

URUGUAY

1. General trends

Boosted by the lifting of the domestic and external mobility restrictions imposed in response to the coronavirus disease (COVID-19) pandemic, Uruguay's gross domestic product (GDP) grew by 4.9% in 2022. The two halves of the year were quite different. The first half saw high growth rates relative to the previous year, while in the second half, economic activity grew modestly (by 1.5% on average). This below-potential growth has persisted in 2023. The country experienced one of the worst droughts on record, which hampered primary sector activity and disrupted normal water supply in the Montevideo metropolitan area. The balance-of-payments current account deficit widened by the equivalent of 0.6% of GDP, as the narrowing of the surplus in goods and services trade more than offset the reduction in the primary income account deficit. Foreign investment in Uruguay grew to record levels in 2022, with net liabilities accounting for 13% of GDP. In 2023, the country's third wood pulp plant started production, and is expected to become Uruguay's leading goods exporter, measured in gross terms. In June 2023, the government announced a private investment project to produce green hydrogen and later synthetic gasoline in the north of the country, which, if completed, would be the largest investment in the country's history.

In an international context of great uncertainty, several of the factors that fuelled the expansion in 2022 have been absent for several months. The growth drivers in 2023 include industrial export activity, especially wood pulp, and increased private consumption as wages return to pre-pandemic levels in the sectors that have fallen furthest behind. In addition, the impact of the drought on production and exports, in conjunction with the exchange-rate differences with Argentina in outbound tourism and the completion of a number of investment projects, will contribute to a weak increase in the level of activity. Specifically, GDP is set to grow by 1% in 2023.

In 2022, the fiscal deficit stood at 3.2% of GDP, down by 0.3% relative to the previous year's figure. In the first few months of 2023, revenue intake declined, which suggests that the deficit reduction trend that had been ongoing since the second quarter of 2021 has come to an end. The key features of 2022 include the contractionary monetary policy and the appreciation of Uruguay's exchange rate with respect to its neighbours. In 2023, inflation remained below historical levels, and the real exchange rate appreciated relative to trend.

In 2022, the political system debated the social security reform, which was approved in Parliament in April 2023 with the votes of the ruling coalition.

2. Economic policy

(a) Fiscal policy

In 2022, the policy to rein in public expenditure was maintained, but as the deficit reduction trend has been reversed since September, fiscal policy may prove to be expansionary in 2023. In March 2023, the government reduced two of the taxes levied on income. In the case of personal income tax, deductions were increased for taxpayers located in a band above the non-taxable minimum income, thus seeking to benefit exclusively those with medium (not high) incomes. In the case of the social security assistance tax, which is levied on pensions, the non-taxable minimum was raised. In addition, changes were made to the

tax on income from economic activities paid by microenterprises and small firms. Flat rates were replaced by graduated ones, and the conditions for being subject to this tax were made more flexible in the case of agricultural enterprises. The government estimates the fiscal cost of the measures at 0.2% of GDP and 1.1% of annual tax revenues.

The structure of income and expenditure did not change significantly during the year. Investment increased more than non-payroll expenditures, and transfers from public enterprises were reduced. Central government interest payments were maintained at 2.0% of GDP and those of the central bank were lowered by 0.2 percentage points of GDP. This reduction is related to a joint debt swap operation conducted in February between the central bank and the central government, whereby local indexed currency bonds were issued and partially integrated with bank debt.

The overall public sector deficit measured by source of financing represented 3.0% of GDP. This was financed primarily by the accumulation of reserve assets, supported by the issuance of government securities. The latter included the aforementioned joint swap operation in February and the issuance of the first "Sovereign Green Bond" for a total of US\$ 1.5 billion. The bond coupon is tied to two indicators of compliance with environmental goals: the reduction of greenhouse gas emissions and the maintenance of the area of native forests.

In connection with the transition to a green economy, in 2022 an amendment to the specific domestic tax on gasoline entered into force, under which the amount of CO₂ emitted by gasoline is included in the taxable base. Although in practice the tax burden remains unchanged, the amendment enables Uruguay to fulfil its climate change mitigation commitments and to position itself better should markets start to apply the border price adjustment mechanism or adopt other measures of a similar nature.

