ILO NOTES

International Labour Organization

FACING THE CRISIS IN EUROPE: REFLECTIONS ON THE CASE OF URUGUAY

I. CRISIS IN EUROPE AND ITS EFFECTS

The European crisis, and especially the Eurozone crisis, has had an impact on world economic performance, producing a slowdown of overall economic activity that was also reflected in Latin America, as can be seen in table 1. For Uruguay, growth estimates for 2012 were around 3.5% while for 2013 4.0% growth is expected. The fact that the slowdown of the world economy has not significantly affected Uruguayan exports,[1] the dynamism of domestic demand as well as an active investment promotion policy all contributed to sustained growth during 2012. This notwithstanding, more recent forecasts tend to agree that the economy has started to slow in comparison to for the period 2004-2011, a trend which would consolidate in 2013 without reaching scenarios of stagnation or recession.

An important risk factor during 2013 is the approximately 30% gap in the real exchange rate vis-a-vis Uruguay's main trading partners, especially Brazil, affecting the country's competitiveness. Argentina's policies encouraging domestic consumption constitute another risk for Uruguay, as restrictions on exports and the purchase of dollars can potentially impact tourism and investment in the Uruguayan real estate sector. Risk factors outside the region, apart from the European crisis, include US Congress difficulties in reaching an agreement on fiscal policy; a significant drop in the demand for raw materials by China, which could push down the price of farm products; and a possible supply shock resulting in rising oil prices.

TABLE 1: Latin America and Uruguay: 2012-2013 GDP trends and forecasts
(annual GDP percentage variations)

Institutions	2009	2010	2011	2012	2013
Latin America and the Caribbean[a]	**-1.6**	**6.2**	**4.5**		
- International Monetary Fund (IMF)				3.7a 3.4b, 3.2c	4.1a 3.9c
- Economic Commission for Latin America and the Caribbean (ECLAC)				3.7d2.8e	4.1e
Uruguay					
- International Monetary Fund (IMF)				3.5a 3.5a	4.0a 4.0c
- Economic Commission for Latin America and the Caribbean (ECLAC)				5.7d 3.5e	4.0e

Source: ECLAC and IMF

a) IMF (2012) *World Economic Outlook: Growth Resuming, Dangers Remain. World Economic and Financial Surveys* (Washington D.C., IMF)
b) IMF (2012) *World Economic Outlook, Update* (Washington D.C., IMF)
c) IMF (2012) *Regional Economic Outlook, Update* (Washington D.C., IMF), Autumn
d) ECLAC (2012) *Informe macroeconómico de América Latina y el Caribe* (Santiago, ECLAC)
e) ECLAC (2012) *Estudio económico de América Latina y el Caribe. Las políticas ante las adversidades de la economía internacional* (Santiago, ECLAC), October

1 In September 2012 exports ascended to US$ 751 million, a 4.5% increase in comparison to September 2011. Cumulate growth in January-September 2012 was 13.1%, totalling US$ 6.870 billion. *Uruguay XXI: Informe de comercio exterior de Uruguay*, January-September 2012.

As to the labour market, although the open unemployment rate remains around 6%, a decline is observed in employment and activity rates, as well as a moderate rise in the number of unemployment insurance beneficiaries.

II. DIFFERENCES BETWEEN THE CURRENT SITUATION AND 2008

After a moderate GDP growth rate of 2.44% in 2009, the Uruguayan economy increased its pace of growth in 2010 (8.9%) and 2011 (5.7%). Unlike Uruguay's situation at the beginning of the 2009 crisis, when the country had experienced a relatively long period of growth, the recovery period between the financial crisis and the European crisis has been short.

Inflationary pressures at present constitute the greatest concern for the Uruguayan government. Consumer Price Index variations have systematically surged above targets set at 4 to 6%, reaching 7.48% in 2012. In line with this concern, the Monetary Policy Committee established a 25 base point rise to the Monetary Policy Rate, mounting to 9%.[2]

One factor to be considered lays in rises in the international prices for grain (soybean, wheat, and maize) recorded in recent months, which besides a positive impact on the value of Uruguayan exports, would increase domestic inflationary pressure, especially for foodstuffs. At the same time, indexation mechanisms established in wage council agreements on the basis of recorded inflation, which has systematically risen above government forecasts, cause negotiations to start at a predetermined floor, which adds an inertial component to wage negotiations. In this scenario, the government has urged social partners to moderate their expectations during the coming round of wage council negotiations.

