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## Uruguay: Current Macroeconomic and Labor Conditions

Presented By:  
**Instituto Cuesta Duarte**  
Calle Piedras 556  
Montevideo, Uruguay  
Tel.: (5982) 9164589 y 9156385

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# Uruguayan Macroeconomic and Labor Conditions<sup>1</sup>

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## Economic Policy

The current government of Dr. Tabare Vazquez inherited a country that was just beginning to emerge from the deepest crisis in its history, with the direst conditions occurring from 2001-2003. The legacy of the Battista administration was a doubling of the poverty rate in just five years, reaching more than a million people; 200,000 living in extreme poverty; a growth in structural unemployment to about 13%; a drop in real wages by some 23%; public debt exceeding \$US 12million; an extremely vulnerable financial system; and an almost 40% smaller Gross Domestic Product (GDP).

Given this situation, current economic policy has focused, first and foremost, on guaranteeing external financing in the short term, in compliance with a three-year agreement with the International Monetary Fund (IMF); the second priority has been to increase the surplus so as to guarantee debt sustainability.

Thus, in the fiscal realm, tax reform has been adopted that will introduce a personal income tax, creating a more efficient and fair tax structure. With regards to labor, the strongest move on the part of the government was the call for a Wage Council for the first time since 1985, and the creation of a Tripart Superior Council to serve as an arbitrator in collective negotiations and mediating the role of unions in the labor sector.

The government has set an inflation goal of 5.5% to 7.7% for 2005. Thus, in the first months of the year, the Central Uruguayan Bank (BCU) adopted measures aimed at reducing the amount of money under its control (known as the monetary base), hoping that the decreased economic activity would put less pressure on price growth.

Another result of the slower price inflation is the appreciation of the peso in relation to the dollar. Since June 2004, the dollar figure has dropped systematically (with the exception of March 2005), leading to all types of pressures on exporting companies, who had not felt such forces since the impressive jump in competitiveness after the devaluation of 2002.

The factor of internal indebtedness, one of the most severe problems in Uruguay post-crisis, was tackled by measures in which those who had defaulted with the Eastern Republic Bank of Uruguay (BROU) would be able to refinance their liabilities for periods up to 12 years, with debt forgiveness of 20% up to 50%, depending on the amount of debt and the specifics of their particular contract.

All in all, the Vazquez government seems committed, economically, to maintaining a certain internal stability in a country and society that was devastated over five years by the recession of 2000-2005. A true path out of crisis, however, will have to improve the well-being of the general population by integrating overall social cohesion, and restoring the labor sector, positioning it as the key component for a productive society, and not just another adjustable variable.

## Production

The Uruguayan GDP grew by 12.3% in 2004, the highest rate in more than 30 years. This growth followed a drop of 18% in the fiscal volume and about a 40% drop in dollars over the four-year period from 1999-2002.

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<sup>1</sup> Further discussed in the Joint Reports by the Instituto Cuesta – Duarte, edición Junio 2005 y Octubre 2005.

2004 saw a strong spike in exports, due mainly to agro-industrial products – meat, milk, grains and soybeans - that play an important role in the overall export landscape. In turn, the internal market saw its own revitalization, due mainly to increased spending by private entities, and by the growth in imports.

All of the production sectors improved in 2004 from the year before. There was a 21.7% growth in Manufacturing Industry; 21.1% growth in the Commercial, Restaurant and Hotel sector; 13% in Agriculture; and 11.7% growth in Transportation and Communications.

The industrial sub-sectors that saw the most significant growth in the manufacturing sector were:

- Food, drink and tobacco, due to an increased external demand for refrigerated goods, various food products, tobacco, beer and milk products;
- The chemical industry, due to increased activity in the ANCAP refinery but also by stepped-up production of basic chemical products and infrastructure, due to both internal and external demand growth;
- Metal products, machinery and equipment, due to the strong recovery of internal demand for these products when compared to 2003.

According to information supplied by the BCU, the increased activity in the Electrical, Gas and Water sector was due primarily to growing demand by industrial and commercial consumers. The growth of the construction sector was driven by a growth in private construction, particularly in the regions of Maldonado and Montevideo. For its part, public construction grew in the first half of the year, but dropped in the latter.

A rise in private spending led to increased development of the commercial sector, while hotels and restaurants benefited from the arrival of more tourists. For its part, the increased external commerce spurred greater activity in the transportation sector, while the expansion of the telephone industry (both fixed and cellular) led to growth in the communications sector.

Despite these instances of growth, however, the majority of sectors still continue to see activity levels lower than those seen before the crisis. This is particularly true – and serious – in the areas that employ the most manual laborers, areas such as Construction and the Commercial, Restaurant and Hotel sector. For this reason, it is critical that economic policy implement concrete mechanisms to reinvigorate production, such that all sectors – and in particular those that suffer from the most sluggish growth – can at the very least recover to levels seen before the crisis.

