Uruguay

1. General trends

Uruguay posted a 2.9% rise in GDP in 2009, making it one of the few economies in the region to remain on a growth path despite the international financial crisis. This growth was driven by private and public consumption, public investment and external demand, which offset the steep drop in private investment. The most buoyant sectors were once again transport, storage and communications, while industry contracted sharply owing to lower exports. A countercyclical fiscal policy was operated throughout 2009 to restrain demand and output. The non-financial public sector (NFPS) fiscal deficit rose to 1.6% of GDP, while the gross debt to GDP ratio of the NFPS reached 47%. Annual inflation was 5.9%, which was within the target range established in the monetary programme.

The current account improved significantly as imports fell sharply while exports rose by 9.7%. This was partly the result of lower oil prices, increased hydroelectric power output and higher tourism revenue. There was a strong inflow of foreign capital in the form of foreign direct investment (FDI) and financial capital, although it was not as great as in 2008. Reserves once again increased, despite the lowering of banking system reserve requirements.

GDP is projected to grow by close to 7% in 2010, and inflation is expected to be at the upper end of the 4% to 6% target range set by the authorities. A primary fiscal surplus of about 2% of GDP and an overall deficit of about 1.1% of GDP are expected.

2. Economic policy

In 2009, economic policy focused on restraining domestic demand in a context of slowing external demand growth and lower private investment. In view of the higher fiscal deficit, the government drew down special unconditional credit lines provided by multilateral lending institutions. In addition, some US$ 500 million in debt instruments were issued on domestic and foreign markets. Towards the end of the year, the Macroeconomic Coordination Committee set an annual inflation target of 5% until September 2011, with a 1% margin of tolerance.

(a) Fiscal policy

The public sector played a larger role in the economy in 2009, measured by the tax take and spending as a share of GDP. NFPS revenue rose from 26.2% of GDP in 2008 to 27.7% in 2009, while primary expenditure increased from 25.1% of GDP to 27%. In this context, and given the slight improvement in the primary balance of municipal governments and the Banco de Seguros del Estado, the NFPS primary surplus declined from 1.5% of GDP in

2008 to 1.2% in 2009. The fiscal deficit in 2009 was thus 1.6% of GDP after debt servicing (2.8% of GDP), compared with 1.3% in 2008, when debt servicing was also equivalent to 2.8% of GDP.

Where revenues were concerned, the Tax Administration Department (DGI) took in the equivalent of 17% of GDP and the Social Insurance Bank (BPS) the equivalent of 7.1%. Profits transferred from State-owned enterprises to the government and customs duties totalled 1.3% and 1% of GDP, respectively. Without adjusting for inflation, total NFPS revenues increased 9% from 2008, owing to increases of 4.8% in DGI revenues, 13% in BPS revenues and 65% in profits transferred from State-owned enterprises.

Public-sector spending consisted of current primary spending (23.7% of GDP) and investment (3.4% of GDP). At the end of 2009, pensions represented 8.7% of GDP, transfers 6.4%, wages 5% and operating expenses 3.6%. The first three components totalled 20.1% of GDP in 2009, compared with 18.2% the previous year. These items were some of the mainstays of domestic demand and hence of economic growth during the year. The share of GDP corresponding to operating expenses remained unchanged from 2008. Another mainstay of growth was public investment which, adjusted for inflation, rose by 6.9% year on year in 2009 owing to the strength of road-building and construction and the acquisition of machinery and equipment by State-owned enterprises.

The overall fiscal situation of Uruguay improved in early 2010, with a deficit equivalent to 1.1% of GDP at the end of the first quarter, mainly as a result of higher revenues. Official projections put the public-sector deficit at 1.1% of GDP at year-end.

NFPS gross debt had risen to US$ 17.03 billion, or 47% GDP, by the end of 2009. Most of this increase is attributable to higher domestic debt. NFPS gross external debt held steady at about 33% of GDP.

(b) Monetary policy and the financial sector

The interbank overnight (call) rate, which governs local-currency interbank loans, once again served as the main instrument of control in 2009, following the financial turbulence in the international markets in 2008. The annual rate was set at 10% in early 2009 but dropped to 9% in March, 8% in June and 6.25% in December, where it was held until June 2010 in the light of domestic prices movements in the early months of the year.

