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UNDP LAC C19 PDS Nº. 10

Social and economic impact of COVID-19 and policy options in Uruguay

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Abstract

The economic crisis caused by COVID-19 is an event without precedent in the modern economy and probably associated with the most disruptive effects since the Second World War, or even since the Great Depression. Evidence of this is the worldwide economic policy response, which also is without recent precedents. Within the orbit of the emerging economies, the situation is being aggravated by episodes of "flight to quality", which brings additional pressure on the financial variables and access to financing in the international markets.

In the case of Uruguay, the economy will go into recession in 2020, there will be a significant real depreciation of the peso and higher inflation. All this will have negative effects on employment, incomes, poverty and inequality. Although the measures adopted up to now are going in the right direction in the light of what has been experienced internationally, and the restrictions faced by the country, they are still insufficient to offset the affected activities and mitigate the impact on the most vulnerable population. In this context, the purpose of this document is to analyse the channels of transmission of the shock and the impact that it might have on the Uruguayan economy, and the measures that have already been taken and additional measures that could be deployed to soften the impact on the most vulnerable sections of Uruguayan society.

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Introduction to the series:
Evidence, Experience, and Pertinence in Search for Effective Policy Alternatives

The Covid-19 pandemic is one of the most serious challenges the world has faced in recent times. The total cost in terms of human lives is yet to unfold. Alongside the cost of lives and deep health crisis, the world is witnessing an economic downfold that will severely impact the wellbeing of large parts of the population in the years to come. Some of the measures that are currently being used to counteract the pandemic may impact our future lives in non-trivial ways. Understanding the association between different elements of the problem to broaden the policy space, with full awareness of the economic and social effects that they may bring, is the purpose of this series.

Thus far, the impossibility of targeted isolation of infected individuals and groups has led to policies of social distancing that impose a disproportionately high economic and social cost around the world. The combination of policies such as social distancing, lockdowns, and quarantines, imply a slowdown or even a complete stop in production and consumption activities for an uncertain period of time, crashing markets and potentially leading to the closure of businesses, sending millions of workers home. Labor, a key factor of production, has been quarantined in most sectors in the economy, borders have been closed and global value chains have been disrupted. Most estimates show a contraction of the level of output globally. For the Latin America and Caribbean region, the consensus forecasts are at -3 to -4%, and it is not until 2022 that the region is expected to go back to its pre-crisis output levels in scenarios that foresee a U-shaped crisis pattern. According to ECLAC, more than 30 million people could fall into poverty in the absence of active policies to protect or substitute income flows to vulnerable groups.

We face a crisis that requires unconventional responses. We are concerned about the level-effect: the impact of the crisis on the size of the economies and their capacity to recover growth after the shock. But we are equally concerned about the distributional impact of the shock. The crisis interacts with pre-existing heterogeneity in asset holdings, income-generation capacity, labor conditions, access to public services, and many other aspects that make some individuals and households particularly vulnerable to an economic freeze of this kind. People in the informal markets, small and micro entrepreneurs, women in precarious employment conditions, historically excluded groups, such as indigenous and afro-descendants, must be at the center of the policy response.

UNDP, as the development agency of the United Nations, has a long tradition of accompanying policy-making in its design, implementation, monitoring and evaluation. It has a mandate to respond to changing circumstances, deploying its assets to support our member states in their pursuit of integrated solutions to complex problems. This series aims at drawing from UNDPs own experience and knowledge globally and from the expertise and capacity of our partner think tanks and academic institutions in Latin America and the Caribbean. It is an attempt to promote a collective reflection on the response to the Covid-19 health crisis and its economic and social effects on our societies. Timeliness is a must. Solutions that rely on evidence, experience, and reasoned policy intuition –coming from our rich history of policy engagement– are essential to guide this effort. This series also contributes to the integrated approach established by the UN reform and aspires to become an important input into the coherent response of the United Nations development system at the global, regional, and national levels.

Ben Bernanke, former Governor of the US Federal Reserve, reminds us in his book *The Courage to Act* that during crises, people are distinguished by those who act and those who fear to act. We hope this policy documents series will contribute to the public debate by providing timely and technically solid proposals to support the many who are taking decisive actions to protect the most vulnerable in our region.

Luis F. Lopez-Calva
United Nations Development Programme
Regional Director, Latin America and the Caribbean
New York, March 2020

1. Introduction[1]

The economic crisis caused by COVID-19 is an event without precedent in the modern economy and probably associated with the most disruptive effects since the Second World War, or even since the Great Depression. COVID-19 is a shock without precedent to supply, amplified in terms of aggregate demand, and accompanied, furthermore, by a financial shock with a powerful impact on the emerging economies.

A reflection of the seriousness of the situation is the aggressive response pf governments worldwide, which is also without precedent in recent times and is designed to avoid the temporary effects of social distancing measures becoming permanent, with the consequent impact on the wellbeing of societies. Despite this, the crisis will have significant consequences for production and employment, it will cause disruption of global supply chains and payments chains, and will affect the liquidity and solvency of many economic agents. In addition, given that the impacts are distributed asymmetrically to the detriment of the most vulnerable sections, poverty will increase and pre-existing inequalities will be exacerbated

In the case of Uruguay, the economy will go into recession in 2020, there will be a significant real depreciation of the peso and higher inflation. All this will have negative effects on employment, incomes, poverty and inequality. Although the measures adopted up to now are going in the right direction in the light of what has been experienced internationally, and the restrictions faced by the country, they are still insufficient to offset the affected activities and mitigate the impact on the most vulnerable population. In this respect, and to fix the lines of action which must be deployed, four pillars can be considered: counter-cyclical containment policy measures to shorten the duration of the recession and smooth its impact, measures to restore long-term growth, measures to restore fiscal sustainability and measures to improve and complement the design of the social protection network. Obviously, this characterization is to lay out the principal pillars, given that there is an important interconnection between each of them, and there is not one way of sequencing them over time. In this regard, it is important to take on board that the exceptional nature of the circumstances could make it necessary to advance some parts of the medium-term reforms to increase the country's capacity to confront this shock.

Without prejudice to the foregoing, going forward, the core challenge will be to strengthen the capacity of the economy to return to growth in the future, or otherwise shore up its productivity. This is fundamental to avoid the profound disruption of the pandemic having permanent effects on potential GDP, undermining the capacity to face the immense challenge that lies ahead of us. Achieving this will require rolling out a major set of structural reforms, which must be based on a broad consensus and proper management of dissent, on the understanding that we are all faced with one of the greatest challenges in our recent history.

2. Channels of transmission of COVID-19

The coronavirus outbreak at international level present a negative exogenous shock to the Uruguayan economy which means an abrupt change in the external scenario with negative effects on economic activity. In addition, the social distancing measures introduced to limit the progress of the virus in the national territory reinforce the contraction effects on activity, accentuating the negative impacts in the short term. The following analyses the channels of transmission, both external and internal, through which the COVID-19 shock impacts the Uruguayan economy.

[1] This document is an extract of a broader document prepared for UNDP in April 2020.

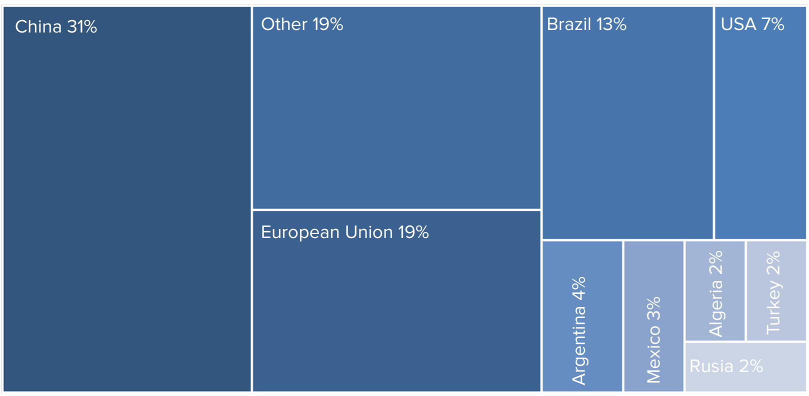
i. External channels

The channels of transmission by which the effects of the global health crisis impact the Uruguayan economy are chiefly two: commercial (goods and services) and financial. In both cases, the impacts have already started to appear in the domestic economy, although the former could be aggravated on the tourism services side in the event of a prolongation of the pandemic in the next few months.

On the one hand, the commercial channel could be considered the primary channel through which Uruguay – and the emerging countries – have felt the impact of the pandemic. In terms of goods, the impact of the virus on the Chinese economy during the first quarter of the year, mainly explained by the social distancing measures adopted to limit its reach, reduced demand for imports by China, which in turn partly explained the fall in the price of commodities on international markets.

In the particular case of Uruguay, exports to China fell strongly – especially in February – during the first quarter of the year. This proved especially relevant due to the relative importance of China in the country's basket of export goods: during the last year, exports of goods to China accounted for 31% of total exports[2]. The conjunction of these factors partly explains why exports of Uruguayan goods fell by 1% in the first quarter of the year[3].

Figure 1. Exports by destination (share of FOB value; 2019)



Note: Includes exports from free zones. Source: Own elaboration from Uruguay XXI (2020).

In addition, there is also a notable reduction in exports to two other trading partners, Brazil and Argentina[4]. In this respect, the impact of the pandemic on these countries must be borne in mind and monitored, in particular taking into account that the products exported to these destinations tend to be more labour-intensive and, in turn, harder to redirect to other destinations. This is primarily the case of Argentina and its link with local manufacturing industry. The combination of these two factors means that a reduction in exports to these destinations could imply additional damage to the Uruguayan labour market. In the same vein, bearing in mind that exports to the US and the European Union represent 24% of total Uruguayan exports[5], the intensification of the pandemic in these countries represents a risk going forward which could impact on Uruguayan exports in the short term.

[2] Including exports from free zones. Excluding these, exports to China represent 27% of the total.

[3] Including exports from free zones. Excluding these, exports to China represent a fall of 6% in the quarter.

[4] Excluding exports from free zones This is because, at the time of writing this document, there was no access to export data by country for exports including free zones.

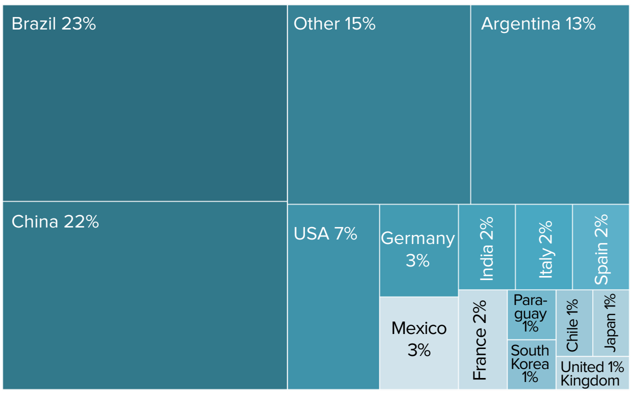
[5] Including exports from free zones.

