Uruguay

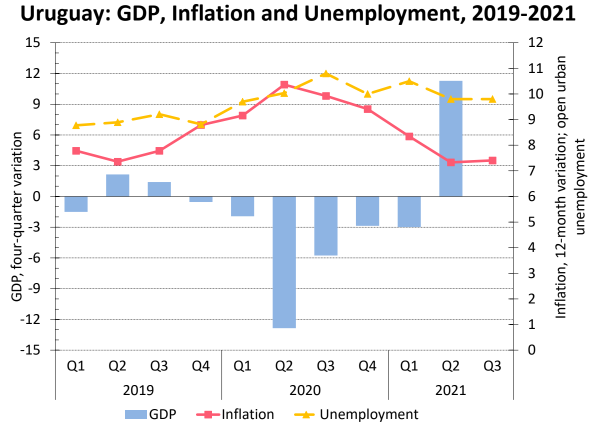
Uruguay is recovering from the decline in economic activity resulting from measures to counter the health emergency caused by the coronavirus disease (COVID-19) pandemic; however, the pace of the recovery varies between sectors. This has to do with the seasonality of the shocks it has sustained and with the macroeconomic situation prior to the pandemic. Of note is the growth in exports of global goods and services and private investment, which has boosted economic recovery in a context in which tourism revenue is down 82% from its level the previous season. After a GDP contraction of almost 6% in 2020, in 2021 the country is projected to recover slightly more than half of that drop, to end the year with a level of economic activity close to that of 2019.

Despite getting through 2020 with little spread of COVID-19, infections multiplied from January 2021 onward, and mobility was restricted until the middle of the year. Following a reduction in the number of positive cases, related to a successful mass vaccination campaign, since July, mobility levels and economic activity in the country have recovered.

In the 12 months to September 2021, the overall public sector outturn showed a deficit of 5.0% of GDP, half a percentage point below the same period the previous year. Net expenditures charged to the Coronavirus Fund were estimated at 1.9% of GDP for the period. These expenses comprise outlays related to testing, vaccination and support mechanisms for adversely affected sectors. The support mechanisms include unemployment and sickness benefits, as well as the waiving of social security contributions for those sectors especially affected by the health measures. For the vulnerable population, pre-existing welfare benefits were strengthened, and some new ones were created, for a total amount equivalent to 0.3% of GDP. The central bank's deficit was almost one percentage point of GDP, offsetting a surplus of the same amount from public enterprises and other agencies that are not part of the central government. Recent months have seen a recovery in the collection of consumption and corporate taxes, as well as a poor performance in terms of social security contributions and personal taxes, against a backdrop of wage recovery that did not match the increase in the level of economic activity.

Government securities were the main source of financing for the fiscal deficit. Total gross public sector debt amounted to 75% of GDP as of September 2021, while assets offset slightly more than half of that debt. As a result, net debt totalled 36.5% of GDP, up more than one percentage point in the year to September. The central bank decided that a portion of the Uruguayan State's reserve assets managed by international entities should be used to finance sustainable investments and projects. In addition, the government announced that it would issue green bonds, whose coupon is associated with the fulfilment of environmental goals.

Uruguay: GDP, Inflation and Unemployment, 2019-2021



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

In 2021, a new fiscal rule went into effect, amending the country's debt ceiling. This new fiscal rule created a new institutional framework based on a fiscal advisory committee and a committee of experts that prepare inputs for the definition of a structural fiscal result, which is defined as the effective fiscal result net of cyclical swings and extraordinary items. The mechanism provides for a limit on the structural fiscal deficit.

Uruguay: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	0.4	-5.9	3.9
Per capita gross domestic product	0.0	-6.2	3.6
Consumer prices	8.8	9.4	7.4 [b]
Real average wage	1.3	-1.7	-1.3 [b]
Money (M1)	7.1	11.7	15.8 [b]
Real effective exchange rate [c]	1.9	4.8	2.7 [b]
Terms of trade }	3.1	6.6	5.5
	Annual average percentage		
Open urban unemployment rate	8.9	10.1	10.0 [b]
Central government			
Overall balance / GDP	-2.8	-5.0	...
Nominal deposit rate [d]	4.4	4.2	3.2 [e]
Nominal lending rate [f]	13.3	12.7	8.7 [b]
	Millions of dollars		
Exports of goods and services	17 086	13 582	16 729
Imports of goods and services	13 328	11 209	13 371
Current account balance	986	-316	-839
Capital and financial balance [g]	-2 097	1 946	...
Overall balance	-1 111	1 630	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
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/ Includes errors and omissions.

