URUGUAY

1. General trends

After slowing for three years, the Uruguayan economy grew at a faster rate in 2017 than the year before and posted its fifteenth consecutive year of expansion. According to preliminary figures, gross domestic product (GDP) grew by 2.7% and is expected to expand at a rate of around 2% in 2018. As will be seen later, economic performance was uneven across sectors, with a combination of favourable and less favourable results.

On the fiscal front, the Government continued grappling with a persistent overall public sector deficit, which stood at 3.6% of GDP at the end of the year. Despite implementing several contractionary measures since 2015, the Government does not have much more room to rein in spending and has failed to reduce the deficit meaningfully.

The global financial situation led to the Uruguayan peso appreciating against the dollar in 2017, while the country's monetary policy, focused as it is on managing growth in the monetary aggregate M1, was greatly influenced by fluctuations in money demand. Inflation was unusually low throughout the year, which allowed the Government to concentrate on other policy aspects while contributing to improvements in some social indicators.

The upturn in economic activity was linked to improved regional and extraregional external demand, a recovery in consumer confidence and a fall in imports. Investment contracted once again, returning to levels seen prior to the commodity supercycle. Regional demand from Brazil, which had been significantly affected by the crisis in that country, showed signs of improving towards the end of 2017, although trade policy challenges remained. From the second half of the year, the demand for tourism services from Argentine visitors —buoyed by the appreciation of the Argentine peso— contributed substantially to the expansion of the commerce and accommodation sectors. Demand remained strong in the first months of 2018 and the sector enjoyed its best high season on record.

2. Economic policy

(a) Fiscal policy

In 2017, the Government adopted measures to avoid an expansionary fiscal policy. On the revenue side, an increase in personal income tax rates and other fiscal measures more than offset the decline in the surplus reported by State-owned companies. An increase of 3 percentage points in the consular rate on goods imports came into force in 2018, although this excludes goods imported from the Southern Common Market (MERCOSUR), the consular rate on which increased by 1 percentage point.

Meanwhile, outgoings rose slightly in real terms. Increases in pensions were almost completely offset by a real-term decline in public expenditure and investment. The Government adopted policy measures to defer the final budget of its mandate until 2018 and to increase its control over investments by autonomous agencies.

As a result of these revenue and expenditure measures, the public sector primary deficit declined year-on-year in 2017, from 0.5 to 0.25 points of GDP. With debt interest remaining at 3.3% of GDP, the overall deficit declined by just 0.3 percentage points.

As regards borrowing, Uruguay's liabilities increased to 66.0% of GDP at the end of 2017, up 4 percentage points on 2016. The rise was due to the issuance of two global bonds in nominal pesos (not indexed to inflation) in July (5-year bond) and in September (10-year bond). These were the country's first issues of this kind in the international markets and attracted very high demand. In addition to providing extra financing, they incorporated earlier bond issues, thereby releasing the Government from repayment obligations that would soon be falling due, and helped to establish a long-term benchmark for the nominal peso yield curve. By 2017, the bulk of Government debt was in local currency, was held by residents and had maturities of more than five years. Net debt also increased by 2 percentage points to 32.0%. As of late 2017, the country held contingent credit lines with multilateral organizations worth the equivalent of 4.2% of GDP.

(b) Monetary policy

Monetary policy was explicitly contractionary in 2017. Faced by significant growth in money demand and despite a rising economic growth rate over the year, the Monetary Policy Committee gradually moderated the expansion of monetary aggregates. Specifically, the average annual increase in the expanded M1 monetary aggregate stood at 18.7% in the final quarter of 2017, while the target range in the first quarter of 2018 was for an increase of between 14% and 16%. The central bank lowered its domestic currency reserve requirements in September and abolished the option of purchasing monetary regulation bills in dollars in November, thus reducing growth in the monetary base to an annual rate of 7.0% in December. However, the base multiplier increased by enough to offset the lower growth rate of the monetary base. Regarding the components of expanded M1, on-demand and saving deposits grew at the expense of a contraction of cash in circulation, which was consistent with financial inclusion measures designed to make debit card use more attractive. At its first meeting of 2018, the Monetary Policy Committee confirmed its contractionary monetary policy by reducing the year-on-year target range for expanded M1 growth to between 11% and 13%, with a view to managing inflationary expectations.