Despite this, looking ahead, there are some positive signals which could at least mitigate the fall in demand in these markets. In particular, the fall in exports to China was less in March than in February[6]. This last is in line with recent reports which suggest that the activity of the Asian country has begun to recover in recent weeks. In any case, the recovery of normal levels of trade with this country will be dependent on the recovery of the Asian country continuing its pace going forward, and the supply of the country's export products is not affected by the lockdown effects.

While the contraction of world trade is bad news for the national economy in that the fall in exports represents a negative shock on aggregate demand, its impact will not be the same across different sectors of activity. This is the product of several factors, prominent among them the degree of exposure to foreign trade of each, and the varying degrees of exposure that each product sold may present due to its intrinsic nature or destination. A more detailed analysis of the impact at sectoral level will be presented in the next section.

With respect to imports – without considering crude and petroleum oils – these remained stable year-on-year during the first quarter of the year. With respect to imports from China, these declined by 10% in the same period. Just as for exports, the risk going forward is that the pandemic and its consequent impacts will intensify in countries which represent a major proportion of the basket of Uruguayan imports. This could have consequences, mainly for the commercial and industrial sectors, which use imported products as intermediate goods in their production chain.

Figure 2. Imports by destination (Share of CIF value; 2019)



Note: Excludes imports of crude. Source: Own elaboration from Uruguay XXI (2020).

In addition, the fall in the price of oil is good news for Uruguay because of its position as a net importer. As of today, this fall has allowed deferring the upward adjustment in retail sales of fuel. The latter, in turn, has important implications for the national production chain due to the importance of fuel in production costs.

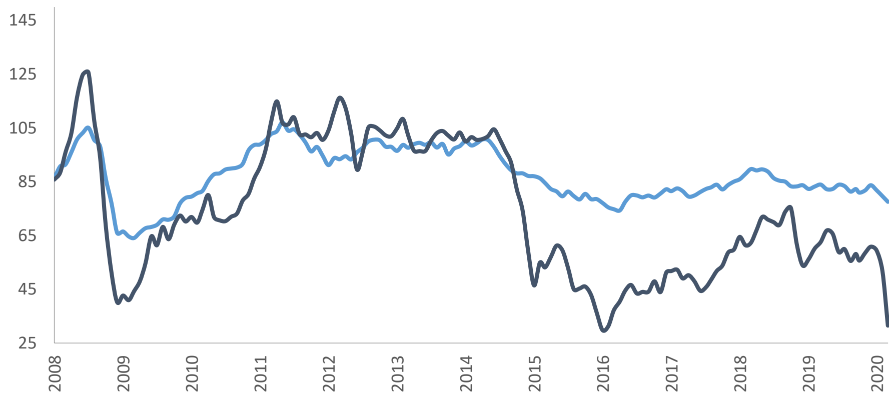
The realization of greater benefits will depend on how long this phenomenon lasts and how ANCAP can capitalize it. In this respect, in recent years, the State company has maintained an active policy of forward purchasing of crude which seeks to guarantee the price in the future. In this vein, at the beginning of March, the State company closed hedges of the price of crude for a large part of the needs for the second half of the current year[7]. This, combined with the depressed demand for fuel due to the effects of lockdown makes greater capitalization by the State company of the lower crude price in the short term difficult, in that crude storage space is limited.

[6] Based on Uruguay XXI.

[7] Based on: www.ancap.com.uy/innovaportal/v/8574/1/innova.front/ancap-cerro-cobertura-de-petroleo-para-el-segundo-semestre.html.

Thus, it can be argued that the impact of the shock on the price of commodities exported by the country is moderating, and that, in addition, a major fall in the oil price can be observed. This means that despite the complex external scenario that we are currently experiencing, the ratio of terms of trade for our country has not been felt, However, the uncertainty remains high and, as described, a strong contraction in demand is expected in the remainder of the year.

Figure 3. Uruguay: Commodities relevant* to export and oil (Price index; Jan-14=100)



*Soya, Meat, Rice, Dairy, Cellulose weighted by incidence in exports.
Source: Own elaboration from Bloomberg.

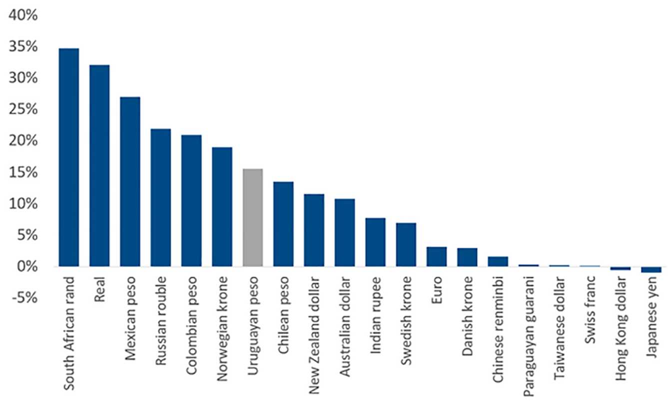
Lastly, with respect to tourism exports, a major blow can be expected due to the current health situation. In any case, it is difficult to calibrate this impact given the uncertainty regarding how long the processes of lockdown of the economy will continue – including closure of borders – to be high given the non-economic nature of the shock. In addition, it may happen that, even if these restrictions are lifted, the lack of an antiviral treatment could keep demand for international travel depressed. This would be explained by greater risk aversion on the part of individuals concerning the possibility of contracting the disease and, in particular, doing so while abroad. In this regard, it is still not possible to discount lasting impacts linked to the change in habits of the population in relation to certain subjects, such as travel or attendance at places which mean crowds of people gathering (such as shows or the attractions of traditional tourist centres).

At the same time, the current economic situation in Argentina – right in the middle of a debt restructuring – reinforces the negative outlook with respect to tourism activities. This is due to the importance of visitors from that country out of the total number of visitors and the associated expenditure.

In addition, with respect to the financial channel, Uruguay was not immune to the impact suffered by the emerging economies on their exchange rates and risk premiums due to the “flight of capital” process. In this respect, estimates by the Institute of International Finance (IFF) suggest that the magnitude of this phenomenon will exceed episodes of a similar nature. Among these, the financial crisis of 2008 and the start of monetary normalization by the FED announced by Ben Bernanke in the middle of 2013. In particular, the IFF estimates that the flow of capital from emerging economies is 0.4% of their GDP. In addition, the Managing Director of the IMF, Kristalina Georgieva, has stated that the outflow of capital from emerging economies is the greatest outflow of capital on record.

With respect to the exchange rate, Uruguay was not alone in facing this problem, but its depreciation has been one of the most intense in the year[8] – it is important to bear in mind that Uruguay lagged behind in correction of the exchange rate. In particular, the depreciation experienced by the Uruguayan peso is similar to that of the countries in the region (such as, for example, Chile)[9] but higher than that of some competitors such as New Zealand and Australia. This trend in the exchange rate generates contrasting effects on the Uruguayan economy.

Figure 4. USD vs other currencies (cumulative annual variation at 20 April)

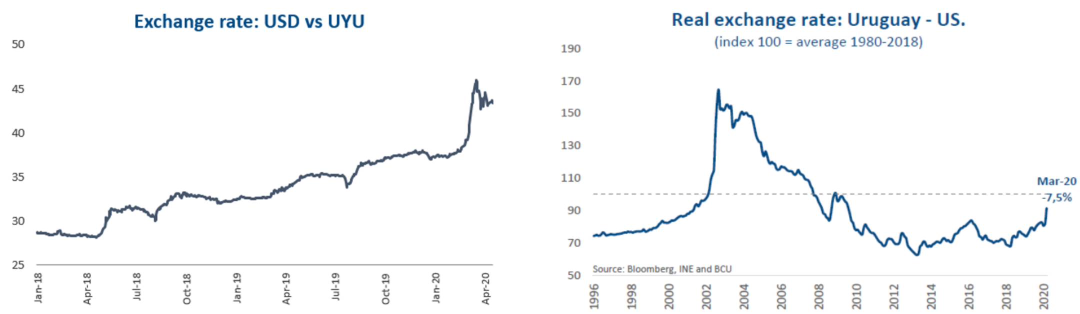


Source: Own elaboration from Bloomberg.

On the one hand, it will allow, in the short term, a partial reversing of the deterioration of prices compared with some competitors and partners, something which could translate into modest improvements in Uruguay's global competitiveness. Whatever the case, it must be considered that this will lead to a world with less aggregate demand and a lower propensity to trade. Furthermore, as was pointed out, this also imposes greater pressure on the tradable components of the consumer basket, which means higher inflation (although mitigated due to the recessionary impact of the shock on activity, which limits the pass-through to the level of prices

Conversely, the depreciation of the peso will have a negative impact in the immediate term on private consumption and imports due to the loss of purchasing power of incomes in dollars and the lowering of consumers' expectations which is typically associated with these types of phenomenon. As will be seen below, this will have negative consequences for the country's trade and industry.

Figure 5. Nominal exchange rate (left) and real bilateral exchange rate with the US (right)



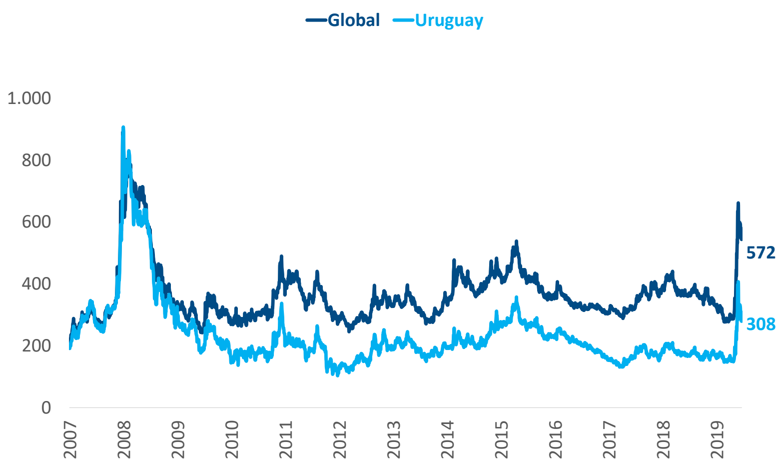
Source: Central Bank of Uruguay and Federal Reserve Economic Data.

[8] Although at the time of writing this document, the depreciation of the Uruguayan peso seems to have lessened in intensity compared with the first days of March.

[9] Although less than that experienced by Brazil.

With respect to the risk premium, while the country risk of Uruguay increased in the last few weeks, in line with what happened in the rest of the emerging countries, the good management of public debt in recent years has enabled the development of a sound financial profile and a reduction in the risk associated with this channel of transmission

Figure 6. EMBI (basis points)



Source: Own elaboration from JP Morgan Chase.

In particular, it has been successful in constructing an adequate maturity profile for public debt which does not contemplate emergencies in the short term, while at the same time it has made progress in reducing its risk profile. In this respect, the proportion of debt in dollars has been reduced and almost all the debt has been taken on at fixed interest rates.

This allows reducing the country's exposure to intense depreciation and sudden increases in interest rates, which prevents these situations – frequently temporary – in turning into a more severe problem of sustainability for the public debt.

ii. Domestic channels

Added to the deterioration in the external terms of trade and finance, in the early days of March, the first case of coronavirus was confirmed in Uruguay. Since then, the Uruguayan Government has decreed a Health State of Emergency and has adopted a series of social distancing measures which seek to limit the rate of spread of the virus in the national territory. The following table summarizes some of them.

