

URUGUAY

1. General trends

In 2013, Uruguay's level of economic activity increased by 4.4% compared with 2012, according to the country's physical volume index. Growth in 2012 was 3.7%. This increase was driven mainly by domestic demand on the strength of expanding final consumption expenditure and gross fixed capital formation.

At year-end 2013, the consumer price index (CPI) showed variation of 8.5%, indicating that Uruguay continued to overshoot the target band of 4% to 6% set by the economic authorities. Inflation had stood at 7.5% during 2012.

The consolidated public sector deficit was equivalent to 2.3% of GDP in 2013, while non-financial public-sector revenue came to 30.7% of GDP at year-end; a 2.2 percentage-point increase in GDP compared with 2012.

Figures at the end of 2013 revealed that the balance-of-payments current account deficit was equivalent to 5.6% of GDP, somewhat higher than in 2012. The trade deficit persisted, albeit narrowing somewhat on the previous year. Exports increased substantially, especially those of agricultural products, while non-oil imports gained 11% and oil imports diminished. The services balance, which had been in surplus in 2012, showed a deficit in 2013 caused by a fall in spending by foreign tourists in Uruguay, a rise in spending by Uruguayan tourists abroad, payments made to foreign enterprises that are exploring for possible offshore oil deposits.

In 2014, the main economic policy concerns were still those of inflation and competitiveness in relation to Uruguay's main trade partners. The latest estimates forecast slower economic growth for the current year: GDP is expected to increase by 3.0% during 2014. While inflationary pressures have eased since 2013, they have not disappeared, with projections suggesting that inflation will fall within the range of 8% to 9% in 2014.

The latest figures continue to show deterioration in the fiscal accounts: in March 2014 the fiscal deficit stood at 3.2% of GDP; however, official projections indicate that it will narrow to 2.4% by the end of the year, and will be 2% in 2015.

2. Economic policy

(a) Fiscal policy

Fiscal policy has been expansionary in recent years: the fiscal deficit has shown a tendency to widen since March 2010, and in March 2014 it reached its highest level since October 2003, equivalent to 3.2% of GDP (for the 12-month period). Even correcting for the distortion of this figure by advance pensions payments, the effect of which would be reversed in the information reported from April, the

deficit would still be 2.9% of GDP, a figure that represents a deterioration on year-end 2012 (2.3% of GDP). This deficit is relatively high, though it is manageable since the country has access to financing and international reserves at its disposal.

The aforementioned deterioration in the public accounts is the result of expenditure (by central government and State-owned enterprises) that has outpaced income during 2012 and 2013. Most of the increase in expenditure in the last three years was due to outlays by the Social Security Bank (Banco de Previsión Social), which despite reporting higher revenues was unable to meet its obligations and therefore required increasing assistance from the national treasury.

The public debt stood at 59% of GDP in 2013 and remained relatively stable in relation to the 2012 figure. Pesos and Indexed Units accounted for 60% of this debt, as a result of efforts in recent years to reduce the dollarization of the debt and the consequent potential risks associated with devaluation. The level of borrowing, its currency composition and its maturity profile reflect a favourable situation for the Uruguayan economy.

In the quarter from January to March 2014, total public-sector revenue fell by 0.3% of GDP in relation to December 2013, while expenditure (not including additional outlays on pensions) was up by 0.2% of GDP. Tax revenue having increased, the drop in income during this quarter was accounted for by the poor results of State-owned enterprises, fundamentally caused by the decision not to pass on the rising cost of power generation and thus avoid a steeper increase in the CPI. Increased investment also had an impact on the deteriorating results of State-owned companies.

The slowing economy and inflexible social security expenditure (on pensions and health) mean that the revenue collected by the Tax Administration Department (DGI) is likely close to its maximum potential level, which could cause some difficulty for the next administration, which is due to take office in 2015.

(b) Monetary policy

In mid-2013, the Central Bank of Uruguay changed its monetary policy benchmark instrument, adopting monetary aggregates instead of the interest rate (which it had used since 2007). This policy, described as having “a clear contractionary bias”, is based on three key measures announced mid-year:

- (i) The reserve requirement regime, which previously applied only to securities issued by the central bank, was extended to cover treasury notes (issued by the Ministry of Economic Affairs and Finance) purchased by non-residents. The reserve requirement rate will increase from 40% to 50%.
- (ii) The monetary policy benchmark instrument was changed, as the interbank overnight (call) rate (the monetary policy rate) was abandoned in favour of monetary aggregates, principally the extended M1 aggregate, whose indicative growth targets are set by the central bank.¹
- (iii) The target band for inflation was widened from 1% to 2%, retaining the specific target of 5%. As a result, the new target range will be from 3% to 7% from July 2014, thereby returning to the arrangement as it was before mid-2011. The monetary policy assessment horizon was extended from 18 to 24 months.

