URUGUAY

Table 1	2021
Population, million	3.5
GDP, current US$ billion	59.3
GDP per capita, current US$	17021.4
International poverty rate ($2.15)[a]	0.2
Lower middle-income poverty rate ($3.65)[a]	0.9
Upper middle-income poverty rate ($6.85)[a]	7.2
Gini index[a]	40.2
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	78.1
Total GHG emissions (mtCO2e)	34.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

Uruguay's broad-based economic recovery continued into 2022, helped by the re-opening of borders to foreign tourism. Despite the Central Bank's tight monetary stance, inflation remains high, limiting progress in poverty reduction and welfare outcomes. Uncertainty related to global financial conditions, demand, prices, and new COVID variants continue to represent relevant risks to the outlook.

Key conditions and challenges

Between 2002 and 2019, Uruguay experienced its longest period of economic growth on the back of prudent macroeconomic management and favorable external conditions, which have enabled the country to reach the highest income per capita in Latin America, the largest middle class in the region, and relatively low levels of inequality.

The COVID-19 pandemic and adverse weather conditions disrupted this spell, leading to a 6.1 percent fall in GDP in 2020. The country's wide social safety net was reinforced, buffering the impact mainly on the poor and vulnerable. A rapid and comprehensive vaccination campaign, one of the world's most successful, contributed to a 4.4 percent rebound in 2021.

Uruguay has balanced COVID-related expenditures with fiscal consolidation in other areas, retaining its investment-grade status and tapping into credit markets at favorable terms. However, the country has struggled with persistently high inflation, averaging 7.8 percent since 2006. The structural agenda of the government includes modernization of the monetary policy framework, education reform to improve outcomes, pension reform to address the system's long-term sustainability, trade integration, enhanced domestic competition, and actions to reduce the country's vulnerability to climate change.

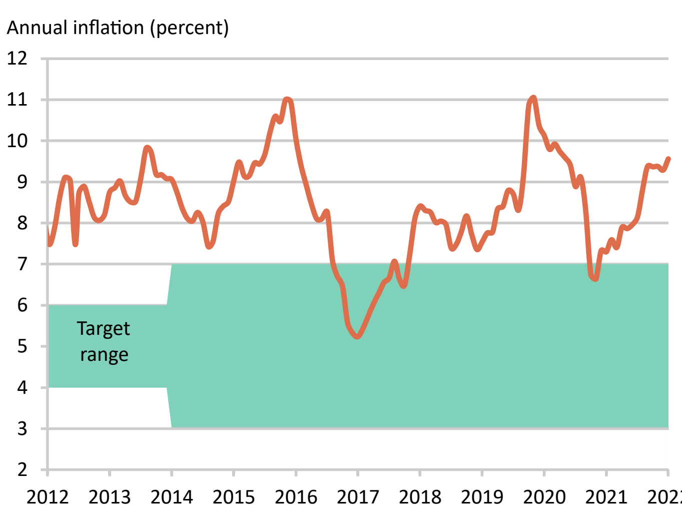
Recent developments

GDP increased 8.3 percent year-over-year (yoy) in the first quarter of 2022, supported by the opening of borders to tourism. Growth was widespread across demand components, led by exports (+23.5%) and gross fixed capital formation (+13.7%), positively influenced by private and public investments related to a US$3bn paper mill project. Private consumption increased 6.9 percent (yoy). High-frequency indicators signal a continued recovery, reflected in labor market outcomes. Labor participation and employment rates reached 61.8 and 56.7 percent in June 2022, an increase of 1.1 and 2.2 pp. respectively with respect to June 2021. The unemployment rate fell from 10.2 percent in June 2021 to 8.4 percent in June 2022.

External trade increased in the first half of 2022. Exports increased 41.1 percent in USD led by soy and beef, which benefited from higher prices triggered by the Ukraine war and from an increase in production thanks to favorable weather conditions. Imports increased 24.3 percent fueled by strong consumption and investment and higher fuel prices. Exports of services increased 70 percent in the first quarter of 2022, driven by the recovery of tourism.

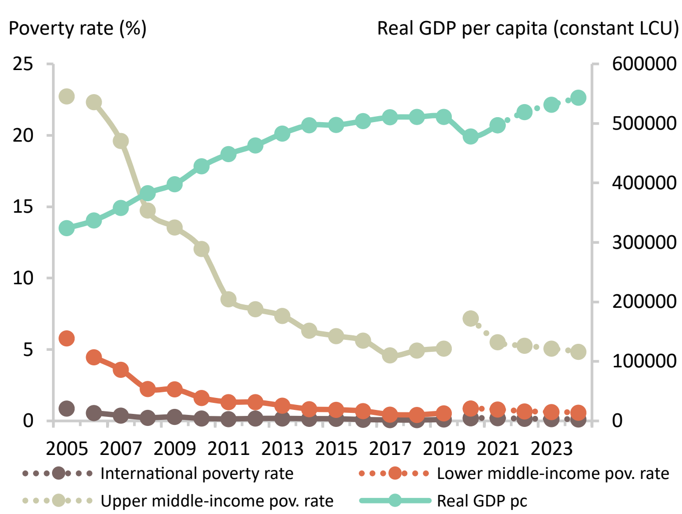
Inflation was 9.6 percent (yoy) in July, the highest reading since December 2020, led by food and non-alcoholic beverages. External factors explain most of the deviation from historical averages, with a negative contribution of domestic demand and the

FIGURE 1 Uruguay / CPI Inflation and inflation target range



Source: Central Bank of Uruguay.
Note: The target range was reduced to 3%-6% in September 2022.