## PRODUCTO BRUTO INTERNO (PBI)

Índice de Volumen Físico (1)

	1998	1999	2000	2001	2002	2003	2004
Agropecuario	100,0	92,8	89,8	83,4	87,7	96,9	109,5
Industria manufacturera	100,0	91,6	89,7	82,9	71,4	74,7	90,9
Electric., gas, agua	100,0	99,9	104,8	106,6	105,9	98,1	99,3
Construcción	100,0	108,9	96,8	88,4	69,0	64,1	68,7
Comercio, rest., hoteles	100,0	96,6	91,5	88,6	66,9	66,2	80,2
Transportes, comunicac.	100,0	103,7	105,2	105,5	95,9	98,9	110,4
Otros (2)	100,0	98,3	98,4	96,6	86,8	87,9	94,4
<b>PBI</b>	<b>100,0</b>	<b>97,2</b>	<b>95,7</b>	<b>92,5</b>	<b>82,3</b>	<b>84,1</b>	<b>94,4</b>

(1) Los índices son base trimestre promedio de 1983=100. Para este cuadro se expresó el volumen físico de cada sector tomando como nivel de referencia el año 1998.

(2) Además de las otras clases de actividad, incluye la remuneración imputada de las instituciones financieras y derechos de importación.

Fuente: Elaboración propia en base a datos del BCU.

In the first half of 2005, the Uruguayan economy continued to grow. In effect, the physical volume of goods and services grew by 6.9% compared to the same period the year before. While this may seem to indicate a slowing in light of the considerable growth seen in 2004 (12.4%), in general we can see that the economy remains dynamic when it comes to production levels.

The high growth seen in the second quarter should be seen in conjunction with the performance seen in the first quarter outlined above. Regardless, after the first semester, activity growth rose to a rate consistent with that projected by the government for the year as a whole (around 6%).

This economic growth reached all of the production sectors in the first half of 2005. Those that saw the highest growth were the Others<sup>2</sup>; Transportation and Communication; Commercial, Restaurant and Hotels; and Industrial Manufacturing.

## **The Job Market**

The condition of labor market in Uruguay should be viewed, primarily, as a result of the last economic crisis, which not only led to a huge loss of jobs but also exacerbated one of the most dangerous structural characteristics of the Uruguayan labor market: its inability to promote integration and social inclusion.

The economic policy of the 1990s may have promoted overall national production, but it neglected to account for the social consequences of indiscriminate and reckless liberalization, which ultimately came to view labor as simply another cost in the production process.

### *The Effect of the Crisis on the Labor Market*

Between 1990 – when the first signs of economic crisis appeared – and 2003, the number of people employed dropped by 70,000. In 2004, there was a certain amount of increase in the number of those employed, but also a rise in informality, which showed that the jobs that were created were low quality and should be assessed accordingly.

The crisis kept the average unemployment rate above 13% between 2000 and 2004. The number of people out of work was above 134 thousand in 1999 and 208 thousand in 2003, and dropped to around 162 thousand in 2004.

During the crisis, the average length of unemployment increased to 27.8 weeks (almost seven months) in 1998 and 30.6 weeks in 2003, dropping to 16.3 weeks in 2004, when new jobs were created again for the first time.

In the latter years of the unemployment crisis, the highest levels were seen in the Urban Interior than in Montevideo, which was a reversal of the previous situation, when there were higher unemployment levels in the capital.

For its part, the employment rate, which before the crisis was at 54.3% (1,104,000 employees), dropped to 48.3% in 2003 (1,034,000 employees), an overall drop of 70 thousand jobs. In 2004 the employment rate reached 50.9% of the economically active population (1,090,000 workers), an increase but not to levels seen before the crisis.

In addition to the loss of jobs, though, the economic crisis precipitated a widespread growth in subemployment, informality, and job instability. The available statistics indicate that subemployment is more prevalent in small businesses (less than five employees), and that it affects women more than men. If we analyze these numbers geographically, we see that subemployment is found frequent in the Urban Interior than in Montevideo.

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<sup>2</sup> This sector includes financial and savings institutions; immovable goods; lending services; general government services; social and other services; personal services; quarries, mines and fisheries; etc.

The greatest effect of the crisis on the quality of work, however, was the huge increase in precariousness. The numbers for 2004 show that in that year, 40.7% of workers were not registered with Social Security, while in 2001 this number was 36%. Of employed women in 2004, 45.1% were not registered with Social Security, while 40.1% of men were in this situation. The number of workers not associated with Social Security grew by 52,000 from 2003 to 2004, indicating that what jobs were created were of questionable quality.

The crisis preyed on the defenseless: unemployment and low-quality employment effected the most vulnerable; certain neighborhoods in certain cities became epicenters for poverty; and the educational system floundered in the places where it was most needed.