¹ Extended M1 includes currency in circulation and demand and savings deposits.

The shift in monetary policy stance reflected a change in the assessment of the economic situation: the economy is slowing and there is concern over the intensity of capital inflows and their effects on the real exchange rate, amid persistent inflationary pressures. The return to monetary aggregates is intended to make speculative activity riskier by creating the conditions for more volatile interest and exchange rates. The ultimate goal seems to be to prevent further deterioration in the real exchange rate and the quasi-fiscal deficit resulting from monetary sterilization operations. The intention is to recover—even partially—the loss of competitiveness in relation to Uruguay's main trade partners.

The monetary policy rate was at 9.25% before the announcement of the above changes, and it rose significantly after May. Under the current system, the rate is endogenous and highly volatile. It is therefore necessary to examine the entire yield curve, which in the past year (to May 2014) showed a large parallel shift of some 500 or 600 basis points. Deposit and lending rates also climbed in the past year, although their variation was less than that of the yield curve. In both cases, the central bank emphasized that the market reacted as expected, which indicates that this instrument is having an active effect.

In terms of the trend cycle, the preliminary estimate of the M1 monetary aggregate showed that growth for the fourth quarter of 2013 was markedly down on the previous quarters, also as a result of the contractionary monetary policy. The central bank decided to maintain the contractionary bias of monetary policy during the first quarter of 2014, citing concern over inflation and pledging to achieve price stability. A benchmark of between 13% and 15% for extended M1 growth has been set for the first quarter of 2014, which would be in line with the recent contraction, the slow convergence of inflation with the target, and the benchmark for extended M1 growth to 2015 (8%).

Lending in the Uruguayan economy has lost some momentum as a result of both the contractionary monetary policy and the slowdown in the economy; however it is still recording growth. Reserve assets improved in the third quarter of 2013, in keeping with the trend followed since 2012. One corollary of capital inflows is that Uruguay, like several other emerging economies, is continuing to add reserves. However, unlike the situation in many of these countries, capital outflows have not occurred since the beginning of the gradual withdrawal of monetary stimulus.

(c) Exchange-rate policy

In mid-2012, the dollar was valued at 21.7 Uruguayan pesos. The massive influx of capital in late 2012 and the first quarter of 2013, pushed the value of the dollar down to 19 Uruguayan pesos in April 2013. Concern over the appreciation of the peso led to some of the aforementioned monetary policy measures that were adopted in mid-2013, particularly the controls on capital inflows. The nominal rate of exchange returned to 21.3 Uruguayan pesos in December 2013, and rose further to 22.8 pesos in April 2014. In the past two months, the peso has continued to depreciate, unlike the trends reported in other emerging economies, which have experienced currency appreciation.

The real exchange rate fell in 2013, both generally and bilaterally in relation to Uruguay's main trade partners (Argentina and Brazil), which made it harder for the country to trade in international markets. This fall in the real exchange rate is basically due to a phase shift at international level: a general strengthening of the dollar against world currencies and to the need for Brazil to devalue the real. The weakening of Uruguay's currency enabled a partial correction in the imbalance of relative prices with other countries, and helped restore competitiveness. In recent months, economic policy has sought to strike a balance between controlling inflation and alleviating the deterioration in prices relative to the country's main trade partners.

3. The main variables

(a) The external sector

At year-end 2013, the balance-of-payments current account deficit stood at 5.6% of GDP, somewhat higher than in 2012. However, this current account deficit was counterbalanced by capital inflows from abroad, which also boosted the accumulation of central bank reserves.

Total goods exports, including those recorded from free trade zones, amounted to US\$ 10.317 billion in 2013, up by more than 4.8% on the previous year. The main export product was soybeans (which accounted for 19% in value terms), followed by beef, cereals and dairy products. The boom in soybean exports in 2013 was largely due to the increase in trading volume. The main export destination, including for exports from free trade zones, is China, which is a major importer of soybeans and frozen beef. Latin America and the Caribbean is still the region that accounts for most of Uruguay's exports.