At the same time, the legal reserve requirement continued to be lowered and was set at 12% on local-currency deposits of less than 30 days from 1 January, compared with the 20% applied until the end of 2009. For foreign-currency deposits, the reserve was to be lowered to 15% on deposits of less than 180 days and to 9% on longer-term deposits from July 2010. This measure and foreign-currency purchases by the Central Bank of Uruguay to stabilize the exchange rate became the main drivers of liquidity growth. The central bank was able to contain these permanent increases by issuing monetary regulation bonds and paper denominated in pesos and Indexed Units.

The financial system remained stable despite the international crisis. Credit to the resident private sector increased in the fourth quarter of 2009, raising total lending by 6% by year's end. This translated into a US$ 3.031 billion increase in assets in the financial system. Non-financial private-sector deposits in both local and foreign currency continued to grow, ending 2009 with an increase equivalent to US$ 1,981 million, implying an annual rate of 16% after adjusting for the exchange-rate effect.

The interest rate on dollar-denominated loans stood at 5.6% at the end of 2009, a record low. Rates on local-currency loans to businesses and households averaged 16.7% and 32.3%, having declined following the increase that began in September 2008. Credit arrears remained stable at historically low levels (about 1% of all loans and 2.9% of local-currency loans to households). The dollar-denominated term deposit interest rate stood at 0.55% in December 2009, while the rate on peso-denominated term deposits declined towards the end of the year and averaged 4.9% for the year as a whole owing to the high level of liquidity in the money market.

(c) Exchange-rate policy

A floating exchange-rate regime was maintained throughout 2009. Nevertheless, the State actively intervened in the currency market to stabilize the peso-dollar exchange rate. The exchange rate seen up until the end of 2008, about 24 pesos to the dollar, remained unchanged until April. Thereafter, however, the peso strengthened against the dollar before broadly stabilizing, ending the year at a rate of some 19.50 on 31 December. In 2009, therefore, the peso appreciated by 20.1% against the dollar in nominal terms, in contrast with the 13.4% decline the previous year. The real bilateral exchange rate against the dollar appreciated by 21.4% between December 2008 and December 2009. This nominal exchange rate remained broadly stable in the first four months of 2010. In addition, it was announced that the Ministry of Economics and Finance would be intervening in the currency market from June to restore the nominal exchange rate to its equilibrium level.

The real effective exchange rate indicator for 2009 was down by an average of 2.4% on the previous year, reflecting the strengthening of the local currency in the second half. This decline in the indicator reflected a loss of competitiveness vis-à-vis both Southern Common Market (MERCOSUR) members and other countries.

3. The main variables

(a) Economic activity

Transport, storage and communications grew by 9.5% in 2009 and spearheaded overall GDP growth, to which they contributed 1.1 percentage points. Other growth sectors were services (3.6%), electricity, gas and water (41.9%), construction (4.8%), agriculture (2.0%) and commerce, restaurants and hotels (0.8%). These sectors accounted for 0.8, 0.6, 0.3 and 0.2 percentage points of GDP growth, respectively. Manufacturing contracted by 3.7%, lowering GDP growth by 0.6%.

The rise in GDP in 2009 resulted from higher domestic consumption (2%), with public-sector consumption climbing by 5.2% (adding 0.6 percentage points to GDP) and private-sector consumption by 1.5% (1 percentage point). Public spending (on consumption and investment) grew by 9.5% in 2009, accounting for half the year's GDP increase.

Gross capital formation decreased by 10.7% in 2009, subtracting 2.5 percentage points from GDP. This was partly because of the 4% contraction in gross fixed capital formation, which represented a 0.8 percentage point drag on GDP, as well as inventory fluctuations. Nevertheless, gross fixed capital formation still stood at 19.1% of GDP in 2009, the second-highest level in the past 15 years.

External demand was also a driver of economic activity. Exports were up 2.5%, raising GDP by 0.8 percentage points, while imports contracted by 8.6%, a 3 percentage point gain. The Uruguayan economy continued to improve in the first quarter of 2010. Seasonally adjusted GDP rose by 1.7% compared with the same quarter the previous year. First quarter growth was 8.9% year on year. Measured in volume terms, domestic demand grew on the strength of higher expenditures for final consumption (7.7%) and gross capital formation (26.4%) owing to rising fixed investment and inventories. The net external balance was positive, although its impact was smaller than in the first quarter of 2009, as exports rose by 3.8% and imports by 10.1%.

(b) Prices, wages and employment

The consumer price index rose by 5.9% in 2009, a sharp reduction from the 9.2% increase in 2008. The items with the largest increases in 2009 were education (12.3%), housing costs (11.6%), medical care (8.7%) and other consumer spending (16.6%). The national producer price index was up 10.6% for the year.

