1999 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2000

URUGUAY

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated) 1/2/

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP 3/	20.0	20.8	19.3
Real GDP Growth (pct)	5.1	4.5	-2.5
GDP Growth by Sector (pct):			
Agriculture	-1.4	5.8	8.0
Manufacturing	5.8	2.4	-5.0
Services	3.8	3.3	0.5-1
Government	2.8	N/A	N/A
Per Capita GDP (US$)	6,322	6,560	6,000
Labor Force (000s)	1,400/5	1,455	1,465
Unemployment Rate (pct)	11.5	10.1	10.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.3	18.4	9.0
Consumer Price Inflation	15.2	8.6	4.0
Exchange Rate 4/	9.45	10.47	11.4
Balance of Payments and Trade:			
Total Exports FOB 5/	2.7	2.8	2.0
Exports to U.S. (US$ millions)	162	158	142
Total Imports CIF 5/	3.7	3.8	3.2
Imports from U.S. (US$ millions)	432	460	380
Trade Balance 5/	-1.0	-1.0	-1.2
Balance with U.S. (US$ millions)	-270	-301	-238
External Public Debt	5.5	6.1	6.3
Fiscal Deficit/GDP (pct)	1.4	0.9	2.5-3.0
Current Account Deficit/GDP (pct)	1.6	1.9	2.5-3.0
Debt Service Payments/GDP (pct)	5.2	5.8	6.0
Gold and Foreign Exchange Reserves (net)	2.1	2.4	2.4
Aid from U.S. (US$ millions)	8.45	7.9	2.6

Aid from All Other Sources (US$ millions)	48.4/6	N/A	N/A

1/ Data in Uruguayan Pesos was converted into U.S. Dollars at the average interbank selling rate for each year.
2/ 1999 figures are all estimates based on available monthly data in November 1999.
3/ At producer prices.
4/ Annual average quotation of Uruguayan Pesos/US$
5/ Estimate based on World Bank's World Development Indicators

Sources: Uruguayan Central Bank, Uruguayan National Institute of Statistics, World Bank, and U.S. Embassy Montevideo

1. General Policy Framework

The historical basis of the Uruguayan economy has been agriculture, particularly livestock production. Agriculture remains important both directly (beef, wool and rice) and indirectly for inputs to other sectors (textiles, leather and meat). Industry has undergone a strong reconversion process fostered by MERCOSUR (the Southern Cone Common Market) integration. Industrial production declined in the early nineties, but since 1994 it has resumed growth. At present industry accounts for 18 percent of Uruguay's GDP. The service sector, particularly tourism and financial services, dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system.

1999 per capita income of $6,000, although down from 1998's level, still puts Uruguay in the World Bank's upper-middle income grouping. The UNDP Human Development report places it amongst the countries with high human development.

Overall, the Uruguayan economy has performed relatively well in recent years with good rates of growth, low budget and current account deficits and declining inflation rates. The government has given the private sector access to many activities formerly reserved for the state.

But 1999 has been a tough economic year for Uruguay as the effects of the Real devaluation in Brazil, the recession in Argentina, and the uncertainty of an election year in Uruguay ripple through the economy. Uruguay's gross domestic product is expected to decline by two-and-a-half or three percent for the year as a whole. Exports have fallen and the current account deficit is expected to increase to 2.5 or 3.0 percent of GDP, given the increased foreign trade deficit and a poor tourist season. Analysts expect Uruguay to resume growth in 2000 under a strengthened economic environment in Argentina and Brazil.

Uruguay's risk rating for long-term debt issued in foreign currency improved in 1997 to BBB minus (by Standard & Poor's, Duff & Phelps and Europe's IBCA and, Baa3 by Moody's), reaching investment grade status and enabling U.S. Pension funds to invest in Uruguay's sovereign debt. Uruguay accesses funds in the international financial markets at the second lowest rate of any Latin American country.

MERCOSUR faced several problems in late 1998 and 1999 that have affected the trade flows amongst its partners. Problems include the devaluation of Brazil's Real, the international financial crisis, lack of effective macroeconomic coordination, and the imposition of trade-restrictive measures by Argentina and Brazil. But MERCOSUR has had a positive impact on Uruguay and, at present, trade with other MERCOSUR members accounts for more than forty percent of Uruguay's overall trade.