The government has revised down its primary fiscal surplus forecast (before payment of interests) to 350 million dollars for this year, instead of the 602 million foreseen at the middle of the year. According to the economy team, this smaller surplus will be offset by greater debt and less accumulation of reserves. Financial sector conditions, and especially improved real wages, have supported the expansion of consumption. Credit to industry continued to grow during the second quarter 2012, albeit at lower rates than seen in the recent past. Growth in consumer credit has also slowed.

The impact of the global economic crisis on the Uruguayan labour market was quite limited in 2009 and no relevant deterioration was observed in main labour market indicators. At present, however, aggregate labour market indicators have started to show incipient signs of economic slowdown. Although the unemployment rate remains low, this is partly due to a reduction in activity (individuals leaving the labour market) compensating for a decrease in employment (see table 2). In terms of sectoral activity, manufacturing at present records falling sales in certain clusters, whereas construction continues to show dynamism. For the 2013 tourist season, some forecasts estimate a fall in the number of foreign tourists of approximately 3.3% in comparison to the past season.[3]

Heterogeneous sectoral dynamics make it necessary to closely monitor the situation and, on the basis of specific diagnosis, adopt public policies and measures focused on sectors showing difficulties.

III. POSSIBLE AREAS FOR INTERVENTION

In the abovementioned atmosphere of uncertainty, it is useful to review available labour market policy instruments in the country and assess their ability to respond in a timely manner in case of a worsening economic situation. During the 2008 financial crisis, it became evident that most instruments are not for automatic implementation and require relatively long implementation times. The current situation, with its relative stability and without serious deterioration of the labour market, provides an opportunity to review available policies and prepare them early in order to be more effective. This is an opportunity but also a necessity, given the actual context of greater fiscal tightening.

TABLE 2: 2011-12 Activity, employment, unemployment (country total)

	Activity	Employment	Unemployment
January - March/2011	63.9	59.9	6.2
April - June/2011	64.4	60.4	6.2
July - September/2011	64.1	60.2	6.0
October - December/2011	63.2	59.7	5.5
January - March/2012	63.3	59.6	5.7
April - June/2012	64.1	59.9	6.5
July - September/2012	62.7	58.7	6.4

Source: INE, Continuous Household Survey

2 Release by the Monetary Policy Committee, 28 September 2012

3 CINVE (2012) *Actividad y comercio, N° 108* (Montevideo, CINVE), September

a) *Including the employment variable in the assessment of public works*

While the construction sector in Uruguay continues to show dynamism, a change in the composition of investment is being recorded, with a relatively smaller share of high-cost and high-profit construction projects. At the same time, it is expected that present public housing policies combined with other significant investment projects such as the ongoing construction of a new pulp and paper plant, will be able to maintain dynamism in this sector during the coming year.

Another possible field for action is to focus expenditure in public investment (infrastructure), giving priority to job-intensive projects in order to partially offset a possible decline in private investment. In this regard, Uruguay has a significant portfolio of current investment projects, basically through public enterprises. While to a great extent these investments are capital-intensive, others could have a greater impact on employment, such as projects in public sanitation, or repair and maintenance of highways and rural roads. The tripartite agreements reached in 2011, as part of the National Employment Dialogue, represent progress towards the integration of an employment component in public investment policies.[4]

b) *Credit for small business and social economy*

Micro and small enterprise finance constitutes a market segment that has not been considered attractive to the private financial sector. Therefore, credit to this segment is mainly supplied by public institutions (*Banco República, Corporación Nacional para el Desarrollo*, and various public programmes and funds). An important innovation in this respect, has been the creation in 2011 of the Fund for Development (FONDES – Fondo para el Desarrollo), financed with BROU[5] profits (by law, up to 30% of profits).

The availability of these financial instruments would be of key importance to maintain the liquidity of small and micro enterprises in a tighter credit context, as well as to support cooperative enterprises and the social economy.

c) *Work-sharing*

During the last crisis Uruguay developed an instrument to preserve jobs in sectors affected by the closure or contraction of export markets, similar to mechanisms developed in other countries. For this purpose an existing instrument (partial unemployment insurance) was adapted, in order to implement work-sharing schemes designed on the basis of agreements between workers and employers, compensating wage reductions with partial insurance. The mechanism also included the possibility of using the time not worked for training. The instrument focused on sectors where, at that time, enterprises were undergoing difficulties. In 2012 the instrument was reviewed, basically expanding its coverage to all sectors that could possibly be affected by the international crisis.