Imports totalled US\$ 9.533 billion in 2013, not including oil and petroleum products. Electric power converters and auto parts posted brisk growth and made a significant contribution to total imports. Imports from China also continued to perform strongly as the latter consolidated its position as the main source of imports (accounting for 20% of all Uruguayan imports, excluding oil).

From April 2013 to April 2014, exports grew by 6% in current values, while imports rose by 3.9%.

Foreign direct investment (FDI) inflows have increased steadily since 2009. Capital inflows amounted to US\$ 2.796 billion in 2013 (equivalent to 5% of GDP); a 4% improvement on the previous year. Consequently, the country became the region's second-largest recipient of FDI in percentage terms (after Chile) having completed a decade of uninterrupted growth in foreign investment.

Increased FDI in 2012 and 2013 reflected the construction of a wood and pulp plant, financed by Chilean and Swedish-Finnish companies, with a total estimated investment of US\$ 2.0 billion. Likewise, in May 2013, a contract was awarded to the Franco-Belgian firm GDF Suez to build and operate a regasification terminal located in Montevideo. It is estimated that this investment will amount to approximately US\$ 1.125 billion (the project is currently in the process of obtaining environmental approval).

Foreign direct investment in Uruguay originates from various sources, with Argentina accounting for a significant proportion. Inflows from Argentina may be affected by that country's regulations on foreign exchange remittances.

The rapid expansion of the FDI stock in recent years, thanks to ever-larger inflows, has significantly raised the income earned by foreign enterprises. Much of this income remained in the country in the form of reinvested earnings (which amounted to 63% of profits in 2013).

(b) Economic activity

In 2013, Uruguay's level of economic activity increased by 4.4% compared with 2012, according to the country's physical volume index. With the exception of manufacturing, growth of varying rates was reported across all economic activities. The transport, storage and communications sector was a major contributor to GDP, thanks to the continued expansion of telecommunications and electricity, gas and water, as a result of increased hydroelectric power generation.

Economic growth in 2013 was strongly driven by domestic demand: gross capital formation rose by 4.2% and total final consumption by 4.2% (comprising gains of 5.3% in private consumption and a 5.2% in public consumption).

For 2014, it is forecast that international and, particularly, regional realities could have a negative effect on the country's economic prospects. This less favourable international context consists in slowing Asian economies, weakening capital flows, more expensive access to financing and slower growth in commodity prices. Low growth projections for Argentina and Brazil are another worrying sign for the Uruguayan economy.

(c) Prices, wages and employment

The labour market continued to slow in 2013 compared with 2012, but employment indicators remained high (see table 1). The rate of economic activity for the country fell slightly during this period, from 64.0% to 63.6%. The employment rate also dipped, from 59.9% to 59.5%, while unemployment remained stable. The average wage index rose by 3% in real terms during 2013.