The United States is the fourth largest Uruguayan trading partner, after Argentina, Brazil and the European Union. Since 1991 the U.S. has enjoyed a rapidly growing trade surplus with

Uruguay. The United States bought 5.6 percent of Uruguay's exports ($ 158 million) and provided 12.8 percent of the country's imports ($ 460 million) in 1998. Tariff rates will decline to zero percent for MERCOSUR products on January 1, 2000. A common external tariff (CET) entered into effect on January 1, 1995 for imports from non-MERCOSUR countries, ranging between zero to 20 percent. The 20 percent level was raised to 23 percent in late 1997 and is due to be reduced to 20 percent again in 2000. The MERCOSUR CET does not yet cover capital, informatic, and telecommunication goods.

2. Exchange Rate Policy

The Uruguayan government allows the peso to float against the dollar within a three-percent range. The band currently rises by 7.4 percent per year and the Central Bank may buy and sell dollars to keep the peso's value within the band. Depreciation outpaced inflation by 2 percent in 1998, and by 4 percent in the 12-month period to September 1999.

Uruguay's monetary policy is geared at keeping inflation under control, using the nominal exchange rate as the main instrument. Central Bank intervention to defend the currency entails a loss of control over the money supply, limiting the effectiveness of monetary policy that is carried out through the issuance of very short-term paper.

There are no restrictions on the purchase of foreign currency or remittance of profits abroad. Foreign exchange can be freely obtained. A vast part of the economy is dollarized.

3. Structural Policies

Uruguay has traditionally been a market-oriented economy. Economic liberalization is supported by the present administration and was supported by the previous one. Regional integration (MERCOSUR and FTAA), reduced deficit spending, downsized government and lowered inflation enjoy strong support from the two political parties which make up the ruling coalition.

A mild central administration reform has been implemented during this administration in order to eliminate redundant functions and divest non-essential activities. Many activities, formerly restricted to the state, have been transferred to the private sector under contract, concession or sale. The government ended its insurance and mortgage monopolies in 1995.

Social security reform was also implemented, lowering a structural government deficit in the long run (prior to the reform the social security deficit amounted to 6 percent of GDP.) The reform changed the social security program from a defined-benefit system to a defined-contribution system of individual accounts.

The public sector deficit was 0.9 percent of GDP in 1998, and as of 1999's first half, it was up to 2.4 percent (on a 12-month basis). The worsening of the deficit is the result of the decline in tax collection resulting from the slowdown in economic activity. The inflation rate decreased from130 percent in 1990 to 8.6 percent in 1998, and the rate for the twelve-month period ending October 1999 had further decreased to 3.7 percent, the lowest rate in five decades. Three-percent inflation is expected for 2000. Price controls are limited to a small set of products and services for public consumption, such as bread, milk, passenger transportation, utilities and fuels. The government relies heavily on consumption taxes (value-added and excise) for its general revenue. Under a law of investment promotion, the government gives tax exemptions to investing firms. There are also incentives for companies which hire young people.

4. Debt Management Policies

As of 1999's first quarter, the Uruguayan net external debt was $2.9 billion, 92 percent of which is public. Since 1996, Uruguay has been extending the maturity of its debt. While all the private sector's debt is short-term (one year or less,) public sector's debt has a longer maturity (fifty-eight percent of the latter matures after the year 2002.) Debt service in 1998 was $ 1.2 billion, equivalent to 28 percent of combined merchandise and service exports, and to 5.8 percent of GDP.

Total net foreign exchange reserves amounted to $2.4 billion as of September 1999, equivalent to 9.1 months of imports. An IMF stand-by program is in place and a joint agreement with the IMF and the World Bank was signed to ensure the availability of funds that would help Uruguay deal with the regional crisis, or with any expectations generated by the presidential and parliamentary elections that took place in 1999.

5. Aid

Uruguay receives little non-military aid from the United States. During 1998 Uruguay received almost eight million dollars for U.S. peacekeeping, training and equipment assistance. Bilateral counter narcotics assistance totaled $ 150,000 in 1998 and will total $ 100,000 in 1999.