Gross public sector debt amounted to 65% of GDP, and net public sector debt represented 37.5% of GDP (two percentage points higher than in the previous year). Net debt is trending gently upwards. Most of the debt is long-term, with maturities of more than five years, and the country has contingent credit lines with international organizations equivalent to 2% of GDP (in February 2023). Since mid-2021, Uruguay has had the smallest interest rate spread for dollar debt of all Latin American countries. Recently, a number of rating agencies have upgraded the outlook for Uruguayan debt, which in all cases is investment grade.

With a view to making monetary policy more effective, the monetary authority has prioritized de-dollarization of the economy. The share of nominal and indexed local currency in the debt increased by 5 percentage points to a current level of 55%.

(b) Monetary policy

Throughout 2022 and the first half of 2023, monetary policy was kept tight to align inflation expectations with the target range of 3%–6%. In successive meetings during the year, the Monetary Policy Committee raised the monetary policy rate from 5.75% to 11.5%, before starting to lower it as from April 2023. The rate is currently 10.75%, which the central bank's technical staff consider to be approximately 2 percentage points higher than the inflation expectations plus the natural interest rate. The central bank operates on the overnight rate with sterilization instruments and injections to keep the monetary policy rate at the desired level.

Following the monetary policy rate hike, bank rates on corporate loans in local currency rose in 2022 before stabilizing in 2023. Lending to the non-financial private sector expanded by 4% in 2022 in real terms, led in particular by consumer credit. Credit to firms has been trending down since mid-2022.

In the middle of 2021, the monetary authority began reducing the reserve requirement in local currency, on a schedule that was completed in January 2022. For that reason, a mechanism involving asymmetric reserve requirements between currencies is now in force, which has altered agents' preferences. This forms part of the strategy to de-dollarize the economy and thus enhance the monetary policy transmission channel. Credit to the resident private sector was equivalent to 27% of GDP, and the pesification coefficient climbed to a historical high of 55%.

(c) Exchange-rate policy

In 2022, the Uruguayan peso appreciated sharply, and the price of the interbank dollar fell by 10% in nominal terms. In 2023, the weakening dollar trend continued, with the nominal exchange rate appreciating by 6% in the first six months. The equilibrium real exchange rate appreciated by 12% in 2022 (according to the central bank), decoupling in particular from the currencies of economies located outside the region. By the end of the first half of 2023, the value of the dollar had returned to pre-pandemic levels.

In 2022 and the first half of 2023, the central bank carried out practically no operations in the spot market, apart from payments on futures contracts agreed upon with public enterprises. These firms need dollars, which they obtain in the market from household and corporate savings, although they also resorted to alternative mechanisms during the period.

(d) Other policies

In April 2023, following major negotiations within the ruling coalition, Parliament adopted a reform of the social security system, of which the main objective is to enhance the sustainability of the system and improve horizontal equity. The key changes in the reform are: an increase in the retirement age to 65 years, the creation of a basic pillar with explicit subsidies, the unification of several systems with differential rules (which in general require subsidies or are underfunded), and a change in the way the pension is calculated. The reform does not alter the current system of employer and employee contributions. Since the approved changes are not immediate, the reform is expected to have a positive impact on the budget in 10 years.

In 2023, an investment was announced for the production of synthetic gasoline, which is made by mixing hydrogen obtained from natural sources (wind and solar) and CO₂ from biomass combustion and the distillation of grain alcohol. This investment, which would begin in 2024, is considered the largest in the country's history and would be equivalent to 5.5% of GDP in 2022.

3. The main variables

(a) The external sector

The current account of the balance of payments recorded a deficit of 3.2% of GDP in 2022, the largest in eight years. The increase is explained by the fact that the merchandise trade surplus narrowed and the deficit on the primary income account widened. The revitalization of the tourism sector in 2023 improved the current account balance, which ended the quarter with a deficit of 2.8% of GDP.

The increase in the current account deficit is explained by the action of trading companies. These are very important in Uruguay's foreign trade, accounting for 15% of the year's exports of goods and services, which are highly volatile. In 2022, these firms lowered their operating margin in goods while reducing their primary income debits by less and increasing their imports of services. In the first quarter of

2023, the trend was the opposite, as these companies' exports of goods increased while primary income declined.