Cumulative inflation from January to April 2010 was 2.8%, while the 12-month figure to April was 7.09%. Annual inflation to June was 6.4%.

The labour market remained generally stable. The nationwide average unemployment rate stood at 7.3%. The employment rate increased by nearly one percentage point nationwide in 2009, to an annual average of 58.5%. The participation rate of the working-age population was 63.2% in 2009. The trend towards formalization of the labour market continued, and the proportion of unregistered workers averaged 23%. Real wages rose by an average of 7.3% in 2009, with similar increases for public- and private-sector workers. Nationwide, household purchasing power rose by an average of 5.2% year on year.

(c) The external sector

Over the course of 2009, the current account went from deficit to a surplus of over US$ 250 million. Almost all this turnaround was attributable to the trade balance, which moved from a US$ 926 million deficit in 2008 to a US$ 796 million surplus in 2009 owing to the contraction in trade in goods and services and the lower value of both exports (8%) and imports (24%). The trade balance in goods was in deficit by US$ 275 million at the end of 2009, this being offset by a similar increase in exports of tourism services.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	-3.4	-11.0	2.2	11.8	6.6	4.3	7.5	8.5	2.9
Per capita gross domestic product	-3.6	-11.0	2.2	11.9	6.6	4.1	7.2	8.2	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.1	5.1	10.6	10.6	4.6	3.9	-6.1	5.7	2.0
Mining and quarrying	-5.2	-37.6	14.1	7.2	4.4	...	...	...	...
Manufacturing	-7.6	-13.9	4.7	20.8	10.1	8.1	7.1	17.3	-3.7
Electricity, gas and water	1.7	-0.6	-7.4	1.8	5.8	-28.6	57.8	-52.6	41.9
Construction	-8.7	-22.0	-7.1	7.5	4.2	9.2	6.2	8.5	4.8
Wholesale and retail commerce, restaurants and hotels	-3.2	-24.5	-1.0	21.3	10.1	6.8	13.4	11.3	0.8
Transport, storage and communications	0.3	-9.1	3.1	11.5	11.1	8.2	19.6	34.6	9.5
Financial institutions, insurance, real estate and business services	1.7	-0.9	-5.3	-1.7	-3.5	0.6	3.5	4.4	2.9
Community, social and personal services	-2.3	-3.3	0.7	3.2	1.4	3.3	3.8	4.8	3.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	-2.1	-15.9	1.1	9.5	4.0	5.9	7.1	8.1	2.0
Government consumption	-2.9	-9.3	-4.8	2.5	0.0	6.7	6.5	6.8	5.2
Private consumption	-2.0	-16.9	2.0	10.6	4.5	5.8	7.2	8.4	1.5
Gross capital formation	-9.1	-34.5	18.0	22.0	7.6	16.8	6.3	27.5	-10.7
Exports (goods and services)	-9.1	-10.3	4.2	30.4	16.3	3.2	7.4	10.1	2.5
Imports (goods and services)	-7.1	-27.9	5.8	26.8	10.8	15.3	5.7	21.0	-8.6
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	17.8	14.8	16.2	16.9	16.2	19.4	19.4	22.7	17.9
National saving	15.1	17.9	15.5	16.9	16.4	17.4	18.4	17.9	18.8
External saving	2.6	-3.0	0.8	-0.0	-0.2	2.0	0.9	4.8	-0.8
					Millions of dollars				
Balance of payments									
Current account balance	-498	382	-87	3	42	-392	-220	-1 503	259
Goods balance	-775	48	183	153	21	-499	-545	-1 730	-275
Exports, f.o.b.	2 139	1 922	2 281	3 145	3 774	4 400	5 100	7 077	6 389
Imports, f.o.b.	2 915	1 874	2 098	2 992	3 753	4 898	5 645	8 807	6 664
Services trade balance	316	153	135	325	372	409	703	804	1 071
Income balance	-68	109	-488	-588	-494	-428	-516	-727	-679
Net current transfers	30	72	83	113	144	126	137	150	142
Capital and financial balance [d]	775	-4 314	1 048	302	753	2 791	1 231	3 736	1 330
Net foreign direct investment	291	180	401	315	811	1 495	1 240	1 839	1 126
Other capital movements	485	-4 494	647	-12	-58	1 296	-9	1 896	204
Overall balance	278	-3 932	961	306	796	2 399	1 010	2 233	1 589
Variation in reserve assets [e]	-278	2 328	-1 380	-454	-620	15	-1 005	-2 232	-1 588
Other financing	0	1 604	420	149	-175	-2 414	-5	-0	-0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	101.3	117.6	149.9	152.3	134.0	128.4	127.7	121.0	118.1
Terms of trade for goods (index: 2000=100)	104.0	102.6	103.5	99.9	90.7	88.6	88.7	94.1	96.9
Net resource transfer (millions of dollars)	707	-2 601	979	-137	84	-52	710	3 008	650
Total gross external debt (millions of dollars) [g]	8 937	10 548	11 013	11 593	11 418	10 560	12 218	12 021	13 935
					Average annual rates				
Employment									
Labour force participation rate [h]	60.8	59.3	58.1	58.5	58.5	60.9	62.7	62.6	63.4
Open unemployment rate [i]	15.3	17.0	16.9	13.1	12.2	11.4	9.6	7.9	7.7
Visible underemployment rate [j]	15.3	18.4	19.3	15.8	17.1	13.6	12.9	10.8	9.1
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	3.6	25.9	10.2	7.6	4.9	6.4	8.5	9.2	5.9
Variation in producer prices, local products (December-December)	3.8	64.6	20.5	5.1	-2.2	8.2	16.1	6.4	10.5
Variation in nominal exchange rate (annual average)	9.9	58.9	33.3	1.9	-14.7	-1.8	-2.4	-10.8	7.8
Variation in average real wage	-0.3	-10.7	-12.5	0.0	4.6	4.3	4.7	3.6	7.3
Nominal deposit rate [k]	61.7	28.4	5.5	2.3	1.7	2.3	3.2	4.0	4.0
Nominal lending rate [l]	38.1	116.4	56.6	26.0	15.3	10.7	10.0	13.1	16.6