A Peace Corps program closed in 1997. Using 6 million dollars from a debt reduction program, the United States government and the Uruguayan government jointly manage the Fund of the Americas. This Fund is designed to use monies (which would otherwise be due to the United States) for local environmental and child welfare programs. According to the Uruguayan Presidency's Office of Budget and Planning, total estimated aid received from all other sources in 1996 and 1997 amounts to 125 million dollars (the government of Uruguay keeps aid statistics on a two-year basis).

6. Significant Barriers to U.S. Exports

Certain imports require special licenses or customs documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process that can take a long time**.** Bureaucratic delays also add to the cost of imports, although importers report that a "debureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active. Restrictions on professional services such as law, medicine or accounting are similar to most countries. Persons with non-Uruguayan credentials who wish to practice their profession in Uruguay must prove equivalent credentials to those required of locals. Similarly, travel and ticketing services are unrestricted. A law allowing foreign companies to offer insurance (except work-related injury) coverage in Uruguay was passed in October 1993, although the former monopoly provider still maintains an overwhelming share of the market and regulation of the insurance sector is weak.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment areas regarded as strategic require government authorization. These include electricity, hydrocarbons, banking and finance, railroads, strategic minerals, telecommunications and the press. Uruguay has long owned and operated state monopolies in petroleum, rail freight, telephone service and port administration. However, passage of port reform legislation in April 1992 allowed for privatization of various port services. The state-owned natural gas company was privatized in late 1994. Both private consortia and the state-owned phone company (ANTEL) provide cellular telecommunications. Legislation to privatize ANTEL was overturned by referendum in 1992. Several state-owned firms and even city municipalities however, grant the concession of specific services to privately-owned companies.

Government procurement practices are well defined, transparent and closely followed. Bid awards, however, often are drawn out and caught up in controversy. Tenders are generally open to all bidders, foreign and domestic. A government decree, however, establishes that local products or services of equal quality to, and no more than ten percent more expensive than foreign goods or services, shall be given preference. Among foreign bidders, preference will also be given to those who offer to purchase Uruguayan products. Uruguay has not signed the GATT/WTO government procurement code.

The only exemptions to tariff regulations in the context of anti-dumping legislation are minimum export prices, fixed in relation to international levels and in line with commitments assumed under the WTO. These are applied to neutralize unfair trade practices that threaten to damage national production activity or delay the development of such activities, and are primarily directed at Argentina and Brazil. Minimum export prices have been scheduled to be phased out, but a number are still in effect (textiles, clothing and sugar).

7. Export Subsidies Policies

The government provides a nine-percent subsidy to wool fabric and apparel producers using funds from a tax on greasy and washed wool exports. Uruguay is a signatory of the GATT/WTO subsidies code.

8. Protection of U.S. Intellectual Property

Uruguay's intellectual property (IP) regime does not yet meet international standards. Certain provisions of the recently-passed patent law appear to be TRIPs inconsistent and Uruguay's failure to pass a new copyright law is also a problem. Uruguay's copyright law dates to 1937; the extent to which it protects computer software is subject to judicial interpretation each time a case is presented. Enforcement of copyrights is still weak and piracy of business application software is estimated at 72 percent. Uruguay is a member of the World Intellectual Property Organization (WIPO) and a party to the Bern Convention, the Universal Copyright Convention (UCC) and the Paris Convention for the Protection of Industrial Property. Registering a foreign trademark without proving a legal commercial connection with the trademark is no longer a possibility; enforcement of trademark rights is excellent. (A trademark law was approved in 1998.) USTR placed Uruguay on its "Special 301 Watch List" in 1999 because of its failure to meet its international obligations for copyright and patent protection.

9. Worker Rights

a. The Right of Association: The constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government or political party control.

b. The Right to Organize and Bargain Collectively: Collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited by law and in practice.

d. Minimum age for employment of children: Children as young as 12 may be employed if they have a work permit. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment.

e. Acceptable Conditions of Work: There is a legislated minimum wage ($93/month as of September 1998). The standard workweek is 48 hours for six days, with overtime compensation. Workers are protected by health and safety standards, which appear to be adhered to in practice.

f. Rights in Sectors with U.S. Investment: Workers in sectors in which there is U.S. Investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		160
Food & Kindred Products	40	
Chemicals & Allied Products	43	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		51
Banking		203
Finance/Insurance/Real Estate		111
Services		12
Other Industries		(1)
TOTAL ALL INDUSTRIES		567

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.