

Uruguay: Economy

The Uruguayan economy grew for a short time in 1986-87 but has returned to low growth since then. It grew an estimated 0.9% in 1990. The annual inflation rate increased to approximately 89% in 1989 and 128% in 1990. A turnaround may be in the offing as the government is predicting a 50% rate for 1991.

Reducing inflation remains a priority for the government. Recent figures indicate a credible performance given the fact that in 1990 both major trading partners, Brazil and Argentina, experienced high inflation (almost 1,800% and 1,400% respectively). The March 1991 currency stabilization efforts in Argentina should prove beneficial for Uruguay, as should a record tourist season in 1990.

With the standard of living in Uruguay continuing to deteriorate, some of the population is impoverished. In 1990, food price increases exceeded 130% while public and private real wages dropped by over 15% and 2.4% respectively. This led to a sharp reduction in purchases which further weakened the economy.

Events in the Middle East proved particularly disadvantageous for Uruguay. Nearly 60% of the country's meat production used to go to Iraq. Higher international oil prices caused a 43% rise in gas prices in Uruguay during the early phase of the Gulf crisis. Their subsequent stabilization is welcome news for Uruguay.

Imports were stable in 1990 but exports rose by US\$150 million, resulting in a positive trade balance of US\$375 million. International reserves decreased by US\$16 million.

In February 1991 Uruguay signed a debt reduction agreement with creditor banks. The agreement reduced Uruguay's debt with private sector banks from US\$1.61 billion to US\$977 million.

President Lacalle Herrera signed the Treaty of Asunción on March 26, 1991. The treaty establishes, as of January 1, 1995, a common market between Argentina, Brazil, Paraguay and Uruguay. The common market is known as Mercosur. It will include over 190 million people.

The treaty allows for the free movement of goods, services and factors of production, the elimination of tariff and non-tariff barriers, the establishment of a common external tariff and the co-ordination of macroeconomic policies.

Uruguayan industry will be exposed to significant competition and a period of adjustment is foreseen. A high priority for the Mercosur's first international agreement is a "four-plus-one treaty" with the United States. The treaty would express the desire of the parties to act jointly for free trade, the development of relations and closer economic co-operation.