In spite of the innovative character of the instrument, it didn't have great outreach used during the previous crisis. Although this may have been because problems only occurred in certain pockets of the economy and were relatively short-lived, there was room for improvement of the instrument in terms of more expeditious approval procedures, clearer eligibility indicators and users' knowledge of the instrument.

d) *Protecting against unemployment*

Uruguay has an unemployment insurance scheme, which acts as an automatic stabilizer when fluctuations in economic activity and employment occur, by sustaining consumer spending among the unemployed.

A specific aspect of unemployment insurance legislation in Uruguay is that it covers three types of situations or causes. The subsidy can be awarded in cases of:

a) Lay-off

b) Suspension of employment contract

c) A reduction in the number of days or hours worked per month or per day respectively.

This means the subsidy can be used as an instrument to facilitate the reintegration of workers, and maintain the contractual relationship. This, added to the possibility of extending the duration of the subsidy, strengthens its countercyclical nature. Notwithstanding the above, it would be possible to consider more agile mechanisms for the approval of plans to reduce working days, as well as better coordination between unemployment insurance and public employment services.

e) *Minimum wage policy*

Until 2005 Uruguay maintained its National Minimum Wage at low levels, both in comparison to other countries of the region as well as in relation to its own national wage structure. This situation changed in 2005, with significant and systematic rises, made possible by removing the link between this instrument and social contributions toward late 2004.

This active minimum wage policy, maintained for the last seven years, deserves further study. The existing room for action should be analysed, taking into consideration the present minimum wage levels, price trends during the previous period and their expected projections, growth outlooks and the particular situation of the labour market, its efficacy as the wage floor, as well as the possible fiscal impact of a rise in minimum wage on wages in the public sector.

f) *Training and labour intermediation policies*

Over the past five years innovations have occurred with a view to provide the country with public policy instruments in the area of training, with the creation of INEFOP (2207) as well as in the area of labour intermediation, with the creation of a network of Public Employment Centres belonging to the

4 In this context, and to give an example, *"Aprovechar potencialidades del Sistema Nacional de Inversión Pública (SNIP) para incorporar en la política de obra pública objetivos de estabilización del empleo en fases recesivas, en coordinación entre los distintos organismos involucrados"* was agreed during the National Dialogue for Employment, within *"Políticas de empleo para las diferentes fases del ciclo económico". Cartilla de Acuerdos, Avances y Conclusiones.* MTSS, October 2011

5 Banco República

Ministry of Labour and Social Security / local governments (starting 2006).

In an economic context as the one foreseen, of low employment growth but without significant rises in unemployment, INEFOP should sustain training policies with greater emphasis on improving the competencies for lower-skilled job-seekers, in order to prepare them for new job opportunities in the medium term. Additionally, INEFOP should operate as a countercyclical instrument, providing training within the framework of time-sharing agreements and the use of partial employment insurance.

In the case of labour intermediation services, operations should emphasize identifying labour requirements by enterprises once the period of low economic growth is overcome, orienting the content of training programmes accordingly. Measures to strengthen the operation of these services are not to be excluded, should there be a rise in the number of unemployed, and should direct-employment programmes be put into action, in case of significant deterioration of the economic scenario. Notwithstanding the above, the network of public employment centres, independent of the economic situation, should continue ongoing efforts to strengthen its professional capacity, its management tools, as well as its coordination with active labour market policies (training, support for entrepreneurs) and passive labour market policies (unemployment insurance).

g) Basic labour rights and encouraging social dialogue

Uruguay's main asset in any phase of the economic cycle is surely located in this area. The country has, on the one hand, been able to make the most of a period of growth to advance in the effective fulfilment of fundamental labour rights. On the other hand, there is a dense network of institutionalized social dialogue mechanisms, covering topics such as wage bargaining, social security, employment and professional training, equality, child labour, and occupational health and safety. In addition, the country has institutionalized multi-partite national dialogues on topics such as social security (2008-2009 and 2011-present) and employment (2011).

These mechanisms are certainly powerful assets when it comes to strengthening the impacts of other policy fields, including monetary and fiscal policies, in search for appropriate and socially legitimized responses to situations occurring in the different phases of the economic cycle.