(c) Exchange-rate policy

The central bank operates a floating regime with targeted interventions aimed at avoiding sharp swings in the exchange rate. In the new global context, where dollars are plentiful, the dollar exchange rate remained constant in 2017, at around 28.5 pesos.

The real effective exchange rate appreciated in the first months of 2017, but then remained stable throughout the second half of the year. The Uruguayan peso depreciated against the currencies of neighbouring countries, especially the Argentine peso, and the appreciation it had experienced against the rest of the world throughout 2016 and up to the first half of 2017 momentarily came to an end. It appreciated once again in the first months of 2018 against both the region's currencies and the rest of the world's, although this trend reversed in May, when the Uruguayan peso depreciated slightly against currencies outside the region. However, it strengthened significantly in relation to Argentina's and Brazil's, which depreciated more relative to the rest of the world. The dollar had appreciated by 8% against the Uruguayan peso in the four weeks prior to this report going to press. In the 12-month rolling period to March, the central bank built up reserves worth 6.4 points of GDP.

(d) Other policies

One of the challenges that Uruguay has sought to address in recent years is the impact of the relative ageing of its population, which has placed a growing strain on social security financing. Certain demographic aspects, coupled with the increasing formalization of the labour market, the maturing of reforms implemented years ago and efforts to reduce the fiscal deficit have placed the issue of social security financing at the front and centre of policy discussions. Specifically, the Government implemented measures to solve the problem of workers affected by the 1996 pension reform transition, involving estimated outlays totalling some US$ 2.4 billion. Furthermore, proposals have been made to reform the retirements and pensions service of the armed forces, which is heavily in deficit, to bring it into line with the rest of the system.

3. The main variables

(a) The external sector

In 2017, the trade balance posted a current account and capital surplus of 1.6% of GDP, twice its size in 2016. This larger surplus was due to an improvement in the goods and services account that more than offset a rising primary income deficit. Where goods are concerned, exports of the country’s three main products (soybean, meat and pulp) grew particularly strongly, as did income from goods under merchanting. The increase in imports was much more moderate as a result of a sharp decline in capital goods purchases in both the public and private sectors, while imports of intermediate goods and of consumer goods were in line with the rise in exports, although there was particularly strong growth in vehicle purchases. The surplus increased by more in the services sector than in the goods sector, with tourism revenues in particular growing by 23.0%. In the first quarter of 2018, the travel services item boosted the surplus.

Growth in Uruguayan goods exports was mainly attributable to an increase in the export volumes of certain products, especially soybean (which accounted for most of this growth by itself) and timber (whose prices fell slightly). Export volumes and prices rose moderately for meat, pulp and rice. China’s importance as a destination for Uruguayan goods exports continued to increase, with the country currently taking 28.0% of shipments. Goods exports to Brazil, Uruguay’s second-largest market, followed much the same path as in previous years, falling to 13.0% of the total.

Meanwhile, figures for direct investment were low, consistently with those for gross fixed capital formation in the national accounts. In net terms, direct investment posted a negative balance of US$ 233 million in 2017 (equivalent to a deficit of 0.4% of GDP). This represented a smaller mismatch than in 2016, but investment was still well down on the high values recorded up to 2014. Weak direct investment figures can be explained mainly by the decline in foreign investment flows into the country and by divestment, as measured by profit remittances in excess of the benchmark level. In fact, earnings remitted overseas by companies rose from 4.6% of GDP in 2016 to 5.5% of GDP in 2017.

(b) Economic activity

Net exports have been the main engine of output growth in the last three years. Whereas the positive balance in the previous biennium resulted from lower imports, in 2017 the reason was the rise in exports. Private consumption regained momentum in 2017 in a context of low inflation, improving real wages, expanding credit and the appreciation of the Uruguayan peso. In turn, gross capital formation contracted for the fourth consecutive year, falling to 15% of output, which is the long-term level of investment in the country during periods of low growth.