Among general merchandise exports, the surplus narrowed because import growth (21.4%), outpaced that of exports (17.7%). In both flows, 2022 was the record year, measured in current dollar terms. The services account, which was balanced in 2021, recorded a surplus, driven by the travel sector as mobility was restored. Meanwhile, the deficit on the transport account widened and other services maintained the previous year's surplus. The latter, which mainly represents global services, generated exports of US\$ 3 billion, or 18% of total exports.

Goods exports displayed two cycles, with year-on-year growth until August, but faltering thereafter. In 2023, the downward trend has continued (18% lower in the first six months), while overall exports of goods are expected to fall by 11% in the year. The leading export markets have been China, followed by the European Union and Brazil. As has been the case for a decade, the three main products exported were beef, soybeans and wood pulp. Soybeans and beef, in that order, are the sectors that are expected to contribute most to the reduction in exports in 2023, in the context of a historic drought. By contrast, wood pulp exports are set to increase following the start-up of the country's largest plant in June 2023, although the effect on exports will be seen mainly in 2024.

All three components of aggregate demand contributed to import growth. Among consumer goods, apparel and footwear were the most prominent items, whereas agricultural chemicals led intermediate goods imports, and agricultural vehicles and information technology goods were the most important in the case of capital goods.

(b) Economic activity

The sectors that have contributed most to the expansion of production are commerce, accommodation and the supply of beverages, which were hit particularly hard by the mobility restrictions, along with transport, storage, information and communications, mainly because of the buoyancy of the latter. Although exports and imports grew more rapidly than domestic variables, their rates offset each other, so the external sector made no net contribution to total activity. Among the domestic components, gross fixed capital formation made a large contribution, albeit with a decreasing trend, and private consumption also made a significant (and more stable) contribution. In addition to the contribution of the pulp plant, investment in real estate construction, mainly under tax-exempt promotion programmes, boosted the strong performance of investment in the first half of 2022.

(c) Prices, wages and employment

In 2020, the Monetary Policy Committee had set a target range for inflation of between 3% and 6% per year as from September 2022, lowering the upper bound of the range by 1 percentage point, as a way of showing a greater commitment to holding down inflation. In the first half of 2022, driven by exceptional factors, the year-on-year increase in the consumer price index (CPI) rose to almost 10% in September, before starting to retreat. Specifically, 2022 ended with a CPI variation of 8.3% (similar to the previous year's increase) and in June 2023, the year-on-year increase was 6.0%, equal to the upper bound of the target range. The prices of tradable goods, responding to international factors, played a decisive role in the acceleration and subsequent deceleration of inflation. The 2023 monetary policy reports indicate that as from the last quarter of 2023, the contractionary monetary policy will start to be effective in reducing inflation and, above all, in neutralizing upward international pressures. All of the June indicators of 24-

month inflation expectations place inflation above the target range, but with the latest data inflation expectations will likely ease.

Following two years of declines, real wages started to trend up as from March 2022. The year ended with a real wage hike of 1%, and data to May indicate increases of 3.15%. The moderation of inflation and the recovery of demand after the pandemic explain the rising trend in real wages.