In 2020, the government adopted an interest rate-based monetary policy to maintain a 24-month inflation target within a range set between 3% and 6%. The monetary authority uses the one-day interbank money market rate (T1D) as a benchmark and sterilizes or injects money into the market with fine-tuning instruments. During the first half of 2021, the reference rate of 4.5% per annum —which is considered expansionary— was maintained in order not to restrict the recovery. In the second half of the year, as economic activity recovered, the rate was raised in two increments to 5.25%. Bank lending to the private sector showed a downward trend and amounted to 26% of GDP as of September 2021, with a coefficient of pesification of 50%.

The monetary authority aims to lower inflation and, to that end, is taking steps towards a more contractionary monetary policy and economic de-dollarization. The consumer price index (CPI) recorded an increase of 7.9% in the 12 months to October, which was outside the target range. In recent months there has been an increase in prices of food and fuel, driven in part by international prices. The moderation in the adjustments to the negotiated wage guidelines, which incorporate lower medium-term inflation expectations, contributed to a slightly downward trend in inflation during the year. The exchange rate, which is another important factor in inflationary expectations, maintained a downward trend after registering some increases in January 2021. In the 12 months to October, the nominal exchange rate increased by only 2.7%. The real exchange rate, meanwhile, depreciated relative to the region, more than offsetting a slight appreciation with respect to markets outside the region. It should be noted that the depreciation with respect to the region was measured from historically low values.

The work period of the commission developing inputs for the reform of the social security system ended in 2021. Policy discussions for the purpose of introducing changes to the system are scheduled to begin in 2022. The objectives include increasing sustainability and improving horizontal equity among the different subsystems that make up the country's social security system.

The pandemic has had a strong impact on economic activity during the year. The second quarter of the year recorded a year-on-year increase of 11.3%, breaking a string of six negative quarters. Industry and trade show signs of revitalization in the second half of the year. The June data do not yet show an overall positive contribution from net exports. On the demand side, gross fixed capital formation was the best-performing component for the year. Private consumption is expected to recover in the second half of the year.

The contribution from external activity has been very heterogeneous. Goods exports recovered from their decline in 2020 and in the first 10 months of 2021 recorded an increase of 31% over the previous year, as well as being higher than previous years. Specifically, beef, which has benefited from good prices associated with demand from China and temporary difficulties in competitors' markets, accounts for one third of the growth. Other agro-industrial sectors, such as pulp and wood, have also made positive contributions. Energy exports to Brazil from fuel surpluses are also noteworthy. Exports of global services, which have been developing vigorously in the country in recent years, have seen a strong expansion in the period. In particular, the information and communications technology (ICT) sector is estimated to be the third largest export sector in 2021, behind the beef and wood pulp sectors. Based on data for the 12 months to June, inbound tourism slumped 82% over the previous year, a decline representing 2.7% of GDP. Outbound tourism, meanwhile, fell by 91%, amounting to 1.5% of GDP that was not spent abroad.

The solid performance in exports of goods, meanwhile, was more than offset by a strong recovery in imports associated with materials for the construction of the country's third pulp mill. As a result, the current account balance reversed sharply during the period. In addition to the negative balance of the goods and services account, there was an increase in debits in the primary income account, owing to an increased remittance of profits abroad by foreign companies in the first half of the year. Overall, in the 12 months to June, the balance went from a surplus of 1% to a deficit of 2.5%.

The employment rate has recovered gradually after dropping sharply in the early months of the pandemic. Data as of September show that the employment rate is half a percentage point below that of February 2020. The unemployment rate, meanwhile, was at 9.4%, one and a half percentage points lower than 12 months earlier. Wage growth has lagged economic activity and inflation. Specifically, in the 12 months to October, real wages accumulated a reduction of almost two percentage points. The private sector performed somewhat worse than the public sector. The financial intermediation and business services sectors experienced almost no decline, while the education and transport and communications sectors recorded the biggest losses.