As has been the case for several years, the transport, storage and communications sector was one of the largest contributors to output growth, mainly thanks to a constant rise in the physical volume of telecommunications services. The commerce, repairs, restaurants and hotels sector also had a positive performance, boosted by the upturn in consumption and tourist demand. After three straight quarters of positive results, the primary sector contracted sharply in the last quarter of the year, owing among other things to adverse weather conditions, which resulted in a net annual decline. This sector is expected to post negative results in 2018. The construction sector continued shrinking, making this the third consecutive year of year-on-year declines. Furthermore, while manufacturing industry in general had a moderately positive year, the eight-month closure for maintenance of the oil refinery owned by the National Fuel, Alcohol and Portland Cement Administration (ANCAP) meant that the sector's contribution to growth was ultimately negative (-0.5 percentage points of GDP). Now that production has normalized, there will be positive spillover effects from this sector in 2018.

Despite the low basis of comparison mentioned above, expectations are that growth will lose momentum in 2018 owing to a less favourable financial context, the retrenchment of private consumption and the appreciation of the domestic currency against the Argentine peso.

(c) Prices, wages and employment

During the first months of the year, the consumer price index (CPI) fell back to within the Government's target range of between 3% and 7%. The decline was driven by the prices of some volatile tradables, fruit and vegetables in particular, and the weakness of the dollar. Since then, the CPI has remained within the target range at almost all times, ending the year at 6.6%. Although the performance of volatile components has not been favourable in 2018, changes in the prices of non-tradable components have been consistent with the target range, which could be indicating that agents have adjusted their expectations. The appreciation of the dollar in May could generate inflationary pressures in the short term.

Real wages consolidated an upward trend after stagnating in 2015, rising by 1.3% in 2017, with similar increases in the private and public sectors (1.4% and 1.2%, respectively). Nevertheless, these figures are significantly lower than the wage growth rates recorded during the past decade and than the 3% rise in 2016.

The national unemployment rate was one tenth of a percentage point higher on average in 2017 than in 2016, at 7.9%. However, an upward trend can be seen, with a year-on-year rise of three tenths of a percentage point in the first three months of 2018. The female unemployment rate is between 2 and 3 percentage points higher than the male rate. The activity rate, which has followed a downward path, stood at 62.9% on average for the year, its lowest level since 2010, and continued to decline in the first quarter of 2018, which it ended at 62.6%, almost 1 percentage point down on the year before. The employment rate declined by more, falling to 57.9% in 2017 and to 57.1% in the first quarter of 2018, or almost 1.5 points lower than in the same period the year before.