#### **Rate of Economic Activity, Employment and Unemployment.**

National. In percentages. (1)

	<b>Econ. Active (2)</b>	<b>Employment rate (3)</b>	<b>Unemployment rate (4)</b>
1998	60,4	54,3	10,1
1999	59,3	52,6	11,3
2000	59,6	51,6	13,6
2001	60,6	51,4	15,3
2002	59,1	49,1	17,0
2003	58,1	48,3	16,9
2004	58,5	50,9	13,1
2005 Jan-Mar	58,0	51,0	12,1
Apr-Jun	58,6	51,4	12,3
May-Jul	57,8	51,0	11,8
<b>Variation (%)</b>			
2003/1998	-3,8%	-11,0%	67,5%
2004/2003	0,6%	5,3%	-22,4%

(1) From January-March, 1998, the measure of the Urban Survey changed to cover the locations of 900 or more inhabitants to 5000 or more.

(2) Measure of the economically active population of 14 years old or more.

(3) Measure of the number of occupantss and poblation of 14 years or more.

(4) Measure of the difference of the number of unemployed and the economically active population.

SOURCE: Figures from the data-base ofl INE.

#### *Recent Trends in the Labor Market*

The economic revival began in the first quarter of 2003, though its effects on the labor market were not seen until the second half of the year. These positive effects remained throughout much of 2004; nevertheless, since the end of that year, employment has started to stagnate.

The employment rate remained unchanged (at 51.3%) in the first half of 2005 when compared to the final quarter of 2004, indicating a slowing in employment growth. Unemployment levels in the first half

of 2005 also remained the same as those seen at the end of 2004, or 12.2%. The most recent quarterly figures place the number of unemployed at 144,000 citizens.

If we take into account all of those who are restrictively employed, and the unemployed in localities of 5,000 or more residents, we see that more than 650,000 people suffered from some sort of employment problems in the second quarter of 2005. If we also add those who live in localities of less than 5,000 residents, the number of citizens experiencing labor problems jumps to 809,621.

#### **POPULATION WITH EMPLOYMENT PROBLEMS**

In April-June, 2005. National.

<b>Locations of 5,000 or more inhabitants</b>	
Sub-employment	47.898
Subemployment with no registration	144.835
No registration	306.345
Total employees with restrictions	499.078
Unemployment	152.518
<b>Employment problems</b>	<b>651.595</b>
<b>Locations with fewer than 5,000 inhabitants</b>	
Problems with employment (1)	158.026
<b>National</b>	
Problems with employment	809.621

Source: derived from the data-base of INE

(1) *The estimates of the number of people living in localities of less than 5,000 inhabitants come from the population projections provided by the INE, working with the data from the 2004 Phase 1 census. For the rural population that lives in these localities we have basic age distribution data, from which we can extrapolate the working age population. In urban populations, we do not have such data, so we assume the percentage of the population 14 and older to be the same as in the rest of the Urban Interior. Likewise, the rate of activity, the employment rate, the level of restricted employment, and the percentage of unemployment is taken to be similar to the rest of the region.*

While one indicator of economic activity – the GDP rate – indicated that in the second quarter of 2005, economic activity reached a level not seen since before the crisis, it is impossible to deny that employment is still 5.7% lower than it was pre-crisis. Overall, the current economy has proven incapable of absorbing the large numbers of unemployed, and ill-equipped to creating quality jobs. Thus, the link between growth in production and employment growth – historically low in Uruguay – seems to have grown even weaker as of late.

#### **Wages**

The rapid growth in prices seen during 2002 (especially after the exchange devaluation of July of that year), alongside the slow growth of workers' wages, meant that the real wage dropped precipitously. During this year, real wages for Uruguayan workers dropped by some 19.48% when compared to just the year before. This loss of buying power, coupled with the loss of jobs, meant that the economic crisis was felt most strongly by the working class.

Throughout 2003, real wages continued to drop, a trend that started to slowly reverse itself in 2004 and during the first half of 2005 as production has grown. Nonetheless, real wages have not grown at

the same rate as the GDP, and in August 2005 wages stood at levels barely above those of December 2002 (when real wages suffered a drop of more than 19%).

The establishment of the Wage Council as of this year has allowed the union movement to work towards recovering the losses seen during the previous government, and in turn work towards establishing a more substantial wage structure. In the five years under the Jorge Battle government, the real wage dropped for workers in both the public and private sectors, though their buying power has increased somewhat as of late. With the help of unions, this trend may continue.

In 2004, the average real wage grew by 2.94%. However, even if we look at just the growth of public wages (which were higher than private growth), we see that it was far from the growth rate in production. While the Uruguayan economy has recovered to pre-crisis levels with regard to the GDP, workers wages are still significantly lower than they were before the crisis.

Thus far in 2005, real wages have grown on average by 3.7%, mainly driven by a 5.21% growth in public wages. This growth is due to the collective agreements signed by the Wage Council. The measures outlined in this agreement took effect on the July 1<sup>st</sup>, 2005, and while we can't assume that the effects of these measures were immediately seen, it is worth noting that the agreement was anticipated for months before being officially implemented, and its measures were effectively in place much earlier than July. We can see, then, that the result of tri-part negotiations was a growth in effective wages. As unions gain more of a foothold, and negotiations continue towards restoring the quality of labor for workers, we will see wages continue to show promising signs.