Social distancing measures announced by the Government

Compulsory quarantine of 14 days for persons coming from countries declared at risk or symptomatic.
Closure of borders with Argentina and Brazil.
Suspension of leaving the country for tourist puproses for Uruguayan citizens and foreign residents.
Prohibition of disembarking of passegers and crew of cruise ships.
Suspensión of flights from Europe.
Closure of marinas which do not have a migration office.
Suspension of shows, camping sites and public holiday centres. Exhortation to private centres to do the same.ls.
Closure of shopping centres.

Suspension of classes at all educational levels.
Extension of special leave for construction to 13 April.
Reduction of the number of public transport units circulating at the weekend.
Restrictions on local non-food fairs.
Permanent transfer of adult homeless to hostels.
Public officials over age 65 years must not go to work. Dependent workers in private activity in this age group urged to do the same.

In addition to these compulsory measures, it should be mentioned that the Government has urged the population to reduce their travel in the national territory to the minimum possible, as well as their daily social contact – both at work and leisure – but without making it compulsory. In other words, the Government has opted not to order compulsory quarantine for the whole population, as has been done in other countries in the region and the world, at least up to the time of writing this document.

On the one hand, the speed with which the Government implemented these confinement measures should be highlighted, thus reducing the risk of exponential contagion by the virus within society and avoiding an exponential contagion curve. On the other side, there is no doubt that Uruguay's economic activity will be particularly felt due to the adoption of these measures. Even in a scenario where distancing measures are prolonged for a relatively short time (for example, two months), the impact on the level of activity and level of employment will be significant. In addition, it may be expected that these impacts will be distributed unevenly among the different sectors of activity, as is happening with the trade and financial shocks described above. This, as we shall see, has comparable asymmetric effects on the labour market.

Below we present some high frequency indicators which illustrate the effect that the social distancing measures are having on the daily activity of Uruguayans. In particular, these indicators show patterns of behaviour and mobility of people within the country.

On the one hand, according to the report "Comportamiento del tránsito en Montevideo"[10], prepared by the Government of the Department, vehicle movements at the points in the city corresponding to the majority of urban zones fell by 40% between 9 and 23 March. In addition, traffic leaving the city in Tourism Week 2020 (from 6/4 to 12/4) was 46% lower than Tourism Week the previous year, while traffic entering fell by 40% in the same period of time. In addition, the Montevideo Government estimates that the number of passengers using public transport was reduced by 80% compared to levels before the health crisis[11].

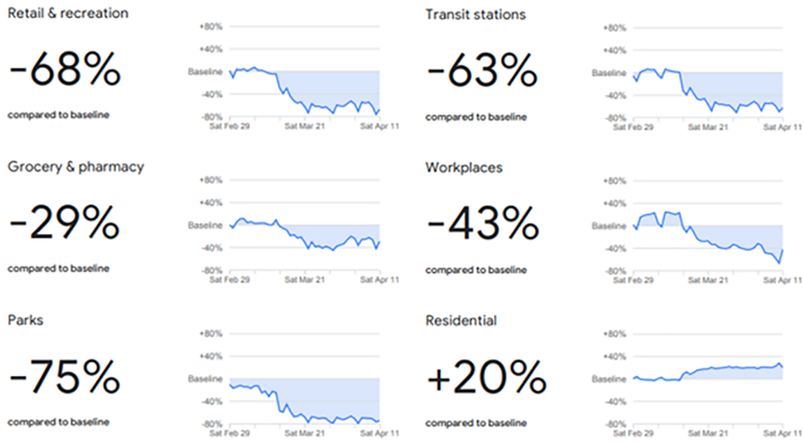
On the other hand, the Google report "COVID-19 Community Mobility Report"[12] estimates the type of places that Uruguayans are avoiding. This estimate is obtained from records of movements provided by smartphones. Although the data may not be representative of the total population, they present an initial approximation of this phenomenon for the case of Uruguay.

10 "Comportamiento del tránsito en Montevideo" (Traffic patterns in Montevideo) (IMM, 2020): montevideo.gub.uy/noticias/movilidad-y-transporte/comportamiento-del-transito-en-montevideo.

11 www.elpais.com.uy/informacion/sociedad/caida-venta-boletos-coronavirus-aproxima.html.

12 "COVID-19 Community Mobility Report" (Google, 2020) www.gstatic.com/covid19/mobility/2020-04-11_UY_Mobility_Report_en.pdf.

Figure 7. Google COVID-19 Community Mobility Report



Source: Extracted from *"COVID-19 Community Mobility Report"* (Google, 2020).

In specific terms, according to the report produced by Google, Uruguayans substantially reduced their visits to shops (apart from food stores and pharmacies), places of recreation, parks, public beaches and workplaces. At the same time, and consistent with this, they reduced the frequency of use of transport stations (public transport stops or bus stations). From this it can be inferred that commerce and sectors related to tourism and leisure activities are suffering considerable reductions in demand, as was to be expected, based on the characteristics of the shock and the impact that it has had on economies which have lived with the virus for a longer period of time.

In line with the reduction in vehicle mobility, during the month of March, sales of fuel showed falls year-on-year. According to SEG Ingeniería data[13], sales of oil and diesel fell year-on-year by 18% and 7% respectively. In any case, in line with the declaration of the health emergency and the social distancing measures and exhortations which followed it, it is plausible that demand was uneven throughout the month, i.e., sales were particularly affected during the second half of the month

Figure 8. Sales of fuel in the domestic market (March; thousands of m³)

	Diesel	Oil
2019	79	71
2020	74	57,9
Variation	**-7%**	**-18%**

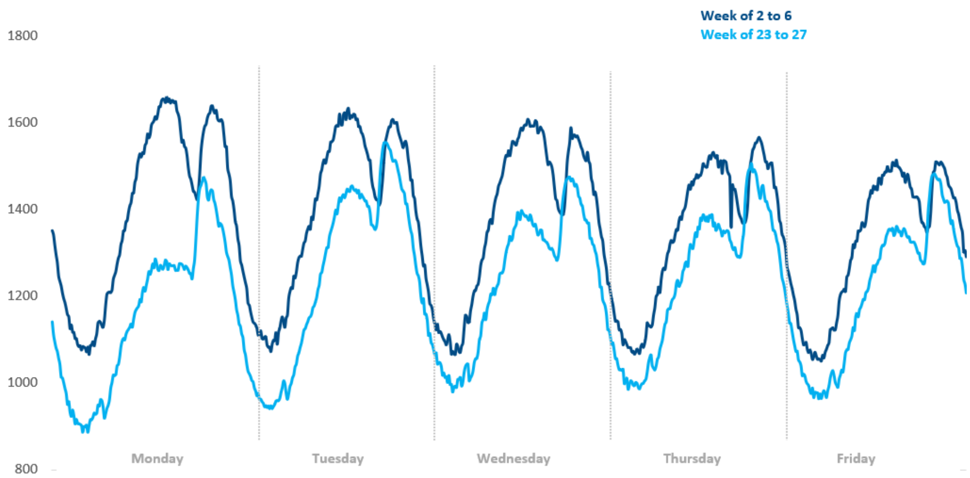
Source: Own elaboration from SEG Ingeniería

For its part, another indicator of high frequency which is typically used to analyse the level of activity of the Uruguayan economy is consumption of electricity. The same SEG Ingeniería report ("Energy Indicators") suggests that, while it increased year-on-year, and showed a new record for the month of March since data have been recorded, when the month-on-month trend is analysed, a varied pattern of behaviour can be seen which could be explained by the social distancing measures on this activity. In this respect, the report finds that, when the days of the month are divided into two periods depending on whether they are before or after the declaration of the emergency, average daily electricity consumption for the first is 12% higher than in the second. Likewise, if the two weeks within

13 *"Indicadores Energéticos"* (SEG Ingeniería, 2020): www.segingenieria.com/wp-content/uploads/2020/04/Indicadores-Energ%C3%A9ticos_2003-1.pdf

each of these two periods are considered when the ambient temperature was similar, it is found that electricity consumption was 1% lower after the health emergency was declared. The following graph shows this last analysis

Figure 9. Demand for electricity (March 2020; Mw)



Source: Extracted from SEG Ingeniería.

It is important to note that this fall does not reflect a contraction in electricity consumption by productive activities which are reflected in national accounts, as this is offset by the probable increase in electricity consumption of residential homes due to the greater time people spend there.

3. Sectoral impact in Uruguay

The impact of the spread of the new coronavirus on activity will be profound, including in a scenario of relatively early recovery. While it is envisaged that the effects will be asymmetric in terms of depth and duration, the impact is generalized among the major sectors of activity, all of which are already experiencing difficulties in their operations.

There are various factors which determine that the repercussions of the shock on production are unevenly distributed between sectors. On the supply side, it is fundamental in that the degree of restrictions on mobility and the social distancing measures prevent or hamper their performance. It is clear, for example, that restaurants and hotels have found it practically impossible to operate, while farming activities function fairly normally. I addition, one must consider the flexibility of businesses and sectors to adapt to working methods which minimize risks, through strategies which reduce (or eliminate) the gathering of workers together, such as shift work and working from home. Finally, the dependency of branches of activity on the affected industries and foreign suppliers must be borne in mind, to the extent that the economic impact is global and international supply chains are faced with interruptions.

In this regard, sectors of activity which represent over 30% of the Uruguayan economy, and which employ approximately 40% of the employed population, are being severely affected. If industrial activity is included in the event that the lockdown measures are intensified, these percentages would increase to over 40% and 50% respectively.

Figure 10. Demand for electricity (March 2020; Mw)

Principal sector of activities in Uruguay	Relative weight (% GDP)*	Employment (Q) (%)	Employment (Q)	Average remuneration ($)	Impact of shock on SUPPLY	Impact of shock on DEMAND
Primary activities	6.3%	8.3%	135.323	26.120	LOW	MODERATE
Industry	12.0%	10.3%	168.093	31.192	MODERATE	MODERATE
Commerce	9.7%	17.5%	285.437	26.122	HIGH	HIGH
Restaurants and hotels	3.9%	3.9%	62.995	21.624	HIGH	HIGH
Construction	9.7%	7.3%	118.780	28.005	MODERATE	MODERATE
Information and comunications	1.9%	2.2%	35.472	53.703	LOW	HIGH (+)
Transport and storage	3.5%	5.0%	81.380	36.807	HIGH	HIGH
Energy, gas and water	2.3%	1.2%	18.907	41.536	LOW	MODERATE
Public adm. and defence	5.4%	6.6%	107.010	42.384	LOW	LOW
Health and social services	6.5%	8.4%	136.915	35.971	LOW	HIGH (+)
Education	4.9%	6.8%	110.530	35.075	HIGH	MODERATE
Other activities/services	33.9%	22.6%	367.336	27.085	MODERATE	MODERATE
	100%	100%	1.628.178			

Source: Own elaboration from Central Bank of Uruguay and ECH of INE *Current prices.