Table 1

URUGUAY: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	4.2	7.8	5.2	3.5	4.6	3.2	0.4	1.7	2.7
Per capita gross domestic product	3.9	7.5	4.8	3.2	4.3	2.9	0.0	1.3	2.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.3	-1.5	13.2	-0.8	2.0	0.3	-1.2	2.5	-0.7
Mining and quarrying	31.1	35.5	-21.1	-2.3	2.5	-10.8	-15.5	18.2	-21.0
Manufacturing	5.2	2.6	2.0	-3.9	1.2	4.2	4.9	0.7	-3.5
Electricity, gas and water	11.6	89.3	-24.2	-21.9	54.7	15.7	-6.7	9.6	1.2
Construction	2.7	2.4	2.4	16.3	0.9	0.7	-6.1	-2.6	-6.0
Wholesale and retail commerce, restaurants and hotels	0.9	11.6	7.0	5.6	8.0	-0.6	-4.0	-2.8	7.5
Transport, storage and communications	14.9	15.0	10.7	10.0	6.9	7.4	4.8	8.1	8.5
Financial institutions, insurance, real estate and business services	1.7	4.3	6.5	5.3	4.0	3.7	2.7	0.8	-1.2
Community, social and personal services	3.9	1.4	2.4	1.5	2.7	2.9	0.1	-0.3	-0.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.7	8.6	6.7	5.1	5.5	2.9	-0.2	0.4	3.6
Government consumption	5.2	3.1	3.7	6.0	4.9	2.5	2.2	2.9	-1.3
Private consumption	2.3	9.4	7.2	4.9	5.5	3.0	-0.5	0.1	4.4
Gross capital formation	-11.2	15.2	9.9	14.5	4.8	0.0	-9.0	-3.9	-13.8
Exports (goods and services)	4.5	7.2	5.8	3.6	-0.1	3.5	-0.6	-0.2	7.6
Imports (goods and services)	-8.7	13.6	12.4	13.6	2.8	0.8	-7.3	-6.2	-0.4
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	19.6	19.4	20.9	22.9	22.5	21.2	19.7	17.8	15.7
National saving	18.4	17.6	18.1	18.8	19.0	18.1	18.9	18.6	17.3
External saving	1.2	1.8	2.7	4.1	3.4	3.1	0.8	-0.8	-1.6
Balance of payments	**Millions of dollars**								
Current account balance	-382	-731	-1 315	-2 069	-2 079	-1 809	-512	410	879
Goods balance	-504	-527	-1 431	298	1 078	1 980	1 268	2 041	2 896
Exports, f.o.b.	6 392	8 031	9 274	13 078	13 277	13 763	11 106	10 504	11 561
Imports, f.o.b.	6 896	8 558	10 704	12 780	12 200	11 783	9 838	8 463	8 665
Services trade balance	1 025	1 157	1 592	1 199	-267	-367	412	798	1 163
Income balance	-1 041	-1 501	-1 631	-3 691	-3 070	-3 604	-2 367	-2 611	-3 450
Net current transfers	138	140	156	125	180	181	176	183	270
Capital and financial balance d/	1 970	370	3 879	5 356	5 060	3 181	-1 165	-2 599	1 570
Net foreign direct investment	1 512	2 349	2 511	2 175	2 789	2 512	827	-833	-1 128
Other capital movements	458	-1 979	1 368	3 181	2 271	669	-1 992	-1 766	2 698
Overall balance	1 588	-361	2 564	3 287	2 981	1 372	-1 677	-2 189	2 449
Variation in reserve assets e/	-1 588	361	-2 564	-3 287	-2 981	-1 372	1 677	2 189	-2 449
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	91.3	79.9	77.9	76.3	70.7	74.3	74.1	74.8	73.0
Terms of trade for goods (index: 2010=100)	100.5	100.0	102.4	106.3	108.1	112.3	114.5	117.6	108.1
Net resource transfer (millions of dollars)	929	-1 131	2 248	1 665	1 991	-422	-3 532	-5 210	-1 880
Total gross external debt (millions of dollars)	17 969	18 425	18 345	36 104	37 767	40 898	43 311	39 846	38 690
Employment	**Average annual rates**								
Labour force participation rate g/	63.4	62.9	64.8	64.0	63.6	64.7	63.8	63.4	62.9
Open unemployment rate h/	8.2	7.5	6.6	6.7	6.7	6.9	7.8	8.2	8.3
Visible underemployment rate g/	8.7	8.6	7.2	7.1	6.8	6.6	7.1	8.3	8.3