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Central government									
Total revenue	20.2	20.7	20.9	21.1	21.3	21.4	20.5	20.0	20.4
Tax revenue	17.0	17.1	18.1	18.0	18.3	18.8	18.0	17.8	18.0
Total expenditure	24.6	25.4	25.4	23.5	22.9	22.4	22.1	21.1	21.8
Current expenditure	22.9	24.0	24.1	22.0	21.5	21.0	20.6	19.3	20.3
Interest	2.4	4.0	5.5	4.8	4.3	4.2	3.7	2.8	2.7
Capital expenditure	1.8	1.4	1.3	1.5	1.3	1.4	1.5	1.8	1.6
Primary balance	-2.0	-0.8	1.0	2.4	2.7	3.2	2.1	1.7	1.3
Overall balance	-4.4	-4.7	-4.5	-2.4	-1.6	-1.0	-1.6	-1.1	-1.5
Non-financial public sector debt	45.6	103.3	97.9	76.9	68.6	61.1	52.1	51.1	47.0
Domestic	15.2	24.7	18.4	14.8	14.7	13.7	10.2	11.6	13.9
External	30.3	78.6	79.5	62.1	53.9	47.4	41.9	39.4	33.1
Money and credit [m]									
Domestic credit	44.1	52.8	29.7	17.5	14.0	18.9	14.8	12.9	10.9
To the public sector	6.6	22.7	14.4	12.1	6.0	7.5	1.3	3.0	3.6
To the private sector	66.2	73.4	45.4	30.3	26.6	25.9	24.5	29.4	22.6
Others	-28.7	-43.3	-30.0	-24.8	-18.7	-14.4	-11.0	-19.6	-15.2
Liquidity (M3)	91.6	87.7	81.1	66.0	59.1	57.1	49.5	56.2	49.6
Currency outside banks and local-currency deposits (M2)	10.1	8.8	9.4	8.9	10.6	11.3	12.6	12.7	13.4
Foreign-currency deposits	81.5	78.8	71.6	57.1	48.5	45.8	36.9	43.6	36.3

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. Up to 2005, based on figures in local currency at constant 1983 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Figures include the private sector and do not include memorandum items on external liabilities and assets.
[h] Economically active population as a percentage of the working-age population, urban total.
[i] Percentage of the economically active population, urban total.
[j] Percentage of the working population, urban total.
[k] Average rate for fixed-term deposits, 30-61 days.
[l] Business credit, 30-367 days.
[m] The monetary figures are end-of-year stocks.

The capital and financial accounts recorded net capital inflows of US$ 1,529 million, a considerable drop on the previous year's US$ 2.8 billion. However, there was a major shift in the destination of these inflows: 75% of the total was for private-sector purposes in 2008, compared with 40% in 2009. Although FDI flows decreased in 2009, they remained above US$ 1.1 billion.