On the demand side, it must be considered, in the first place, how the reduction in household disposable income and company profits due to the global fall in activity might affect the various sectors. In this regard, the activities associated with basic products and services would be less depressed. In addition, the dependency on the export sector must be borne in mind, especially when the principal buyers of the goods and services are in the countries and areas most affected by the pandemic. Looking beyond the short term, and depending on the duration of the health emergency, the pandemic could lead to a reconfiguration of consumers' preferences which affects certain businesses, which would extend beyond the duration of the contingency measures. In the light of these considerations, the sectors that will be most heavily affected in the short term will be commerce, restaurants and hotels, and transport and storage. Presented below is a brief consideration of the impact on those sectors which will face the greatest difficulties.

i. Commerce, restaurants and hotels

This will be one of the groups that will feel the current economic situation the most. All tourism-related businesses have seen their activity virtually paralysed following the severe restrictions that were adopted, such as the suspension of the majority of flights and the partial closure of borders. In this regard, the restaurants and hotels sector has been struck a severe blow. In addition to the current almost total inactivity, it is envisaged that it will be these businesses which suffer a more lasting impact over time, to the extent that it is foreseeable that the easing of contingency measures will be prolonged more in this type of establishment, while the current situation affects medium-term reservations.

In terms of employment, approximately 4% of those employed work in "accommodation and catering services". This sector is characterized by above-average informal working (25%), which is around one third (defined as not contributing to any pension scheme). This is probably the product of the greater incidence of seasonal employment, receptive tourism, and the large number of events and festivities that take place at different times of the year. In the current situation, however, of particular interest is the distinction of formal working for paid employees, in the sense that it is essential to know the possibility of access to unemployment insurance. The number of private employees in the category that pay no, or only a partial, contribution to social security is 23%.

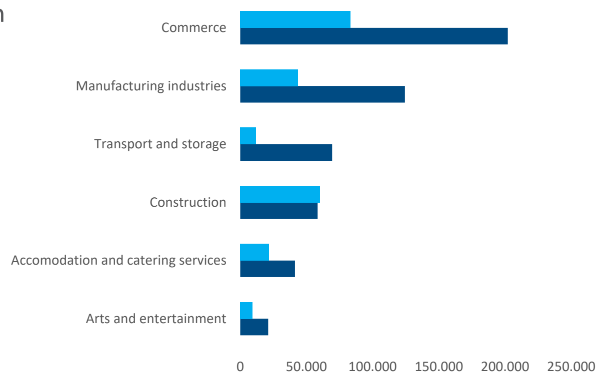
As regards commerce, its contraction means an enormous problem given its weight in employment and total GDP. In this context, sales are affected on various fronts. The confinement measures discourage competition among local shops, many of which have closed their doors, both on their own initiative and encouraged by the Government, as is the case of businesses in shopping centres. In addition, the fall in household incomes affects consumption in general, and the depreciation of the Uruguayan peso affects imported goods, in particular, in the same way. The latter are also affected by possible disruption of international supply chains. It should be emphasized that it is a highly heterogeneous activity where the range of possible strategies to address the difficulties caused by this crisis can be greater or less. This will be determined, among other things, by the capacity of the business to set up on electronic business platforms, the level of indebtedness and the capacity to access credit based the link with the banking system.

Many businesses, especially small ones, are highly exposed to liquidity problems affecting their solvency in the short term. Specifically, over 17% of all people in an occupation work in this sector, which determines that their negative prospects means a significant problem in terms of employment. The number of those occupied in commerce who do not pay contributions is some 28%, while among private sector employees, 14% of the total do not pay contributions or pay partial contributions. It is important to note that, within this group, it is likely that the impact will be the deepest and most prolonged in the case of restaurants and hotels (compared with commerce), given that the impact of the shock on tourism will be more long lasting (it is not possible to discard the idea that this situation will generate a profound change in patterns of consumption and people's propensity to avoid agglomerations, even when the pandemic is under control).

ii. Transport and storage

With regard to transport and storage, the negative outlook reflects the halt in tourism activities and the general decline in movement, both of goods and people. The enormous drop in demand for transport in the capital exemplifies the repercussion of the restrictions on mobility in a sector which employs over 80,000 people. In this sector, the problem of not paying contributions is fairly low, a situation which covers some 15% of employees. The figure rises to 10% when the non-contribution and under-registration of private employees is considered.

Figure 11. Formal and inform



Source: Continuous Household Survey (INE, 2018). Note: Informal means someone not registered in pension scheme.

The other sectors would not, a priori, receive a shock of such magnitude as those described above, although the situation is far from being homogeneous. In other words, the sectors analysed above would suffer a double shock (supply and demand) and, therefore, will face a more challenging and complex panorama. Despite this, the remaining sectors will also be affected by this new economic situation, although not in all cases will they face such a delicate situation.

iii. Other sectors of activity

With regard to manufacturing industry, which is a fundamental sector in terms of employment, the activities encompassed within it are diverse and the scale of the impact differs from one to another. The effects of the supply shock on the industry could be greater in those categories which are more dependent on the supply of intermediate goods, due to the impact on supply chains, and this could also affect continuity in industrial plants which involve high levels of transit and concentration of persons. On the other side, the demand shock would have a negative impact, and an important one, on certain specific industries (such as refrigeration, high dependency on the export market), but others not substantially (such as pharmaceuticals). Anyway, in general terms, the outlook for industry in the first half assume low expectations of recovery after facing a fall in the last quarter of 2019. In this vein, the Survey of Expectations conducted by the Chamber of Industry in companies in the sector shows that among those who expect to be the worst hit by the current situation are SMEs, in particular those serving the domestic market and whose production does not relate to food and beverages. This is the case, for example, of clothing and shoes. It is important to note that from the second half of the year, a slightly more favourable panorama might be configured, in that the building supplies branches would benefit from the works which are ancillary to the installation of the UPM Plant.

With respect to construction, this is a branch which depends relatively little on the external sector and whose activity has not been one of the first affected by the health measures, thus the direct shocks received would not, a priori, be of significant magnitude. Whatever the case, supply was affected temporarily due to a tripartite agreement to cease activities which extended to 12 April. Thus, from 13 April, there was a return to work on most sites, under strict prevention protocols. In addition, on the demand side, the pro-cyclical character of the sector's activity suggests that it is likely that works and investments will be deferred in a negative and highly uncertain economic context. The works associated with the second UPM plant, if they advance as planned, would partially offset this trend during the second half of the year.

Primary activities, for their part, would be the activities least affected by the supply shock which arises from the current state of emergency. In this regard, the social isolation measures imposed pose no difficulties so far for the continuation of productive processes of a biological nature and the supply of food. Nevertheless, the continuity of cashflows in some branches is also threatened, such as in meat production, which depends on the continued operation of the refrigeration phase, an activity which involves high concentrations of people and which could be affected by quarantine or social distancing measures. At the same time, it should be assumed that global demand will remain weakened in the short term, especially in markets such as the European Union. This is an aspect which could slow the traction of an export-led recovery such as experienced in 2004 or 2009.

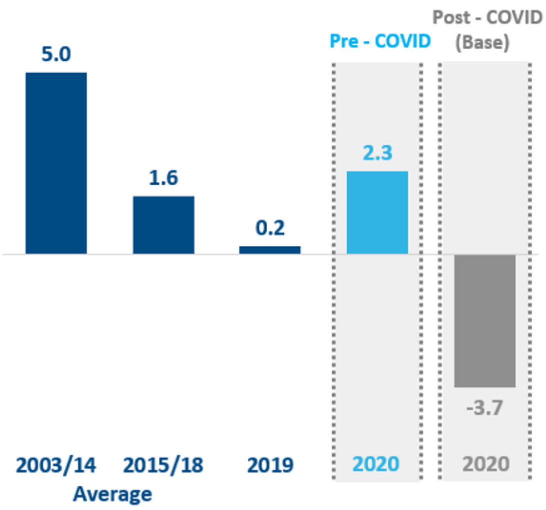
Finally, among other activities, artistic, cultural and leisure activities, as well as personal services, should be highlighted, as they are being severely affected by the government rules on holding of public shows and the exhortation to avoid gathering of people. The special nature of this sector is that it has a high degree of informality in the private sector. Only a third of those employed have the possibility of protection through unemployment insurance, which means a high degree of vulnerability. This is in addition, moreover, to the previous remarks concerning the persistence which could be assumed with the normal resumption of activities. Thanks to its diversity, this is a sector which could benefit rather more than the rest from the possibility of working remotely. In addition, several of the services which are centred within this group would not see their functioning drastically altered, such as health services or financial services.

4. The new macroeconomic scenarios

Prior to the COVID-19 shock, we estimated GDP growth of 2.3% and 1.9% for 2020 and 2021 respectively. In the specific case of 2020, a breakdown of growth showed an expansion of 0.6% based on the macroeconomic scenario, supplemented by an additional stimulus of 1.7% from the construction of the new UPM cellulose plant (UPM II) and the associated infrastructure works. In effect, without the latter, the outlook for activities in the next biennium were meagre, in line with that observed since 2015.

As can be seen from the above analysis, the outbreak of this shock means a dramatic change in the short-term outlook. In addition, it introduces enormous uncertainty, given that it has its genesis in a component that is not economic, and there are no certainties concerning the timing and intensity of the lockdown going forward. Given the foregoing, according to our base scenario, the impact of COVID-19 on the Uruguayan economy means a correction to the forecast for 2020 of 6 percentage points. In this connection, we expect a contraction of GDP of 3.7% this year, followed by a rebound in 2021. Indeed, the construction of UPM II and the associated infrastructure works will not offset the decline in activity during this year[14].

Figure 12. GDP projections (year-on-year % variation)



Source: Own elaboration.

Following the above, a partial lockdown for 180 days is assumed. In this regard, Uruguay will reverse its social distancing measures, albeit slowly and gradually, from May or June 2020. This means that the impact on different sectors of activity will vary markedly. In some cases, activities will continue with relative normality, or even with a slight boost. Among these, health or telecommunications are two illustrative examples. In the case of the farming sector, the impact will be less in that it involves biological processes. At the other extreme, activities such as restaurants, hotels, travel agents or transport will be severely hit during the coming quarters.

[14] On this point, it is important to bear in mind two risks, at least. Firstly, there are risks related to the redefinition of contracts, Secondly, there are risks associated with potential liquidity or supply chain problems in some works.

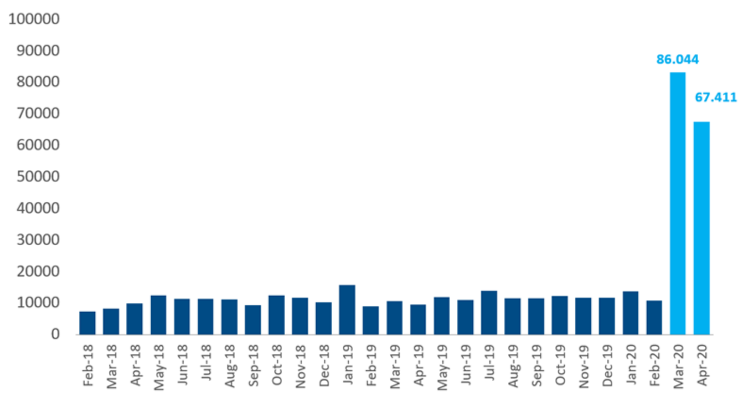
Between one extreme and the other, activities such as construction, industry or some of those which are centred in other activities will be partially affected. Under this scenario, the most intense recessionary impact is set in the second quarter, with a fall which could far exceed 8% year-on-year.

