

Uruguay

With GDP expansion of 7.3% in 2006, Uruguay continued on the growth path that it had initiated three years earlier, thanks to increases in both external and domestic demand, a stable fiscal situation, a moderate external deficit and inflation of around 6%, which was within the projected range. In this context, the fall in the unemployment rate, together with growing real wages and targeted social policies, contributed to a further decline in the poverty rate.

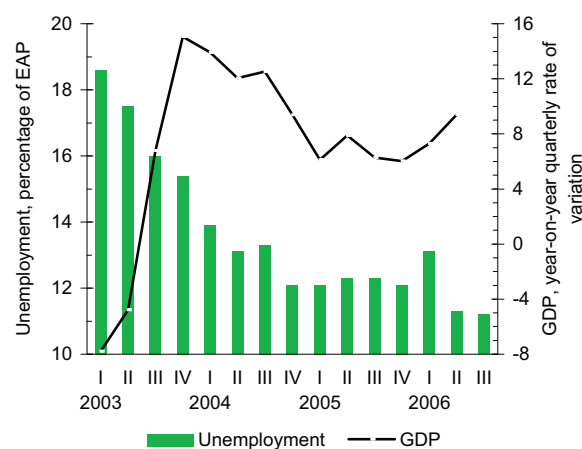
The fiscal situation reflected another increase in collections and a fall in the profits of public enterprises, owing to higher production costs. In the 12 months ending in September, in real terms, fiscal income was 6.8% higher and primary expenditure 2.7% higher, so that the primary fiscal surplus stood at 3.6% of GDP. As interest payments on debt were equivalent to 4.4% of GDP, the consolidated fiscal deficit was 0.8% of GDP.

Restructuring of the external debt continued, with authorities introducing bond issues and buy-back operations in order to reduce the level of maturities due in 2011 and 2015. The government also decided to pay off ahead of schedule its remaining debt with IMF amounting to a total of US\$ 1.078 billion. The gross debt/GDP ratio of the non-financial public sector fell to 63%. As of late October, reserve assets stood at about US\$ 3.3 billion.

Monetary policy was oriented to the control of aggregates with a view to maintaining price stability. Over the 12 months ending in October 2006, the monetary base expanded by 27.1% in nominal terms and 19.4% in real terms; the means of payment (M1) rose to 26.3% and 18.9% in nominal and real terms, respectively. The consumer price index recorded a variation of 6.2% over the 12 months ending in November, which was within the monetary programme's projected range of between 4.5% and 6.5%.

The total gross credit to the non-financial system increased by 4.1% as a 12-month moving average in June 2006. This is the result of a 31.6% rise in real terms in peso-denominated loans and a 3% decline in loans in foreign-currency. The latter accounts for approximately 80% of total gross credit. In the 12 months ending in September, the one-year deposit rates were an annual 1.7% for dollars and an annual 4% for pesos. The average rate for financial sector loans in dollars and for terms of less than one year was 10.6% in the case of consumer loans for non-housing purposes and 8.4% in the case of business loans. The non-adjustable lending rates for consumer loans in local currency

Figure 1
URUGUAY: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

reached an average of 33% for terms of less than a year while the average was 16.2% for business loans.

The floating regime for the nominal exchange rate was maintained; the local currency depreciated by 1.1% in relation to the United States dollar over the 12 months ending in October 2006. Meanwhile, the overall real effective exchange rate showed a 2.1% appreciation in the 12 months ending in September 2006.

The economic growth rate was over 7%, and reflected production increases across all sectors. The manufacturing industry posted an outstanding performance, with growth of just over double the average rate for the economy. Transport and communications, construction and commerce, restaurants and hotels had annual growth rates in the first half of the year that were higher than 9%. Meanwhile, the electricity, gas and water sector posted a rate of just under 4%, owing to the drought that restricted hydroelectricity production and high oil prices. The agricultural sector

grew at an annual rate of close to 3%. The forecast for 2007 is overall expansion of close to 6%.

The external component of demand for goods and services remained stable, while domestic demand continued to grow as household income recovered. Consumption rose by 8% and investment by 35%; public investment was up by 74% and private investment by 14%. Nevertheless, overall investment remained at low levels compared to other countries in the region.

Exports of goods showed a year-on-year increase in dollar terms of 19.5% between January and October, with the main individual destinations being Brazil (13.8%), the United States (13.2%), Argentina (7.5%) and the Russian Federation (6.3%). Imports of goods grew by 26% in dollar terms over the same period and reflected the growing share of the energy component (25% of total imports) and the continued demand for consumer and capital goods. The balance-of-payments current account showed a negative balance in the first half of the year, equivalent to 0.5% in terms of GDP.

The labour market continued to show signs of recovery. During the first three quarters, the employment rate in urban areas rose by 2.3 percentage points compared with the year-earlier period.¹ The impact of this increase on unemployment was moderated by the rise in the labour participation rate. The unemployment rate is expected to fall from 12.2% to 11.6% in 2006. Formal employment also continued to expand, from 63.1% of employed persons in the period from July to September 2005 to 65.3% for the same period of 2006. Labour conditions improved once again and the number of underemployed fell from 18.9% to 13.8% over the same period.

Real average wages rose by 4.4%, while the national minimum wage was adjusted by 20% over the year ending in July 2006 and amounted to approximately US\$ 125. In mid-year, the government called for a new round of negotiations in the wage councils, which constitute a tripartite negotiating mechanism for the private sector whose decisions are binding, in order to establish the wage adjustments that will be valid until the end of 2007.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product	11.8	6.6	7.3
Consumer prices	7.6	4.9	6.2 ^b
Average real wage	0.0	4.6	4.3 ^c
Money (M1)	22.5	22.4	30.5 ^d
Real effective exchange rate ^e	1.0	-9.8	-1.7 ^d
Terms of trade	-3.4	-9.2	-1.9
Annual average percentages			
Urban unemployment rate	13.1	12.2	11.6 ^c
Central government overall balance/GDP	-2.5	-1.6	-1.8
Nominal deposit rate	5.5	2.3	1.6 ^f
Nominal lending rate	26.0	15.3	10.9 ^f
Millions of dollars			
Exports of goods and services	4 296	5 093	5 840
Imports of goods and services	3 778	4 656	5 790
Current account	43	1	-406
Capital and financial account	263	794	3 648
Overall balance	306	796	3 242

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

^a Preliminary estimates.

^b Twelve-month variation to November 2006.

^c Estimate based on data from January to September.

^d Year-on-year average variation, January to October.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Average from January to October, annualized.

Meanwhile, urban poverty fell again, to reach 27.4% for the first half of 2006, compared to 29.2% at the end of 2005. This situation still has a particular impact on children under 12 years of age, as approximately 50% of them live in poverty. Implementation of the National Social Emergency Plan continued and it reached over 75,000 beneficiary households throughout the country. These households receive a social wage or “citizen’s income” equivalent to about US\$ 55 per month. In addition, about 5,000 persons have had access to temporary work, with a wage equivalent to double the social wage; these two benefits may not be combined. In this context, efforts are being made to move forward in establishing mechanisms to help people out of poverty, with activities that include the establishment of productive microenterprises.

¹ An extended household survey was carried out in 2006, with national coverage and monthly data collection. In view of differences in coverage with the previous survey, comparability was maintained by taking the data for towns of 5,000 or more inhabitants throughout the country and comparing the latest monthly figures available with data from the quarter of the previous year centred on the relevant month.