 668	9 110	8 582
Services trade balance	1 592	1 201	-266	-366	413	822	1 249	760	318
Income balance	-1 631	-3 700	-3 077	-3 614	-2 388	-2 605	-3 423	-3 412	-3 074
Net current transfers	156	125	180	181	176	183	192	206	190
Capital and financial balance d/	3 879	5 356	5 068	3 186	-1 185	-2 500	2 040	-380	-1 460
Net foreign direct investment	2 511	2 175	2 792	2 512	815	-1 115	-2 236	-1 108	-439
Other capital movements	1 368	3 181	2 276	674	-2 001	-1 385	4 276	728	-1 022
Overall balance	2 564	3 287	2 981	1 372	-1 677	-2 189	2 449	-408	-1 111
Variation in reserve assets e/	-2 564	-3 287	-2 981	-1 372	1 677	2 189	-2 449	408	1 111
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	77.9	76.3	70.7	71.6	69.7	69.2	65.3	63.4	64.6
Terms of trade for goods (index: 2010=100)	102.4	106.3	108.1	112.3	114.5	117.6	117.2	111.4	115.4
Net resource transfer (millions of dollars)	2 248	1 657	1 990	-428	-3 573	-5 104	-1 383	-3 792	-4 534
Total gross external debt (millions of dollars)	18 345	36 403	38 092	41 194	43 752	40 002	41 274	41 435	42 705
Employment g/	**Average annual rates**								
Labour force participation rate	64.8	64.0	63.6	64.7	63.8	63.4	62.9	62.4	62.1
Open unemployment rate	6.31828	6.5	6.5	6.6	7.5	7.8	7.9	8.3	8.9
Visible underemployment rate	7.2	7.1	6.8	6.6	7.1	8.3	8.4	8.5	9.7

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	8.6	7.5	8.5	8.3	9.4	8.1	6.6	8.0	8.8
Variation in producer prices (December-December)	11.1	5.9	6.3	10.6	6.6	-1.9	5.4	10.0	20.1
Variation in nominal exchange rate (annual average)	-3.8	5.1	0.9	13.6	17.5	10.3	-4.7	7.2	14.7
Variation in average real wage	4.0	4.2	3.0	3.4	1.6	1.6	2.9	0.2	1.3
Nominal deposit rate h/	4.4	4.2	4.3	4.4	5.3	5.1	4.6	4.7	4.4
Nominal lending rate i/	11.0	12.0	13.3	17.2	17.0	17.6	15.4	14.2	13.3
Central government	**Percentages of GDP**								
Total revenue	27.0	26.9	28.0	27.6	27.2	27.8	28.8	30.5	30.0
Tax revenue	24.7	25.0	25.5	25.1	25.0	25.3	26.4	26.8	26.4
Total expenditure	27.6	28.9	29.5	29.9	30.0	31.5	31.8	32.6	33.0
Current expenditure	26.1	27.5	28.1	28.5	28.8	30.1	30.5	31.2	31.5
Interest	2.4	2.3	2.4	2.3	2.3	2.7	2.7	2.8	2.6
Capital expenditure	1.5	1.4	1.4	1.4	1.2	1.4	1.3	1.5	1.5
Primary balance	1.9	0.3	0.9	0.0	-0.5	-1.0	-0.3	0.7	-0.4
Overall balance	-0.6	-2.0	-1.5	-2.3	-2.8	-3.7	-3.0	-2.1	-3.0
Non-financial public sector debt	38.4	40.2	36.9	39.2	47.2	46.1	47.9	47.7	51.4
Domestic	14.9	15.1	12.8	11.9	15.5	18.7	21.1	21.0	20.8
External	23.6	23.9	26.0	27.5	31.6	27.4	26.8	29.3	33.1
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	18.3	17.5	18.6	19.3	21.5	23.6	20.9	22.0	23.4
To the public sector	6.9	7.4	9.2	8.2	4.6	6.2	8.4	8.6	8.9
To the private sector	22.9	23.3	25.7	26.9	30.0	28.1	26.2	27.5	28.3
Others	-11.5	-13.2	-16.2	-15.8	-13.1	-10.7	-13.6	-14.1	-13.8
Monetary base	5.7	6.0	6.4	6.3	6.3	6.4	6.1	6.3	5.8
Money (M1)	10.2	9.9	9.9	8.9	8.5	8.3	8.5	8.5	8.2
M2	16.8	16.5	16.6	15.7	15.7	16.4	17.3	17.8	17.4
Foreign-currency deposits	26.7	25.8	28.3	31.7	37.9	34.6	31.1	32.7	36.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2005 prices.
c/ Based on values calculated in national currency and expressed in current dollars.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Nationwide total.
h/ Local-currency fixed-term deposits, 30-61 days
i/ Business credit, 30-367 days.

Table 2

URUGUAY: MAIN QUARTERLY INDICATORS

	2018				2019				2020	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	2.3	2.6	2.2	0.9	-0.4	0.1	1.0	0.2	-1.4	…
Gross international reserves (millions of dollars)	16 201	17 921	16 835	15 743	16 518	15 651	14 764	14 568	15 100	15 742
Real effective exchange rate (index: 2005=100) c/	63.7	64.4	62.4	63.1	62.0	65.4	64.6	66.5	67.6	67.7 d/
Open unemployment rate e/	8.8	8.0	8.5	8.1	8.8	8.9	9.2	8.8	9.5	…
Employment rate e/	57.1	57.1	56.6	58.1	56.9	56.2	56.2	57.1	56.9	…
Consumer prices (12-month percentage variation)	6.7	8.1	8.3	8.0	7.8	7.4	7.8	8.8	9.2	10.4
Wholesale prices (12-month percentage variation)	4.9	12.6	12.9	10.0	12.7	9.6	12.4	20.1	18.2	17.1 f/
Average nominal exchange rate (pesos per dollar)	28.5	30.1	31.8	32.6	32.8	34.9	35.8	37.5	39.6	43.4 d/
Nominal interest rates (average annualized percentages)										
Deposit rate g/	5.0	4.5	4.3	4.8	4.5	4.2	4.4	4.5	4.4	4.9 f/
Lending rate h/	14.3	14.3	14.1	14.1	13.7	13.4	12.6	13.6	13.4	14.4 f/
Sovereign bond spread, Embi Global (basis points to end of period) i/	168	200	156	207	170	172	177	148	298	215
International bond issues (millions of dollars)	-	1 750	-	-	850	-	1 055	-	-	2 505
Domestic credit (variation from same quarter of preceding year)	-11.2	-18.0	4.0	12.2	7.2	36.1	26.3	17.9	26.3	12.9 d/

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2005 prices.
c/ Quarterly average, weighted by the value of goods exports and imports.
d/ Figures as of May.
e/ Nationwide total.
f/ Figures as of April.
g/ Local-currency fixed-term deposits, 30-61 days.
h/ Business credit, 30-367 days.
i/ Measured by J.P.Morgan.