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	5.9	6.9	8.6	7.5	8.5	8.3	9.4	8.1	6.6
Variation in producer prices (December-December)	10.5	8.4	11.1	5.9	6.3	10.6	6.6	-1.9	5.4
Variation in nominal exchange rate (annual average)	7.8	-11.2	-3.8	5.1	0.9	13.6	17.5	10.3	-4.7
Variation in average real wage	7.4	3.3	4.0	4.2	3.0	3.4	1.6	1.6	2.9
Nominal deposit rate i/	4.0	3.7	4.4	4.2	4.3	4.4	5.3	5.1	4.6
Nominal lending rate j/	16.6	12.0	11.0	12.0	13.3	17.2	17.0	17.6	15.4
Central government	**Percentajes of GDP**								
Total revenue	26.3	26.9	27.0	26.9	28.0	27.6	27.2	27.8	29.0
Tax revenue	23.9	24.2	24.7	25.0	25.5	25.3	25.2	25.5	26.6
Total expenditure	27.8	28.0	27.6	28.9	29.5	29.9	30.0	31.5	32.0
Current expenditure	26.3	26.3	26.1	27.5	28.1	28.5	28.8	30.1	30.6
Interest	2.7	2.4	2.4	2.3	2.4	2.3	2.3	2.7	2.7
Capital expenditure	1.6	1.7	1.5	1.4	1.4	1.4	1.2	1.4	1.3
Primary balance	1.2	1.3	1.9	0.3	0.9	0.0	-0.5	-1.0	-0.3
Overall balance	-1.5	-1.1	-0.6	-2.0	-1.5	-2.3	-2.8	-3.7	-3.0
Non-financial public sector debt	53.3	39.9	38.4	40.2	36.9	39.2	47.2	46.1	47.8
Domestic	18.6	13.6	14.9	15.1	12.8	11.9	15.5	18.7	21.1
External	34.7	26.3	23.6	23.9	26.0	27.5	31.6	27.4	26.7
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	15.1	18.4	18.3	17.5	18.6	19.3	21.5	23.6	21.0
To the public sector	7.2	9.1	6.9	7.4	9.2	8.2	4.6	6.2	8.4
To the private sector	20.4	22.0	22.9	23.3	25.7	26.9	30.0	28.1	26.3
Others	-12.5	-12.7	-11.5	-13.2	-16.2	-15.8	-13.1	-10.7	-13.7
Monetary base	5.4	5.4	5.7	6.0	6.4	6.3	6.3	6.4	6.2
Money (M1)	8.7	9.8	10.2	9.9	9.9	8.9	8.5	8.3	8.6
M2	13.7	15.8	16.8	16.5	16.6	15.7	15.7	16.4	17.4
Foreign-currency deposits	25.4	26.5	26.7	25.8	28.3	31.7	37.9	34.6	31.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official 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/ Urban total.
i/ Local-currency fixed-term deposits, 30-61 days
j/ Business credit, 30-367 days.

Table 2

URUGUAY: MAIN QUARTERLY INDICATORS

	2016				2017				2018	
	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/	0.0	1.2	2.0	3.5	4.1	2.8	1.9	2.0	2.2	…
Gross international reserves (millions of dollars)	14 435	13 995	14 685	13 737	12 919	13 253	14 735	15 741	16 201	17 921
Real effective exchange rate (index: 2005=100) c/	76.8	78.0	73.2	71.0	70.6	71.3	73.8	76.1	68.4	66.9
Open unemployment rate d/	8.2	8.2	8.4	7.8	8.9	8.4	8.1	7.8	9.2	…
Employment rate e/	58.9	58.2	58.0	58.7	57.8	57.8	57.7	58.1	57.1	…
Consumer prices (12-month percentage variation)	10.6	10.9	8.9	8.1	6.7	5.3	5.8	6.6	6.7	8.1
Wholesale prices (12-month percentage variation)	10.3	6.9	-1.0	-1.9	-1.9	0.1	3.3	5.4	4.9	12.6
Average nominal exchange rate (pesos per dollar)	31.5	31.2	29.2	28.4	28.5	28.3	28.7	29.1	28.5	30.1
Nominal interest rates (average annualized percentages)										
Deposit rate f/	4.9	5.5	5.0	5.1	4.8	4.8	4.5	4.4	5.0	4.7 g/
Lending rate h/	18.0	18.5	17.1	16.8	17.1	15.7	15.7	14.2	14.3	13.9 g/
Sovereign bond spread, Embi Global (basis points to end of period) i/	279	270	232	244	209	193	165	146	168	200
International bond issues (millions of dollars)	-	-	1 147	-	-	1 250	1 100	-	-	1 750
Domestic credit (variation from same quarter of preceding year)	41.4	50.4	24.0	21.3	12.9	3.0	2.7	-1.7	-11.2	-22.1
Non-performing loans as a percentage of total credit	2.4	2.8	3.0	3.3	3.6	3.8	3.7	3.7	3.7	3.7

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/ Quarterly average, weighted by the value of goods exports and imports.
d/ Urban total.
e/ Nationwide total.
f/ Local-currency fixed-term deposits, 30-61 days
g/ Figures as of May.
h/ Business credit, 30-367 days.
i/ Measured by J.P.Morgan.

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