From the point of view of aggregate demand, the depreciation of the Uruguayan peso is similar to that of the countries of the region, but higher than some of its competitors such as New Zealand and Australia. Assuming that the weakness of the Uruguayan peso against the dollar extends for a second quarter, and peaks between July and August (Q3.20), the deterioration in prices relative to some competitors will be partially offset, which could translate into modest improvements in Uruguay's global competitiveness. However, as was mentioned, this would occur in a world with lower aggregate demand and a lower propensity to trade. This pattern, with some exceptions, marks a significant difference compared with what happened in 2003 and 2009.

On the other side, the depreciation of the peso will have a very short-term negative impact on private consumption and imports, due to the loss of purchasing power of incomes in dollars and the lowering of expectations of consumers which tend to be associated with this type of phenomenon. Thus, despite the stimulus associated with the UPM II works, aggregate demand will be severely depressed during the current year.

In the case of the labour market, the last data published corresponds to the month of February and thus does not pick up the impact of COVID-19 on the Uruguayan economy. However, the information on the evolution of monthly unemployment insurance payments published by BPS gives a partial approximation of what has been happening between March and April. Specifically, the first known indicators following the decree of the health emergency (13/03) show a pattern of exponential growth of applications for unemployment because of the paralysation of activity and reduction in hours worked. Specifically, applications increased in March to 86,044, almost eight times higher than the monthly average in the last two years (approximately 11,200 applications). In April, with data up to the fifteenth of the month, applications reached 53,488

Figure 13. Applications for unemployment insurance



Source: Social insurance bank.

To put these numbers in perspective, it is important to bear in mind that, during the crisis of 2002, unemployment insurance payments peaked at around 11,541 (August 2002). Thus we are in the presence of an unprecedented episode in the labour market. However, as pointed out by Bai et al. (20/4/2020)[15], it is not possible to draw a direct comparison, given that this crisis is of a different nature, and that from that time, Uruguay recorded a significant process of formalization.

[15] Bai H; Carrasco P; Dean A & Perazzo I. (2020). "*Los seguros de desempleo ante un mercado laboral en terapia intensiva. Insumos para enfrentar la pandemia*" (unemployment insurance in a labour market intensive care. Inputs to tackle the pandemic).

Thanks to that, the number of workers who are now covered by social security is much higher, as progress was made in including sectors not previously covered. For this reason, as soon as the deterioration in the labour market began during the second half of 2014, unemployment insurance payments reflected the higher increases compared with those seen in the previous crisis.

At the level of branches of activity, the sectors which are over-represented in this universe are commerce, restaurants and hotels, manufacturing industry and transport and communications.

Figure 14. Applications for unemployment insurance by branch of activity (March 2020)

Branch	% applications in March 2020	Weight of formal employment in the private sector
Commerce, Restaurants and Hotels	41%	25%
Manufacturing industry	15%	14%
Transport and Communications	15%	10%
Communal, social and personal services	14%	28%
Services to business	8%	10%
Construction	4%	5%
Farming and mining	2%	8%
Electricity, Gas and Water	0%	1%

Source: Bai H; Carrasco P; Dean A & Perazzo I. (2020). "Los seguros de desempleo ante un mercado laboral en terapia intensiva. Insumos para enfrentar la pandemia".

Looking ahead, the deterioration in the labour market will continue to worsen during the coming months. While the uncertainty about the evolution of the virus and the effectiveness of the containment measures deployed by the authorities mean that it is very hard to estimate the degree and timing of the impact, we expect that unemployment will reach over 16% during the second quarter of the year, gradually falling back towards December. Without prejudice to this, unemployment is likely to end the year above 12%. In employment terms, the fall envisaged for 2020 is slightly under 7% considering annual averages. In this respect, the relative impacts on employment would be greater that on GDP (which will rebound more quickly).

For its part, on the inflationary front, the increase in the consumer price index is likely to consolidate above 10% year-on-year during the second and third quarters of the year, and moderate slightly after that. On the one hand, the adjustment of public tariffs in the month of April will have an upward impact on the level of inflation which is already fairly high: 9.2% year-on-year in March. On the other, the depreciation of the peso will have an impact on the tradable components of the consumer basket, which will drive inflation independent of the recessionary scenario through which the economy is passing. These effects will more than offset the lower inflationary pressures associated with the fall in demand, and the lower pass-through of the dollar price in price levels due to the fall in economic activity. As a result of the foregoing, the purchasing power of wages in pesos will suffer during the coming months.

On the fiscal front, there will also be a significant deterioration during 2020, the product of the fall in tax collection and the temporary increase in spending to address the pandemic. Specifically, the public sector deficit will increase steadily between April and September, and may rise to slightly over 9% of GDP in the third quarter. Consequently, the Government will have to introduced a fiscal readjustment in 2021 to repay the debts contracted during the economic and social emergency, which could include actions not only in the spending area, but also incomes.

Considering this scenario, and despite the measures taken, a deterioration in the area of poverty, unemployment and inequality can be expected. On the one hand, during recent years it has been interrupted on both fronts and there has been a slight change in the trajectory with respect to that observed during the years of greatest economic dynamism. On the other, as is analysed below, the impact of the shock and the social distancing measures to contain it, is not distributed evenly within the population. On the contrary, the impact will be asymmetric, and especially intense in the case of the most vulnerable segments.

5. Considerations on the impact of COVID-19 on inequality

i. Regressive impact of teleworking

The surge and rapid expansion of COVID-19 will mean major changes in many aspects of our daily lives. In particular, it is possible to speculate that the pandemic will be the final push for many changes which have already been happening, but which were moving at a gentle pace. This is the case, for example, of teleworking. Indeed, technological advance has allowed a growing number of tasks to be performed remotely. However, the social distancing measures deployed to contain the advance of the virus, and to safeguard the capacity of health systems to respond, has tended to accentuate this trend, while at the same time expanding its scope to a wider group of occupations and sectors of activity. In this way, many tasks can continue to be performed with a certain degree of normality in the face of this new reality. However, this possibility is not distributed evenly among all workers. Because of its characteristics, a considerable part of the labour force is left outside this new model of employment and at present has no possibility of continuing to work. Furthermore, the distribution of these teleworking capacities not only leaves a significant proportion of people on the fringe of the labour market, but this is the part which, in general terms, exhibits a greater degree of vulnerability to the current situation.

For this reason, an alternative approach to the profile of the population most disadvantaged in the face of this crisis involves identifying how that capacity to perform tasks remotely can continue. In the Uruguayan case, a strategy of this nature was addressed by various authors. Prominent among these are Caporale, Pereira and Zunino[16], Guntín[17] and de los Santos and Fynn[18]. Taking different approaches, their contributions allow us to address this issue and take an additional look to understand the composition of the universe of workers who will see their economic situation most affected by the COVID-19 shock.

In all the cases, the studies use data corresponding to the Occupational Information Network developed by the United States Department of Labour (O*NET), using the Continuous Household Survey of the INE to adapt it to the Uruguayan case.

In the first case, the authors developed the "index of possibilities of distance working" (IPTD), to identify the limitations on distance working between three groups particularly vulnerable to the situation. These are informal workers (outside the social protection system), independent formal works (they are formal, but do not have access to unemployment insurance) and formal paid workers on low incomes (although they receive unemployment insurance benefit, they face problems of sufficiency). Among the principal results, the following stand out. The index takes values between 1 (cannot work remotely) and 5 (without limitations), whereby those who show an IPTD less than 3 are defined as vulnerable.

[16] Caporale F, Pereira M and Zunino G. (March 2020). "*Coronavirus y las vulnerabilidades de la Red de Protección Social en Uruguay*". *Observatorio de Seguridad Social de Cinve*: www.suma.org.uy/coronavirus-y-las-vulnerabilidades-de-la-red-de-proteccion-social-en-uruguay.

[17] Guntin R (April 2020). "*Trabajo a Distancia y con Contacto en Uruguay*": www.rguntin.com/other/employment_uru/employment_uru_covid.pdf.

[18] De los Santos D & Fynn I. (April 2020). "*COVID-19: Los límites a la informalidad en tiempos de distancia social*". *Blog Razones y Personas: repensando Uruguay*: www.razonesypersonas.com/2020/04/covid-19-los-limites-la-informalidad-en.html.

Firstly, all the occupations in our country which face some kind of restriction on carrying out tasks normally, although this restriction differs in the degree of severity. Secondly, within the universe of informal workers, approximately 270,000 (70%) are especially vulnerable in the light of their incapacity to continue their activity remotely. Thirdly, within the group of independent formal workers, almost 45,000 have difficulties in remote working. Fourthly, within the last group, there are three distinct realities: (i) 75,000 individuals with unemployment subsidies face problems of sufficiency; (ii) 135,000 are most affected because of suspension; and (iii) 59,000 have subsidies for reduced hours.

Figure 15. Workers and possibility of remote working

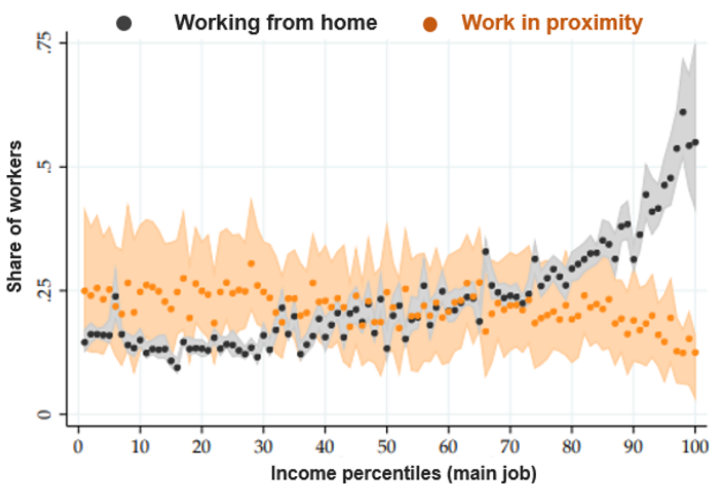
	Not remote	Proximity	Quantity
Private (total)	77%	22%	1.353.383
Poor	88%	24%	86.458
Informal	87%	27%	391.505

Note: Not remote" workers for whom it is not easy to work remotely."Proximity" workers who work in activities with close contact.
Source: Guntin, R. (2020). "Remote working and with contact in Uruguay".

With a similar approach, Guntín finds that 77% of workers have difficulties in working from home and 22% of workers work in proximity (meaning work which requires being less than an arm's length from another person).

In addition, poor or informal workers have greater difficulty in performing work from home (this affects 87% and 88% respectively), and these are those who perform the greatest proportion of work which requires proximity (22% and 27% respectively). Lastly, Guntín analyses the foregoing in terms of the distribution of incomes, and it emerges that the number of workers with possibilities of distance working increases significantly with income, and that the proportion of workers with close contact falls with higher incomes.

Figure 16. Number of workers with possibilities of distance working and incomes



Source: Guntin, R. (2020). "Remote working and with contact in Uruguay".