Statistical data confirmed the strength of the labour market at the end of the first quarter of 2014. The rate of economic activity improved on the year-earlier period, rising from 63.4% to 65%. The employment rate stood at 60.6% in the same period, while unemployment remained at 7.0% of the economically active population. Real wages continued to rise, albeit at a slower pace: year-on-year growth in the first quarter of 2014 was 2%.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Annual growth rates b/									
Gross domestic product	6.6	4.1	6.5	7.2	2.4	8.4	7.3	3.7	4.4
Per capita gross domestic product	6.6	3.9	6.3	6.8	2.0	8.1	7.0	3.3	4.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.6	5.3	-10.2	2.1	7.1	-8.1	28.0	-0.2	4.5
Mining and quarrying	4.4	19.0	6.3	1.7	18.1	4.4	-4.5	14.1	26.0
Manufacturing	10.1	4.8	8.3	8.1	-1.3	3.5	3.0	0.7	-0.4
Electricity, gas and water	5.8	-25.7	50.2	-51.1	11.1	90.0	-24.1	-22.8	55.2
Construction	4.2	7.0	9.3	2.6	-1.2	4.3	5.6	12.2	1.4
Wholesale and retail commerce, restaurants and hotels	10.1	4.6	8.7	11.9	-1.6	16.0	9.2	3.8	2.8
Transport, storage and communications	11.1	11.1	16.1	30.7	9.8	17.9	13.5	9.4	7.7
Financial institutions, insurance, real estate and business services	-3.5	1.3	2.4	1.3	1.2	2.1	3.0	1.1	1.9
Community, social and personal services	1.4	0.4	3.8	8.0	4.3	4.6	7.8	6.4	5.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.0	5.9	6.8	9.1	-0.6	11.5	9.0	5.4	5.2
Government consumption	0.0	2.1	4.7	9.3	5.2	3.1	3.8	4.6	4.2
Private consumption	4.5	6.5	7.1	9.1	-1.5	12.8	9.8	5.5	5.3
Gross capital formation	7.6	12.1	7.4	25.0	-7.7	8.7	12.5	16.6	4.2
Exports (goods and services)	16.3	5.6	4.8	8.5	3.9	7.0	6.0	2.1	0.1
Imports (goods and services)	10.8	15.7	5.9	24.4	-9.2	14.9	13.2	14.0	2.8
Percentajes of GDP									
Investment and saving c/									
Gross capital formation	17.7	19.5	19.5	23.2	20.1	18.9	21.1	23.6	23.6
National saving	17.9	17.5	18.6	17.5	18.9	17.0	18.2	18.2	18.1
External saving	-0.2	2.0	0.9	5.7	1.3	1.9	2.9	5.4	5.5
Millions of dollars									
Balance of payments									
Current account balance	42	-392	-220	-1,729	-382	-731	-1,374	-2,709	-3,120
Goods balance	21	-499	-545	-1,714	-504	-527	-1,431	-2,361	-1,274
Exports, f.o.b.	3,774	4,400	5,100	7,095	6,392	8,031	9,274	9,916	10,317
Imports, f.o.b.	3,753	4,898	5,645	8,810	6,896	8,558	10,704	12,277	11,591
Services trade balance	372	409	703	753	1,025	1,157	1,519	1,074	-87
Income balance	-494	-428	-516	-917	-1,041	-1,501	-1,618	-1,537	-1,890
Net current transfers	144	126	137	148	138	140	156	115	131
Capital and financial balance d/	753	2,791	1,231	3,962	1,970	370	3,938	5,996	6,065
Net foreign direct investment	811	1,495	1,240	2,117	1,512	2,349	2,511	2,693	2,812
Other capital movements	-58	1,296	-9	1,845	458	-1,979	1,427	3,304	3,253
Overall balance	796	2,399	1,010	2,233	1,588	-361	2,564	3,287	2,945
Variation in reserve assets e/	-620	15	-1,005	-2,232	-1,588	361	-2,564	-3,287	-2,945
Other financing	-175	-2,414	-5	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.0	99.1	99.7	93.8	92.5	81.1	79.8	78.4	73.7
Terms of trade for goods (index: 2005=100)	100.0	97.6	97.8	103.7	106.8	110.2	112.2	116.4	118.5
Net resource transfer (millions of dollars)	84	-52	710	3,045	929	-1,131	2,320	4,459	4,175
Total gross external debt (millions of dollars)	13,717	12,977	14,864	15,425	17,969	18,425	18,345	21,122	22,882
Average annual rates									
Employment									
Labour force participation rate g/	58.5	60.8	62.5	62.7	63.4	62.9	64.8	64.0	63.6
Open unemployment rate h/	12.2	11.3	9.8	8.3	8.2	7.5	6.6	6.7	6.7
Visible underemployment rate h/	17.1	13.6	12.9	10.8	9.1	8.6	7.2	7.1	6.8