In the labour market, the activity rate in 2022 averaged 61.9%, similar to the previous year's figure, but below average pre-pandemic levels. The employment rate, at 57.1%, was higher than in 2019. Both rates show positive trends since the second half of last year. By contrast, unemployment began 2022 at a low rate (7%) but on a rising trend that still persists. The 2022 average rate of 7.9% was the lowest since 2017.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
Annual growth rates b/									
Gross domestic product	3.2	0.4	1.7	1.7	0.2	0.7	-6.3	5.3	4.9
Per capita gross domestic product	2.9	0.0	1.4	1.5	0.0	0.7	-6.3	5.4	5.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.3	-1.2	2.5	-10.8	5.6	2.3	-6.0	13.4	-2.9
Mining and quarrying
Manufacturing	4.2	4.9	0.7	-2.9	5.4	-3.8	-5.7	7.6	0.1
Electricity, gas and water	15.7	-6.7	9.6	3.9	4.0	10.2	-8.5	5.8	0.4
Construction	0.7	-6.1	-2.6	-6.7	-7.6	-0.5	2.0	6.0	7.0
Wholesale and retail commerce, restaurants and hotels	-0.6	-4.0	-2.8	4.0	-8.4	0.3	-8.6	7.8	10.4
Transport, storage and communications	7.4	4.8	8.1	7.2	1.2	6.5	-7.9	0.8	9.7
Financial institutions, insurance, real estate and business services	3.7	2.7	0.8	5.8	-2.0	1.1	-3.8	7.1	4.7
Community, social and personal services	2.9	0.1	-0.3	1.7	3.6	0.1	-7.5	2.1	4.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.9	-0.2	0.4	3.6	2.4	0.9	-6.9	4.0	5.0
Government consumption	2.5	2.2	2.9	2.1	4.9	1.9	-7.1	8.4	1.6
Private consumption	3.0	-0.5	0.1	4.0	1.8	0.6	-6.8	2.9	6.0
Gross capital formation	0.0	-9.0	-3.9	-4.8	-7.8	-6.3	7.7	18.3	5.2
Exports (goods and services)	3.5	-0.6	-0.2	5.3	-1.1	4.6	-16.3	11.7	11.1
Imports (goods and services)	0.8	-7.3	-6.2	7.5	0.6	1.3	-12.2	18.2	12.5
Percentages of GDP									
Investment and saving c/									
Gross capital formation	21.1	19.6	17.7	16.3	14.9	14.3	16.4	19.2	18.8
National saving	18.1	19.3	18.5	16.3	14.5	15.5	15.6	16.7	15.6
External saving	2.9	0.3	-0.8	0.0	0.5	-1.2	0.8	2.5	3.2
Millions of dollars									
Balance of payments									
Current account balance	-1 838	-147	474	8	-306	748	-443	-1 541	-2 268
Goods balance	1 869	1 329	2 050	1 957	2 385	3 113	2 153	4 489	3 541
Exports, f.o.b.	13 908	11 430	10 612	11 122	11 778	11 865	10 057	15 700	17 156
Imports, f.o.b.	12 040	10 101	8 562	9 165	9 394	8 753	7 904	11 211	13 615
Services trade balance	-40	904	1 015	1 522	891	606	273	11	348
Income balance	-3 738	-2 448	-2 660	-3 557	-3 671	-3 042	-2 938	-6 119	-6 292
Net current transfers	71	68	70	86	89	72	69	78	135
Capital and financial balance d/	3 210	-1 529	-2 636	2 441	-102	-1 859	2 073	2 384	690
Net foreign direct investment	2 247	775	-1 823	-2 037	-729	1 391	1 016	1 764	3 274
Other capital movements	963	-2 304	-812	4 479	627	-3 250	1 056	620	-2 584
Overall balance	1 372	-1 677	-2 161	2 449	-408	-1 111	1 630	843	-1 578
Variation in reserve assets e/	-1 372	1 677	2 161	-2 449	408	1 111	-1 630	-843	1 578
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	104.0	100.0	99.0	93.3	89.6	93.4	96.0	97.7	93.6
Terms of trade for goods (index: 2018=100)	100.7	102.7	105.5	105.1	100.0	103.1	109.8	106.7	99.9
Net resource transfer (millions of dollars)	-528	-3 977	-5 296	-1 116	-3 773	-4 901	-865	-3 735	-5 602
Total gross external debt (millions of dollars)	41 390	43 825	40 446	42 318	43 044	45 198	47 089	48 757	55 541
Average annual rates									
Employment g/									
Labour force participation rate	64.7	63.8	63.4	62.9	62.4	62.2	60.5	61.8	62.0
Unemployment rate	6.6	7.5	7.8	7.9	8.3	8.9	10.1	9.3	7.9
Visible underemployment rate	6.7	7.2	8.3	8.4	8.5	9.6	8.8	10.5	8.6