Finally, De los Santos and Fynn construct a classification of effects of approaching the distribution of workers in terms of whether or not they are informal and whether or not they can work remotely. Based on this, they find that 69% of informal workers have no possibility of performing tasks remotely.

Nevertheless, as the authors point out, the problem is not limited only to the capacity to continue working remotely, but there are a multiplicity of factors linked to the reality of each household which refine the results. Within informal workers who could work remotely, there is an overcrowding rate of 13% (higher than the 5% of formal workers who can work in a remote context). In addition, 20% of workers who are informal and have the capacity for teleworking live in households where at least one basic necessity is unsatisfied in relation to accommodation (in the case of formal workers with the capacity for teleworking, it is 6%). Furthermore,42% of informal workers who can continue to work do not have an Internet connection in their home and 36% do not have a computer. Lastly, it is crucial to bear in mind that in the face of the containment measures deployed to contain the advance of COVID-19 (especially the closure of education centres), caring tasks are restricted exclusively to the orbit of each family.

Figure 17. Workers by characteristics of occupation and possibility of distance working

	Informal	Formal	Total
Cannot work	17%	36%	53%
Can work	8%	39%	47%
Total	**25%**	**75%**	**100%**

Source: De los Santos, D. & Fynn, I. (2020). "*COVID-19: Los límites a la informalidad en tiempos de distancia social*".

This, as was analysed, means an asymmetric load between the man and the woman. According to the authors, "35% of informal workers with the possibility of distance working live with at least one child under 12 years in the household. In the specific case of informal women workers with the same characteristics, 41% live with at least one child under 12 years in the household, and 17% with more than one".

To sum up, incorporating the capacity of workers to maintain their sources of employment income through remote working enhances the analysis in terms of identification and characterization of the groups which are especially vulnerable in the face of the current situation, However, it is important to bear in mind that other factors influence the foregoing, which are of multiple origins and associated with the dynamic and reality of each household. Finally, they must be considered when designing public policies to prevent the current crisis exacerbating pre-existing weaknesses and gaps.

In conclusion, it is worth noting that these results are in line with other studies carried out in relation to the impact of this dimension. Of particular note is the document entitled "The asymmetric impact of quarantine: Estimates based on a characterization of occupations" which was published on 16 April by the Centre for Distributive, Labour and Social Studies for the Argentine case[19], (also based on O*NET data).

In short, they also find a high degree of dispersion between the applicability of teleworking by occupation and sector, the occupations least compatible with teleworking being those which concentrate the greatest proportion of informal workers and self-employed, with the lowest levels of education, qualifications and wages. As a result of this, they estimate that the greatest impact in the short term will be suffered by the segments with the least resources, generating a significant increase in poverty and income inequality in the country (despite the mechanisms of public transfers deployed up to now). It is important to bear in mind the differences from the Argentine case, both in terms of starting point, the social protection net and the severity of the restrictions on mobility which were implemented by the Government (quarantine).

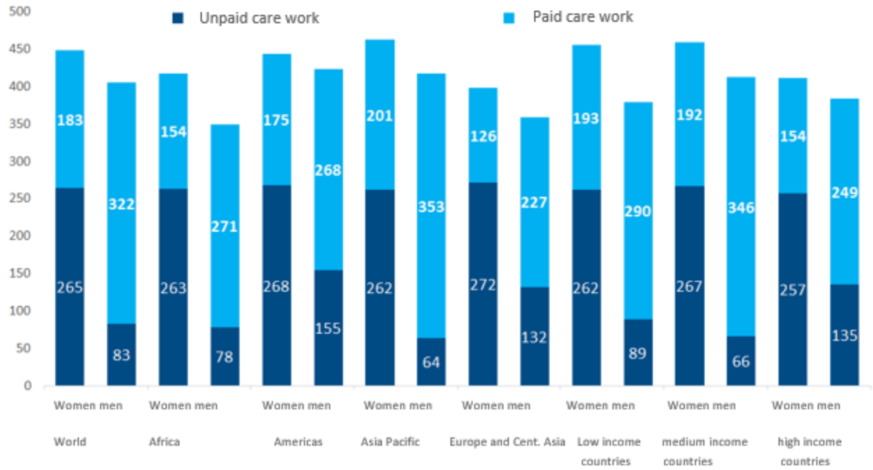
[19] Bonavida Foschiatti, C. and Gasparini, L. (2020). "El Impacto Asimétrico de la Cuarentena". CEDLAS working document Nº 261, April, 2020, CEDLAS-FCE-La Plata National University.

ii. Lockdown, care and gender inequality

The shock caused by the spread of the COVID-19 pandemic at global level has negative effects on the strategic, social and economic plane, and its impacts are distributed unevenly between women and men. In this regard, women suffer a heavier burden for many reasons. On the one hand, women do most of the work related to health and social assistance. They are over-represented among health workers, where they account for two thirds of personnel in this activity, which exposes them to a greater probability of contagion[20].

They also concentrate the bulk of unpaid work, which makes it difficult to reconcile teleworking when this is possible. According to the International Labour Organization, women carry out 76% of all unpaid care work, and spend 3.2 times more time doing it than men. The estimates based on survey data on use of time in 64 countries show that, per day, they devote 16,400 million hours to unpaid care work. This corresponds to 2,000,000 people working eight hours a day without receiving any remuneration[21].

Figure 18. Time devoted daily to unpaid care work, paid work and total work; by sex, region and income group (last available year)



Source: ILO (2018).

In addition, women face a greater situation of economic vulnerability than men. Women's participation rate in the labour force in 2018 was 48.5%, while for men it was 75%, which represents a gender gap of 26.5 percentage points[22]. lastly, the risks of suffering situations of gender violence increase in periods of crisis, quarantine or social distancing. For all these reasons, women are among the groups most affected by the current crisis.

Indeed, the economic vulnerability of women is greater in the face of this economic situation. Although there are practically no differences between men and women living in por households, it is more likely that a household will be in a state of poverty when the head of household is a woman. In 2019, 7.5% of households with a female head were in a state of poverty, compared with 4.5% of households with a male head, a situation which is more pronounced in Montevideo than in the interior of the country[23].

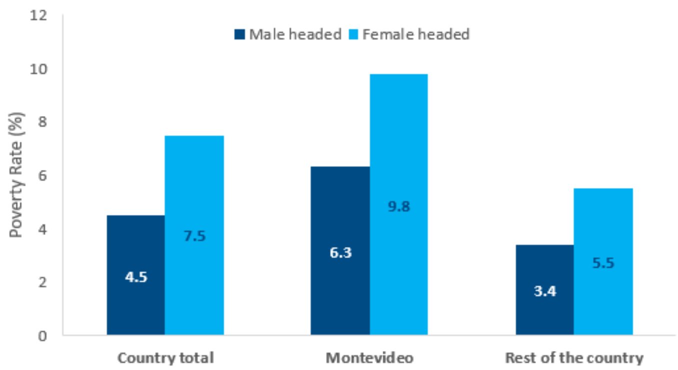
20 read.oecd-ilibrary.org/view/?ref=127_127000-awfnqj80me&title=Women-at-the-core-of-the-fight-against-COVID-19-crisis.

21 Care work and care jobs for the future of decent work / International Labour Office – Geneva: ILO, 2018.

22 ILO (2018).

23 Parada, C; Querejeta, M and Grupo Jueves (04/2020); El coronavirus no discrimina: Inequidades de género en la pandemia. La Diaria. ladiaria.com.uy/articulo/2020/4/el-coronavirus-no-discrimina-inequidades-de-genero-en-la-pandemia/#fnref:6.

Figure 19. Incidence of poverty in households by major geographical area by sex of head (%; 2019)

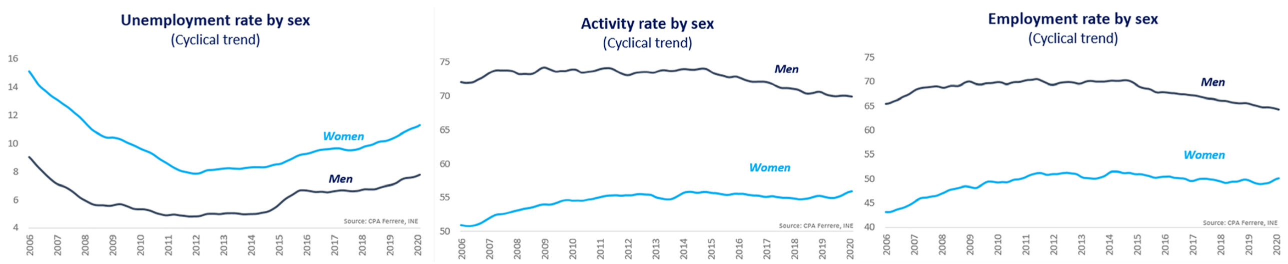


Source: National Institute of Statistics[24].

Despite progress made in this respect, the position of women in the labour market is still markedly different from that of men. In our country, women continue to face lower rates of activity and employment than men, and higher unemployment rates.

In addition, they have a greater probability of finding themselves in the informal sector[25] of the economy and, ultimately, remaining on the fringe of the social protection network.

Figure 20. Rate of unemployment, activity and employment by sex



Source: National Institute of Statistics (2020).

Combined with the foregoing, women also receive lower remuneration and have fewer possibilities of accessing entrepreneurial and executive positions[26].

In relation to the former, according to the report *"Equal Pay Day (EPD)"* prepared by Ferrere in 2020[27], the wage gap between women and men is currently around 21.8%. The EPD would symbolize the day of the year when women, despite working since 1 January, would begin to receive income for their work. Expressed another way, it allows us to visualize the income gap as free working days in the year. Given that the report covers the four countries in which our firm is present, it is possible to compare, at least partially, how Uruguay stands in relation to some of its peers in the region.

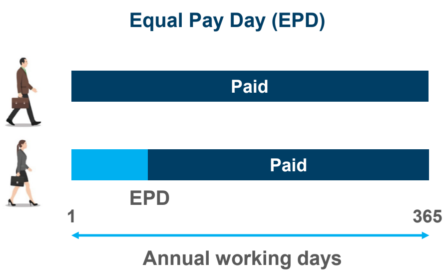
24 INE (2020); Estimate of poverty by the income method, 2019 – Technical Bulletin.

25 Parada et al (2020). La Diaria.

26 Social and employment perspectives in the world: Global progress in women's employment trends, 2018. International Labour Office – Geneva: ILO, 2018.

27 The launch of Equal Pay Day in 2017 was one of the projects on which FERRERE embarked after the signing of the HeForShe commitment of UN Women, in line with its commitment to gender equality.