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.9	6.4	8.5	9.2	5.9	6.9	8.6	7.5	8.5
Variation in producer prices (December-December)	-2.2	8.2	16.1	6.4	10.5	8.4	11.1	5.9	6.3
Variation in nominal exchange rate (annual average)	-14.7	-1.8	-2.4	-10.8	7.8	-11.2	-3.7	5.1	0.9
Variation in average real wage	4.6	4.3	4.7	3.6	7.3	3.3	4.0	4.2	3.0
Nominal deposit rate i/	2.3	1.7	2.3	3.2	4.0	3.7	4.4	4.2	4.3
Nominal lending rate j/	15.3	10.7	10.0	13.1	16.6	12.0	11.0	12.0	13.3
Central government	Percentajes of GDP								
Total revenue	20.9	21.6	21.0	20.6	21.1	21.5	20.9	20.4	21.3
Tax revenue	17.9	19.0	18.4	18.2	18.6	18.7	18.6	18.4	18.8
Total expenditure	22.4	22.6	22.6	21.7	22.6	22.7	21.5	22.4	22.9
Current expenditure	21.1	21.2	21.1	19.8	21.0	20.9	20.0	20.9	21.5
Interest	4.2	4.2	3.8	2.9	2.8	2.5	2.5	2.4	2.5
Capital expenditure	1.3	1.4	1.5	1.8	1.6	1.7	1.5	1.5	1.5
Primary balance	2.7	3.2	2.1	1.8	1.3	1.3	1.9	0.4	0.9
Overall balance	-1.6	-1.0	-1.6	-1.1	-1.5	-1.2	-0.6	-2.0	-1.6
Non-financial public sector debt	66.7	61.6	52.9	51.6	46.7	40.9	40.3	40.2	39.7
Domestic	16.7	16.2	11.7	13.7	17.8	19.9	23.1	22.7	19.5
External	50.1	45.3	41.2	37.9	28.9	21.0	17.2	17.5	20.2
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	13.7	19.1	15.1	13.2	11.3	15.5	16.6	13.8	13.1
To the public sector	5.9	7.6	1.3	3.1	3.7	9.7	6.3	7.6	9.4
To the private sector	26.1	26.2	25.1	30.2	23.4	25.4	25.7	26.0	28.2
Others	-18.4	-14.6	-11.3	-20.1	-15.8	-19.5	-15.4	-19.8	-24.5
Monetary base	4.9	4.6	5.7	5.6	5.7	5.6	5.8	6.2	6.6
Money (M1)	7.0	7.6	8.6	8.7	9.0	10.2	10.4	10.2	10.2
M2	10.7	11.8	13.2	13.4	14.2	16.3	17.1	16.9	17.2
Foreign-currency deposits	47.6	46.3	37.7	44.7	37.5	37.6	34.3	33.6	36.7

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/ 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. Up to 2005, urban 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

	2012				2013				2014	
	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/	4.3	3.2	2.5	4.7	4.1	6.0	3.0	4.6	2.4	...
Gross international reserves (millions of dollars)	10,807	11,905	12,564	13,386	13,137	14,701	15,715	16,173	16,376	17,547 c/
Real effective exchange rate (index: 2005=100) d/	78.0	76.4	75.5	76.4	74.6	74.7	77.0	70.2	66.9	65.3 c/
Open unemployment rate e/	6.3	7.2	7.1	6.3	7.0	6.9	6.6	6.5	7.0	...
Employment rate f/	59.7	59.6	59.3	60.4	59.0	59.4	59.0	60.3	60.6	...
Consumer prices (12-month percentage variation)	7.8	8.0	8.0	8.5	8.7	8.1	8.9	8.6	9.6	9.2 c/
Wholesale prices (12-month percentage variation)	5.8	5.6	8.0	6.3	5.2	1.7	3.0	5.8	9.5	11.3 c/
Average nominal exchange rate (pesos per dollar)	19.52	20.35	21.41	19.69	19.11	19.60	21.64	21.40	22.18	22.92
Nominal interest rates (annualized percentages)										
Deposit rate g/	4.3	4.2	4.5	3.7	4.1	4.1	4.3	4.8	4.3	4.0 h/
Lending rate i/	11.9	12.1	11.9	11.9	12.2	12.1	12.9	16.0	17.5	18.2 c/
Interbank rate	8.8	8.8	8.8	9.0	9.3	9.2
Monetary policy rates	8.8	8.8	8.8	9.0	9.3	9.3
Sovereign bond spread, Embi Global (basis points to end of period) j/	127	173	139	127	173	235	200	194	192	170
International bond issues (millions of dollars)	-	-	-	500	-	-	2,000	-	-	...
Domestic credit (variation from same quarter of preceding year)	27.5	13.3	18.1	-4.6	10.3	9.6	-4.4	1.6	-5.4	1.0 h/
Non-performing loans as a percentage of total credit	2.8	2.6	2.5	2.4	2.3	2.2	2.0	1.8	1.7	...

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/ Figures as of May.

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

e/ Urban total.

f/ Nationwide total.

g/ Local-currency fixed-term deposits, 30-61 days

h/ Figures as of April.

i/ Business credit, 30-367 days.

j/ Measured by J.P.Morgan.