FIGURE 2 Uruguay / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

monetary policy stance. The Central Bank hiked its benchmark rate to 10.25 percent in August 2022 after a 575bp cumulative increase since August 2021, contributing to a strong peso, which appreciated 10 percent relative to the USD in 2022. As announced in 2020, the monetary authority narrowed its inflation target range from 3-7 percent to 3-6 percent in September 2022.

Despite the tight targets, inflation affected real wages, which fell 1.6 percent (yoy) in June. Purchasing power losses have been higher for workers in the health sector (3.8%), hotels and restaurants (3.8%), and retail (2.7%). The government responded with reduced VAT rates for beneficiaries of cash transfer programs and by limiting the pass-through of oil price spikes to domestic fuel prices, among other measures, for an estimated cost of 0.3 percent of GDP.

Despite support measures, fiscal accounts continued to improve in 2022, sustained by a 13 percent (yoy) increase in revenues in the first half of 2022, as a result of solid growth and higher inflation. Expenditures grew 4.7 percent (yoy) driven by higher wages and pensions (7.3 and 7.1 percent yoy). The fiscal balance of the non-monetary public sector fell from 3.2 to 2.1 percent of GDP in the twelve months ending in July 2022.

Outlook

GDP is expected to increase by 4.8 percent in 2022, with a deceleration in 2023 to converge closer to its potential growth rate by 2024. Under this scenario, labor market outcomes will continue to improve, and the poverty rate could reach pre-pandemic levels by the end of 2022: around 5 percent under the international poverty line of $6.85 per day in 2017 PPP. Inflation will limit the prospects of more rapid welfare improvement.

Exports are expected to grow 14 percent this year driven by beef, cellulose, agricultural products, and tourism. They will decelerate but remain strong in 2023 as the new pulp plant starts producing and tourism normalizes further. Imports are expected to grow 10 percent this year and moderate going forward, given the lower domestic expenditure dynamism. Absent a major deterioration of the terms of trade, the current account deficit is expected to gradually narrow.

The Central Bank has hinted at commitment to its tight monetary policy stance going forward, as inflation expectations for the monetary policy horizon (24 months) remain above the new target range. Inflation is expected to subdue gradually in the context of high inflationary inertia.

The fiscal deficit is expected to reach 2.9 percent of GDP in 2022 and narrow to 2 percent by 2024. The burden of the adjustment will fall on expenditures, as the government is committed to not raising taxes. Capital expenditures will fall as the large investments related to the pulp-mill are finalized.

The outlook is subject to downside risks, including a slow-down in global growth and a faster-than-expected tightening of US monetary policy. Sustained oil prices and softer agricultural commodity prices are a risk to external accounts as well as weather shocks to production. COVID-19 surges from new variants at home or abroad continue to be a source of uncertainty, as is the disruption of economic activity in China, Uruguay's main trading partner.

TABLE 2 Uruguay / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.4	-6.1	4.4	4.8	2.7	2.5
Private Consumption	0.5	-6.9	2.3	3.5	2.2	2.1
Government Consumption	1.1	-7.3	8.0	-4.7	-1.4	0.1
Gross Fixed Capital Investment	0.8	1.6	15.2	10.8	0.1	2.6
Exports, Goods and Services	3.6	-16.0	14.4	14.0	7.5	4.2
Imports, Goods and Services	1.5	-12.0	20.9	10.0	2.8	2.5
Real GDP growth, at constant factor prices	0.4	-6.3	4.3	4.9	2.6	2.5
Agriculture	-0.3	-5.4	5.0	6.7	2.5	2.5
Industry	-3.7	-6.1	6.7	3.1	2.0	2.0
Services	1.1	-6.4	3.9	5.0	2.8	2.6
Inflation (Consumer Price Index)	7.9	9.7	7.7	8.9	6.9	6.0
Current Account Balance (% of GDP)	1.6	-0.8	-1.7	-0.9	-0.5	-0.1
Net Foreign Direct Investment Inflow (% of GDP)	2.3	1.9	2.0	1.3	1.3	1.3
Fiscal Balance (% of GDP)[a]	-3.9	-5.4	-3.2	-2.9	-2.2	-2.0
Debt (% of GDP)	60.6	68.2	65.6	64.7	64.4	64.3
Primary Balance (% of GDP)[a]	-1.6	-2.7	-1.0	-0.2	0.6	0.8
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.1	0.2	0.2	0.2	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	0.5	0.9	0.8	0.7	0.6	0.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	5.1	7.2	5.5	5.3	5.1	4.8
GHG emissions growth (mtCO2e)	-0.3	-2.1	3.0	2.4	-0.1	0.0
Energy related GHG emissions (% of total)	19.1	18.2	19.6	20.5	20.0	19.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Non-Financial Public Sector. Excluding revenues associated with the "cincuentones".
b/ Calculations based on SEDLAC harmonization, using 2020-ECH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projections using microsimulation methodology.