Table 1 (concluded)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Prices	Annual percentages								
Variation in consumer prices (December-December)	8.3	9.4	8.1	6.6	8.0	8.8	9.4	-58.7	8.3
Variation in producer prices (December-December)	10.6	6.6	-1.9	5.4	10.0	20.1	3.6	31.9	-10.2
Variation in nominal exchange rate (annual average)	14.4	17.5	10.4	-4.8	7.2	14.7	19.2	3.7	-5.5
Variation in average real wage	...	0.1	1.6	2.9	0.2	1.3	-1.7	-1.5	-0.6
Nominal deposit rate h/	4.4	5.3	5.1	4.6	4.7	4.4	4.2	3.2	5.7
Nominal lending rate i/	17.2	17.0	17.6	15.4	14.2	13.3	12.7	8.7	11.6
Central government	Percentages of GDP								
Total revenue	25.4	25.0	25.5	26.4	27.9	27.1	27.0	25.6	26.1
Tax revenue	23.1	23.1	23.3	24.2	24.5	23.9	24.3	23.5	24.3
Total expenditure	27.5	27.5	28.7	29.1	29.8	29.9	32.1	29.3	29.1
Current expenditure	26.2	26.4	27.5	27.9	28.5	28.5	30.8	28.2	27.6
Interest	2.1	2.1	2.5	2.5	2.6	2.4	2.7	2.1	2.2
Capital expenditure	1.3	1.1	1.3	1.2	1.3	1.3	1.3	1.1	1.6
Primary balance	0.0	-0.3	-0.7	-0.2	0.7	-0.4	-2.4	-1.6	-0.8
Overall balance	-2.1	-2.4	-3.2	-2.7	-1.9	-2.8	-5.1	-3.7	-3.0
Non-financial public sector debt	39.2	43.1	49.4	47.3	45.7	49.0	57.8	55.7	53.1
Domestic	11.8	14.2	20.0	20.8	19.1	18.9	22.3	22.6	24.7
External	27.4	28.9	29.4	26.5	26.6	30.1	35.4	33.0	28.3
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	17.7	19.7	21.6	19.2	20.1	21.2	21.4	20.7	22.3
To the public sector	7.5	4.3	5.7	7.7	7.9	8.1	6.5	5.3	5.6
To the private sector	24.7	27.5	25.7	24.0	25.1	25.5	27.8	26.4	26.4
Others	-14.5	-12.0	-9.8	-12.5	-12.9	-12.4	-12.9	-11.0	-9.7
Monetary base	5.7	5.8	5.8	5.6	5.8	5.7	5.8	5.0	4.5
Money (M1)	8.1	7.8	7.6	7.8	7.8	7.4	8.4	8.2	7.5
M2	14.4	14.4	15.0	15.8	16.3	15.7	17.8	17.4	17.0
Foreign-currency deposits	29.0	34.7	31.7	28.5	29.9	33.2	41.2	40.7	35.1

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

	2021				2022				2023	
	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/	-3.8	11.3	6.2	7.8	8.4	8.7	3.4	-0.1	1.2	...
Gross international reserves (millions of dollars)	16 134	16 802	16 990	17 103	16 899	16 091	15 741	15 582	15 583	15 627 c/
Real effective exchange rate (index: 2005=100) d/	96.2	98.7	97.4	98.7	97.6	93.2	91.0	87.8	85.4	...
Unemployment rate	10.5	9.8	9.6	7.4	7.5	8.1	8.1	7.8	8.4	...
Employment rate	55.0	55.0	56.2	57.9	57.5	56.8	56.7	57.5	57.5	...
Consumer prices (12-month percentage variation)	8.3	7.3	7.4	-58.7	9.4	-58.1	-57.9	8.3	-58.9	6.0
Wholesale prices (12-month percentage variation)	7.1	15.5	17.6	31.9	22.9	14.2	9.7	-10.2	-6.7	-9.0 e/
Average nominal exchange rate (pesos per dollar)	43.1	43.9	43.2	44.0	43.3	40.6	40.9	40.0	39.2	38.6
Nominal interest rates (average annualized percentages)										
Deposit rate f/	3.4	3.2	2.9	3.5	3.9	5.2	6.2	7.4	8.0	...
Lending rate g/	9.6	8.4	8.0	8.8	9.7	11.1	12.0	13.6	13.7	13.2 e/
Sovereign bond spread, Embi Global (basis points to end of period) h/	125	129	140	127	127	162	158	91	119	99
International bond issues (millions of dollars)	-	1 250	-	592	-	350	-	1 500	0	-
Domestic credit (variation from same quarter of preceding year)	8.1	2.2	12.1	15.1	10.2	16.3	18.0	11.0	19.3	19.6 c/

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 2016 prices.

c/ Figures as of April.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Figures as of May.

f/ Local-currency fixed-term deposits, 30-61 days.

g/ Business credit, 30-367 days.

h/ Measured by J.P.Morgan.