The Central Bank of Uruguay held US$ 7.9 billion in reserve assets as of December 2009, giving a US$ 1.6 billion increase over the same month in 2008. This increase stemmed from foreign-currency purchases over the year, expanding government accounts and, to a lesser extent, the government's foreign-currency surplus. However, the foreign-currency deposits of financial institutions decreased by more than US$ 500 million because of lower bank reserve requirements. The sovereign risk of Uruguay declined by 8.8% to 227 basis points between the fourth quarter of 2009 and May 2010.

Goods exports other than those from free-trade zones dropped to US$ 5,495 million in 2009, or 8.7% below the 2008 figure[1]. The items that accounted for the largest share of total exports were frozen beef (13.6%), soy (8.3%), rice (8.2%), wheat (5.8%) and fresh or refrigerated beef (3.9%). Exports to MERCOSUR countries totalled US$ 1.55 billion in 2009, a 4% year-on-year decrease. Exports to Argentina and Paraguay contracted by 32% and 19%, respectively, while exports to Brazil jumped 12.3%. MERCOSUR accounted for 28.2% of all Uruguayan exports in 2009, compared with 15% for the European Union countries.

General imports other than those into free-trade zones totalled US$ 4,623 million in 2009, while the value of goods imported on a temporary admission basis was US$ 598 million, a decline from 2008 of 18% and 31%, respectively. Automobiles, cellular phones and cargo vehicles

1 The disaggregation of foreign trade data by goods type and destination or origin country is based on data from the Customs Registry, which do not include exports and imports from free-trade zones.

accounted for the largest import shares. Argentina is the largest exporter of goods to Uruguay (US$ 1,188 million), followed by Brazil (US$ 1.15 billion).

Prices for Uruguayan commodity exports recovered in the first quarter of 2010 compared with the same period in 2009. In the first four months of 2010, goods exports totalled US$ 2,029 million, a 25.3% year-on-year increase. Brazil was the leading destination for Uruguayan products in this period, with exports to the country totalling US$ 424 million (20% of the total), a 23% year-on-year increase. The second-largest destination, Argentina, accounted for 7.1% of the total, followed by China and the Russian Federation with about 5% each.

The real exchange rate continued to decrease in the first quarter of 2010, to reach -14.3% compared with the same period in 2009. This was the outcome of a large decrease against currencies outside the region and a smaller one against currencies within the region.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	7.7	10.0	9.1	7.4	2.5	1.1	3.0	4.6	8.9	...
Goods exports, f.o.b. (millions of dollars)	1 297	1 667	1 637	1 348	1 079	1 478	1 451	1 376	1 290	571 [c]
Goods imports, c.i.f. (millions of dollars)	1 959	2 686	2 371	2 053	1 485	1 656	1 884	1 783	1 751	621 [c]
Gross international reserves (millions of dollars)	4 993	6 101	6 344	6 360	6 965	7 438	8 068	7 987	8 061	7 509
Real effective exchange rate (index: 2000=100) [d]	123.8	120.0	117.1	123.2	118.6	123.5	119.9	110.4	101.6	99.5 [e]
Urban unemployment rate	5.3	4.6	4.7	3.9	5.0	5.1	5.8	...	...	...
Consumer prices (12-month percentage variation)	8.0	8.4	7.5	9.2	7.5	6.5	6.9	5.9	7.1	7.1 [e]
Average nominal exchange rate (pesos per dollar)	20.91	19.75	19.60	23.36	23.50	23.68	22.70	20.27	19.61	19.46
Average real wage (variation from same quarter of preceding year)	4.3	4.0	1.9	4.0	6.2	8.4	8.4	6.1	4.0	...
Nominal interest rates (annualized percentages)										
Deposit rate [f]	2.9	2.8	2.5	4.6	4.3	4.0	3.9	3.8	3.6	3.7 [c]
Lending rate [g]	11.1	11.2	12.2	18.0	18.0	17.0	15.8	15.5	13.0	12.5 [c]
Interbank rate	7.0	7.2	7.2	19.0	9.4	8.9	7.9	7.9	6.2	6.2 [e]
Sovereign bond spread (basis points) [h]	310	265	376	578	586	341	282	221	163	229
Domestic credit (variation from same quarter of preceding year)	-7.1	1.1	6.6	1.2	1.8	5.3	-15.8	-7.7	10.5	...
Non-performing loans as a percentage of total credit	14.3	20.2	20.0	16.5	14.8	13.6	14.7	7.6	7.5	7.5 [e]

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] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] Average rate for fixed-term deposits, 30-61 days.
[g] Business credit, 30-367 days.
[h] Measured by the Uruguay Bond Index to end of period.