Euler Hermes Economic Research

Country Report

Uruguay

Tepid regional recovery is a positive

General Information

GDP	USD 52.420bn (World ranking 76, World Bank 2016)
Population	3.44 million (World Ranking 133, World Bank 2016)
Form of state	Republic
Head of government	Tabaré VÁZQUEZ
Next elections	2019, presidential and legislative

Strengths

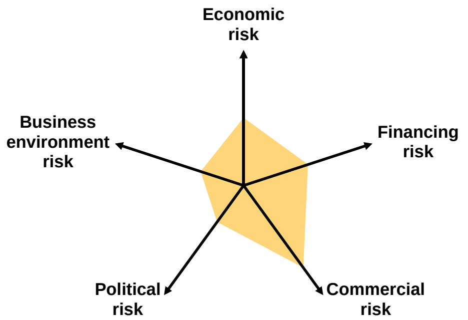
- Robust democratic political system with a good degree of social consensus
- Relatively high levels of foreign reserves
- Stable FDI inflows

Weaknesses

- Persistent high inflation and public debt-GDP ratio
- Banking system highly dollarized with large non-resident deposits
- Vulnerable to external shocks particularly through trade and financial links with neighbors Brazil and Argentina and main merchandise export partner China

Country Rating

BB2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Brazil	21%	1	19%	China
China	16%	2	18%	Brazil
United States	8%	3	13%	Argentina
Argentina	6%	4	7%	United States
Netherlands	4%	5	5%	Germany

By product (% of total)

Exports		Rank		Imports
Meat and meat preparations	23%	1	10%	Petroleum & products thereof
Oil seeds and oleaginous fruits	12%	2	8%	Road vehicles
Cork and wood	10%	3	6%	Power Generating Machines & Eq.
Cereals and cereal preparations	10%	4	5%	Electrical Machinery
Dairy products and birds' eggs	8%	5	5%	Telecommunications

Source: UNCTAD (2016)

EULER HERMES
Our knowledge serving your success

A company of Allianz

Economic Overview

Domestic growth is back on track

In 2016 real GDP growth came in at +1.5%. Growth was weighed down by deep recessions in Brazil and Argentina. Low wheat and beef prices, which together represent one third of Uruguay's exports, combined with lagging regional demand saw exports contract in 2016. We expect growth to benefit from a regional recovery in the near term together with a strengthening of domestic private consumption. Real GDP is set to grow by +3.0% in 2017, given the high Q1 performance of +4.4% y/y. The 2018 estimate stands at +2.5%.

Inflation remained high in 2016 at 9.6%. We expect it to fall to 6.5% in 2017 and then stay within the Central Bank target range of 5% +/- 2pps, supported by a negative output gap and ongoing wage negotiations. Monetary policy remains relatively tight but its transmission has been constrained by the high dollarization and the low level of peso denominated credit. In 2016 fiscal policy remained neutral with a deficit of -3.9% of GDP. It should narrow to -3.4% in 2017. In line with the government's aim to reduce the deficit to 2.5% by 2019, the Uruguayan Parliament is expected to implement tax increases and expenditure cuts.

(Still) Dependent on foreign partners

Uruguay has cut its current account deficit by a factor of four since 2014. International reserves have stabilized above recommended norms. In 2017 we expect the current account deficit to narrow to -0.7% of GDP. Chiefly, in 2016 FDI was sufficient to fully finance the current account deficit and we expect this to continue.

Following a 69% devaluation which culminated in Central Bank intervention in foreign exchange markets in early 2016, the Uruguayan Peso has recovered to September 2015 levels. Foreign reserves are back up to USD14bn as of June 2017, covering around 16 months of imports. This is still far below the USD18bn recorded two years ago, before the intervention.

Despite the solid level of reserves, stable FDI financing, lessened regional economic dependency, a slower-than-expected recovery in Argentina and Brazil could still weigh on the economy. Uruguay also remains vulnerable to developments in China, a major trade partner.

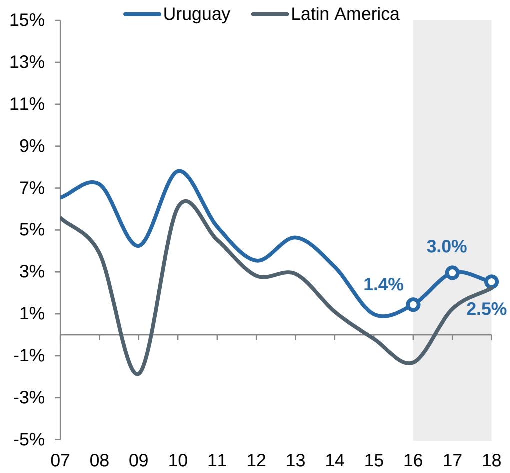
The Uruguayan economy relies on private consumption (74% of GDP) while total investment accounts for 20% of GDP. Yet Uruguay benefits from political stability and a sound business environment, which could boost investment. President Tabaré Vázquez is expected to continue his predecessor's reforms. The country ranks 90th out of 190 in the 2017 World Bank Doing Business index, above Brazil (123rd) and Argentina (116th).

Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	1.0	1.5	3.0	2.5
Inflation (%, yearly average)	8.7	9.6	6.5	7.8
Fiscal balance (% of GDP)	-3.6	-3.9	-3.4	-2.8
Public debt (% of GDP)	64.3	60.9	62.1	63.2
Current account (% of GDP)	-2.1	-1.0	-0.7	-1.3
External debt (% of GDP)	53.6	47.9	51.2	52.8

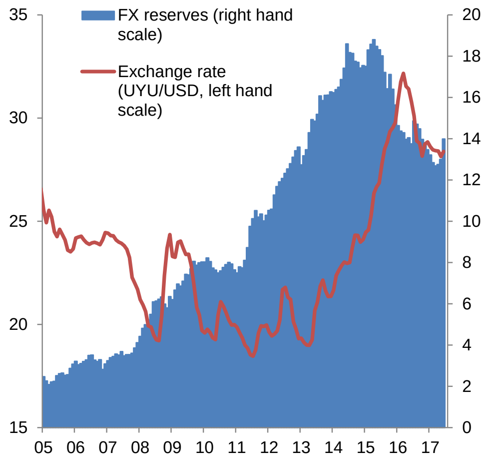
Sources: National statistics, IMF-WEO, Euler Hermes

GDP growth (%)



Sources: National statistics, Euler Hermes

FX Reserves (USDbn) and exchange rate



Sources: National statistics, Euler Hermes

DISCLAIMER
These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2017 Euler Hermes. All rights reserved.

Last review: 2017-09-21
Country Risk Analyst:
Georges Dib, Nathan Carlesimo
georges.dib@eulerhermes.com