Figure 21. Equal Pay Day and income gap by country



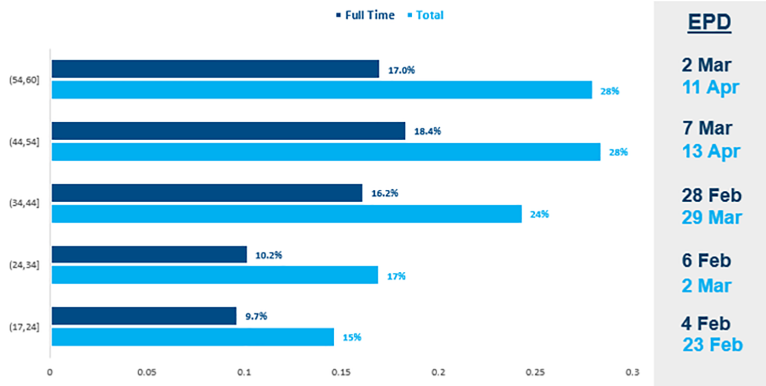
	Income gap (%)	Gap in days
Bolivia	20.6%	75
Ecuador*	17.0%	62
Uruguay	21.8%	79
Paraguay*	30.4%	111

*For Ecuador and Paraguay the updated base is not available, so the data for the previous year are retained (2018).
Source: Own elaboration based on national survey data for each country.

In this respect, Ecuador is the country where the gender gap is lowest – 17% in 2018. EPD in that country is 3. March. It is followed by Bolivia, with a wage gap of 20.6%, where EPD falls on 15 March. In third place is Uruguay, where EPD is on 15 March, with a gap of 21.8%, and lastly, Paraguay, whose EPD is 21 April, with a gender gap of 30%. In turn, the report also allows an analysis, for Uruguay, of the actual reality in terms of the various age group.

This is shown in the following chart.

Figure 22. Income gap (%) and EPD by age group



Source: Elaborated from ECH data (INE).

In addition, at international level, there are marked gender differences in occupation in the care sectors (education, health and social work) and Uruguay does not escape this tendency. These sectors, where women's activity predominates, has been intensely affected by the pandemic and the resulting measures which were deployed to contain it.

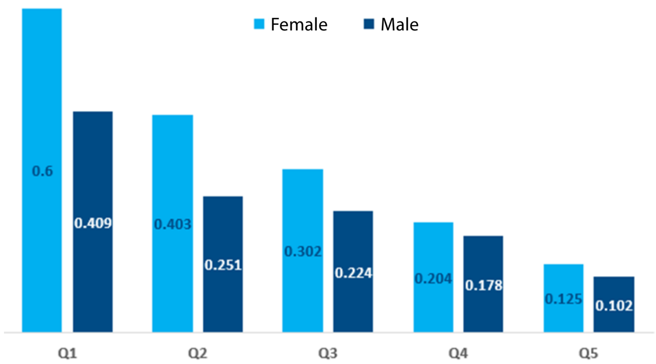
On the one hand, in Uruguay, women represent 76% of health workers, which puts them in the front line of the battle against COVID-19. On the other, another set of activities with high women's representation was severely affected by the measures taken to contain the spread of the virus, such as those employed in households, where women represent 89% of all workers, social services with 77%, education with 74% and other services with 61%[28].

28 Parada et al (2020). La Diaria.

Women also face a greater burden of unpaid work. According to the Rime Use and Unpaid Work Survey (2013), women devote approximately double the number of hours as men to this type of work. In the case of women, almost two thirds of their work time is devoted to unpaid work (65%) while for men, the proportions are inverted. They devote one third of their time to unpaid work (31.9%) and two thirds to paid work (68.1%)[29].

In addition, rather more than 1 in 3 women (35.2%) say that they carry out activities for care of dependents, while this happens for 1 in every 4 men. The majority of these tasks related to childcare. Lastly, the survey shows that the workload done by women for care of dependent increases as personal income falls, the rate of women's participation in households in the first income quintile is 60%, while in the fifth quintile, it is 12.5%. And the gender gaps increase as personal incomes decrease.

Figure 23. Rate of participation (%) in care of dependents by sex and income quintile (2013)



Source: INE (2013).

This takes on relevance in the current context, to the extent that the COVID-19 crisis has unleashed an increase in demand for care of dependents, in particular, children, caused by the closure of education centres. The new situation could increase further the tension in the difficult balance between employment and unpaid work, in particular, care of dependents. Women who can telework (although women seem to have greater participation than men in jobs where it is not possible to telework[30]) will have to reconcile this with their multiple activities in the household, and in the extreme, some may have to leave the labour market as a consequence of the increase in the workload in the home[31]. Thus, reinforcing gender differences.

A final consequence of the new context, which was mentioned above is linked to the upsurge in gender violence in the home. The problems linked to the economic crisis and restrictions imposed by social isolation represent an additional risk to the situation of women, boys and girls.

For all these reasons, the impact of COVID-19 from a gender perspective has, or should have, implications for the design of social protection measures to overcome the crisis. As was pointed out, the impact and costs of this crisis are not fairly distributed across society, which particularly affects women, especially in the most vulnerable economic strata of the population. This is a key factor that must be carefully addressed in the design of public policies.

Indeed, the outbreak of the pandemic will exacerbate pre-existing inequality and vulnerabilities, which, despite, the progress achieved, have proved extremely persistent. The COVID-19 crisis has become a crisis of the care sys-

[29] INE (2013); Use of time and unpaid work in Uruguay. Available at www.ine.gub.uy/documents/10181/35933/Uso+del+tiempo+y+el+trabajo+no+remunerado/579b3fdb-c0e8-4745-ab1d-a9aef24ab5a5

[30] De los Santos, Daniela and Fynn, Inés (04 2020) COVID-19: Los límites a la informalidad en tiempos de distancia social. Blog Razones y Personas. www.razonesypersonas.com/2020/04/covid-19-los-limites-la-informalidad-en.html

[31] Parada et al (2020). La Diaria.

tem, where, as has been seen, women have a disproportionately high responsibility, both through their participation in unpaid work and the feminization of the sectors of occupation linked to care. This demands a response to the crisis which takes gender factors into consideration in the measures adopted.

To adequately address this enormous challenge, it is essential to take account of the changes that are taking place in the dynamic of households, all of which have disproportionate implications for the feminine population (collapse of incomes, episodes of violence, greater demand for unpaid work). For that reason, greater social protection measures are need, such as income support for households that suffer sudden reductions, and protection of informal workers. Also, however, we could work together with the sectors which face a fall in demand for their services or facilities, such as those relating to the tourism sector, to house women and children if they need to leave their homes due to situations of violence

In addition, it would be beneficial to progress with collection of data related to COVID-19 broken down by sex (such as infections, comorbidity, effects on employment and incomes) in order to be able to take better decisions to target help.

6. The economic policy response in the short term

As mentioned, the external shock caused to Uruguay by the current global crisis is a drastic change in the scenario for the economic policy conducted by the new Government to recalibrate the objectives, priorities and tools of the short-term macroeconomic agenda.

i. Measures adopted up to now

In this framework, in the last few weeks, the Uruguayan Government has announced measures which indicate a redefining of the priorities of economic policy in the right direction considering the nature of the shock. The announcements made up to now are in line with the measures adopted internationally and are designed to "support" the economy in the face of the disruptions generated by lockdown. In particular, on the one hand, it is sought to protect the most vulnerable population and economic activities. On the other, it has sought to provide liquidity and make tools available to companies to address the problems of liquidity and prevent them becoming a solvency issue.

Among the measures designed to protect the most vulnerable population and companies are:

i. Expanding and facilitating access to unemployment insurance.
ii. Deferring payment of taxes and social security contributions for micro and small enterprises.
iii. Increasing and expanding Ministry of Social Development (MIDES) programmes.
iv. Generating sickness subsidy for private workers over the age of 65 years and announcement that public workers in this age group do not have to come to work.
v. Incorporate the coronavirus as an occupational disease for health personnel.
vi. Implement benefits for the payment of instalments on housing loans.
vii. Expand Internet access to homes with the basic plan.

To minimize distortions in the functioning of the economy, the following measures were announced:

i. Channelling funds of multilateral institutions to finance credits to companies in sectors affected by the crisis.
ii. Increase funds for the National Guarantees System to leverage loans to small and medium-sized enterprises.

iii. Relax the criteria for access to credit programmes for micro and small enterprises manged by the National Development Agency (ANDE).
iv. Authorize financial institutions to extend maturities of credits to the non-financial sector by up to six months.
v. Temporary reduction in reserves in national currency for banking institutions to expand liquidity and stimulate credit.

Listed below are the principal measures announced with a brief description:

Measure	Description
Fiscal measures to support the real economy	
Monetary transfers to the most vulnerable people and companies	
Strengthening and expanding the MIDES programme	*Extending the timetable and creation of new hostels for homeless people, and strengthening of INDA (National Food Institute) plans.*
	One-off doubling of the amount of the Uruguay Social Card amount. Half will be transferred on 31 March and the rest one month later. This benefit will reach 87,000 households.
	Doubling of the share of the National Food Institute (INDA) destined for canteens, snack bars, churches and other institutions. The amount of food destined for municipal canteens in the interior of the country and baskets for local offices will also be doubled, both actions undertaken by the Ministry of Social Development.
	One-off doubling of the amount of family allowances under the Equity Plan. This benefit will affect 118,000 households.
	Allocation of a basket of vouchers to buy basic foods, for people without formal employment, children or social coverage. The beneficiaries can access this voucher for 1,200 pesos through a mobile phone application.
	Subsidies for monotaxpayers covered by the Ministry of Social Protection. The subsidy amounts to 6,700 pesos per month for two months.
Deferral of taxes	
Taxes	*Deferral of payment of minimum VAT (section E) for February and March. This must be paid from May in six equal instalments and without payment of interest.*
	Extension of payment of taxes of the DGI (General Tax Office) for liabilities for March to the 27th of the month.
Social security	
Deferral of contributions	*Deferral of payment of employer's contributions for March and April for monotaxpayers, single-person and personal companies with up to 10 employees whose contribution scheme is the Industry and Commerce scheme. In addition, the State will assume 40% of these contributions.*
Flexibilization of unemployment insurance	*"Flexible" unemployment insurance for all sectors of activity.*
Generation of sickness insurance	*Public employees over the age of 65 years must stay at home and it is announced that private dependent workers and employees in industry and commerce, construction, rural or domestic service will be paid sickness subsidy to encourage them to stay at home.*
	To protect medical personnel during the health emergency, coronavirus will be added to the list of occupational diseases.
Leave from employment for construction	*Special leave agreement up to 5 April with workers in construction. In particular, the agreement covers workers in construction and other related branches (extraction, ceramics, concrete and toll booths). The benefit per worker is a one-off payment of UYU 16,505.52. Financially, it is divided as follows: 30% by the State; 50% by business chambers and the remainder by the workers.*
Other	
Public services	*Antel will include for the month of April free recharges of 50 gigabytes for the Universal Household Plan[32] The most basic Internet plan for residential services)*

[32] Most basic broadband Internet access for residential services is included in the fixed telephone service and there is no extra charge. The benefit will cover some 120,000 subscribers, according to the report of the Presidency.

Monetary measures – regulators to provide liquidity to the financial sector and stimulate credit in the real economy	
Benefits for mortgage loans	*Benefits in payment of housing loan instalments of the Uruguay Mortgage Bank and the National Housing Agency.*
Strengthening of guarantee funds	*Increase in funds of the National Guarantee System to allow financial institutions to grant loans up to USD 2,500 million to small and medium-sized enterprises. In addition,70% of the commission charged by the system is waived.*
Expansion of credit lines	*Opening of "soft" credit line (lower rates, longer repayment periods, grace periods in BROU of USD 50 million with possibility of expanding to USD 125 million. Possibility of using it for working capital or refinance matured loans.*
	Expansion of the ANDE Targeted Credit programme for micro and small enterprises affected by COVID-19. The programme subsidizes interest rates charged by micro finance institutions to SMEs so that they can access financing at lower cost. In addition, existing beneficiaries of the programme have a deferral of their instalments during the following month.
	Implementation of loans for single person companies through the National Development Agency. These will be 12,000 pesos for the months of April and May
Flexibilization of the criteria for classification of debtors	*BCU authorizes banks, financial services companies and credit administrators to extend payment periods of credits to the SNF for up to 180 days.*
Temporary reduction of compulsory minimum reserves in national currency	*BCU is temporarily reducing the compulsory minimum national currency reserves for financial institutions, This reduction will be conditional on an increase in credits in national currency compared with the February level.*

Source: Own elaboration based on Presidency (2020)

According to statements by the Presidency, the measures announced up to the first days of April, together with the spending associated with the increase in persons covered by unemployment insurance or sickness insurance amounted to USD 400 million[33], or approximately 0.7% of GDP[34].

To finance this expenditure, the Government ordered the creation of the "Coronavirus Fund". In the first instance, the Fund will be fed by disbursements from contingent loans from multilateral credit institutions – discussed in section 1.1 – accumulated profits of the National Development Corporation (CND) and a percentage of last year's surpluses of the Bank of the Oriental Republic of Uruguay (BROU), and collection of the new tax created on public officials and politicians with high incomes and the extension of the tax on Social Security Assistance – which is charged on high levels of pension.

"Coronavirus Fund"	To meet the expenditures arising from the activities of protection of the population; prevention, mitigation, care and rehabilitation borne by the National Emergencies System; financing of the MSP and other public and private providers; payment of unemployment and sickness insurance because of the health emergency established from 13 March; and financial assistance to the BPS given the fall in tax collection due to the lower economic activity. The sources of financing will be: profits of the BROU; accumulated profits of the CND%; collection of the new "COVID-19 Health Emergency Tax; donations, funds from loans by multilateral institutions; contributions of non-state public entities[35].

The following table summarizes the new taxes created to finance part of the "Coronavirus Fund".

"COVID-19 Health Emergency Tax"[36]	Monthly tax charged on nominal remuneration and social benefits greater than $120,000 from personal services provided to the State, government departments, autonomous entities and decentralized services, and non-state persons under public law and state-owned entities on which the State or any other public entity has a majority participation. The amount of the charge depends on the nominal incomes of each person and varies between 5% and 20%. At the same time, the tax is charged at 20% on political office and positions of trust and those officials who perform tasks abroad. Health personnel are exempt from payment of the tax[37].

33 negocios.elpais.com.uy/noticias/medidas-economicas-vienen-detalle-financiamiento-tomadas.html

34 Calculated using GDP in dollars for the year 2019.

35 Based on Act N°19.874.

36 Both for the "COVID-19 Emergency Health Tax" and the extension of the IASS, there are lower limits below which the liquid incomes of contributors cannot fall. The effect of both taxes is two months – April and May -, and the Executive Power may extend them for a further two months.

37 Based on Act N° 19.874.

Extensión al IASS	An extension is created the Social Security Assistance Tax (IASS) charged on retirement benefits, pensions, military and police retirements, and similar discharge benefits, for service in public, parastatal and private institutions, on the same scale as the COVID-19 Health Emergency Tax[37].

Each of the sources of financing of the new "Coronavirus Fund" has different magnitudes. On the one hand, as of today, disbursements from multilateral have been received in the amount of USD 800 million[38]. In addition, profits of the BROU for the year 2019 totalled approximately USD 504 million, which means[39] that the State could access some USD 151 million to finance the "Coronavirus Fund". The accumulated profits of the CND at December 2019 amounted to UYU 2,193 million[40], equivalent to USD 59 million[41]. Lastly, the collection of the new "COVID-19 Health Emergency Tax" and the extension of the IASS is estimated at USD 20 million to each month in which they are actually in force.

Below, the policies implemented are analysed in more detail and opportunities for improvement are identified in the event of the need to strengthen or expand these mechanisms. In particular, emphasis is placed on social protection measures and provision of credit to the productive system.

ii. Evaluation of the measures adopted and recommendations

a. Social protection

The Government has acted quickly once the health state of emergency had been decreed and resolved to strengthen the existing social plans which seek to assist the country's most vulnerable population. Specifically, on the one hand, it was decided to increase the budget for food plans implemented by the National Food Institute, seeking to strengthen the network of canteens for the destitute. At the same time, the timetable was extended and new hostels were created for these people. Among the latter, the most vulnerable groups were identified so that they could be settled in places prepared for them, and spatial centres were created for destitute persons who have contracted the disease.

On the other, monetary transfers relating to the Uruguay Social Card were doubled – to be paid in the months of March and April – and family allowances under the Equity Plan – to be paid in the months of April and May. At the same time, the provision of food baskets was extended to people without traditional social protection and do not receive benefits from the Social insurance bank.

With respect to the monetary transfers and the provision of food baskets, the Government leveraged the pre-existing programmes of the Ministry of Social Development; the Uruguay Social Card and the Family Allowances under the Equity Plan. This allowed it to provide a rapid response monthly to the needs of these people who are among the most vulnerable in society. In both cases, the amount paid to the beneficiary households in receipt of these benefits was doubled, one time only.

It must be considered that the households which receive the transfers under the Uruguay Social Card can also receive the family allowances under the Equity Fund. This is taken into account in the measures announced by the Government, in that the households which receive the double amounts of the Uruguay Social Card will not receive

37 Based on Act N° 19.874.
38 Although it is not known how much of these disbursements were allocated the "Coronavirus Fund".
39 According to Act N° 19874 and Act N° 18.716.
40 Based on: "National Development Corporation: Individual Financial Statements at 31 December 2019"
41 Using the closing exchange rate for 2019.

the double amount of the benefits for households belonging to the family allowance programmes of the Equity Plan. The reason for this is to avoid some households receiving double benefits.

As was mentioned, as well as strengthening these pre-existing plans, the Government decided to extend the issue of food vouchers, like those granted to the beneficiaries of the family allowance under the Equity Plan, to people without formal employment who do not receive social benefits from the BPS, retirement benefits, pension, among other things. Unlike the family allowance under the Equity Plan, the issue[42] of this voucher basket through a mobile phone app, developed in conjunction with Antel and the BROU, which they can download onto their mobile phones. In this respect, those eligible must apply for the benefit by telephone or through the Ministry website. In both cases, the information provided by the applicant will have the character of a sworn statement with the potential consequences set out in the Criminal Code.

As the Government explained, this extension is intended to benefit everyone who before the pandemic was not a recipient of the existing social benefits for the social insurance bank, and neither did they have benefits from the traditional social security system, because they are not registered workers[43]. These would be people who, once they saw their traditional source of income reduced due to dismissal or illness, they could not access traditional social security mechanisms, which means that they could be significantly vulnerable in the present situation.

Thus, strengthening and extending these social plans by the Government are a step in the right direction, as the households in receipt of these benefits are in situations of extreme vulnerability[44] to the current health and economic situation.

Without prejudice the above, as the lockdown is extended over time, it is plausible that households, as well as requiring greater monetary assistance, will need to face expenses of a nature other than food. These, in some cases, could require payments in cash, something which it is not possible to do through some of the current transfer mechanisms – Uruguay Social Card, physical basket or mobile voucher

One possibility could be to open a bank account for each of the beneficiaries of the temporary transfers or deposit money in accounts already belonging to them. This would be accompanied by the issue of a debit card with which these people can make purchases with the deposited money or withdraw it directly from a cash machine. Complementary to this, for the case where the most vulnerable households who actually receive the Uruguay Social Card, the possibility of authorizing withdrawals of money from bank automats could be evaluated so that these people can access cash to meet other types of expenses.

This could be a key differential with respect to the handover of monetary transfers through a mobile application. While this mechanism could be more efficient in the distribution of the monetary transfers. The impossibility of withdrawing the allocated money[45] could limit the capacity to use it[46].

42 For households in the interior of the country, there is also the possibility of obtaining the physical basket.

43 It must be borne in mind that persons entitled to benefit from the Uruguay Social Card or the family allowances under the Equity Plan are not eligible for this benefit. The other members of the household may, however, make use of it.

44 As suggested in the work "Las políticas económicas y sociales frente a la expansión de la pandemia de COVID-19: aportes para el debate" (IECON, 2020), there are households which lost their benefits under the Equity Plan during the last year, for example, for failure to fulfil educational or health requirements. This would mean that households with the identical composition and similar levels of vulnerability could be receiving different benefits, related to the doubling of the benefits under the Equity Plan and the extension of transfers to informal workers o-r those without BPS benefits. Thus, in the same way as contemplated in the IECON work, those requirements could be relaxed temporarily so that these households can be beneficiaries of the doubling of the benefit. Alternatively, this benefit could be provided directly to those households, as it is possible that they are included in the administrative records of the MIDES.

45 Currently it is also not possible to divide the money credited.

46 Mention could be made of "cash-back" where shops, on presentation of a valid QR code, give the person the money in cash. In any case, for this to be possible, the shop would have to have the tools to be able to accept this type of payment method, and would have to be ready to issue physical money in exchange for that credited in the same amount to a bank account.

Lastly, it should be mentioned that monetary transfers by the State could be complemented by strengthening unemployment insurance[47] and other social security mechanisms, as suggested in the document *"Los seguros de desempleo ante un mercado laboral en terapia intensiva. Insumos para enfrentar la pandemia"*[48]. This would make it possible to ensure a minimum income threshold for persons who are not beneficiaries of the monetary transfers but who also find themselves in situations of vulnerability, such as under-employment or unregistered multiple employments. At the same time, the possibility of providing them with greater, temporary, flexibility, to this type of instrument could be considered, both in terms of the requirements, and for the time in which the benefits are paid[49].

In this way, strengthening these instruments would help to stretch a contingency safety net for the most vulnerable persons within whereby they have access to formal social security instruments.

One measure of this kind would be complementary to the monetary transfers, in the sense that the households would not be beneficiaries of them, but they would have access to traditional social security instruments. They would be beneficiaries of a subsidy which would mitigate the possibility of a situation beyond their control leaving them in a worse socioeconomic position, such as dismissal or contracting a disease which deprives them of work for a prolonged period.

b. Provision of liquidity to the financial system and stimulus for credit to the real economy

At the same time as social protection measures were announced for the vulnerable population, the Government also announced measures which seek to avoid the distortionary effects of the lockdown on the real sector of the economy. Specifically, as was mentioned, these seek to provide liquidity to the financial system and make tools available to companies to address problems of liquidity and avoid them potentially becoming solvency problems.

Thus, these measures can be divided into two pillars: those designed to increase the level of liquidity at home and those whose purpose is to stimulate credit to the real economy, paying particular attention to small and medium-sized enterprises which could be experiencing greater difficulties in accessing financing.

On the one hand, with respect to the liquidity measures, the Uruguay Central Bank decided to ease the criteria for categorizing debtors. This allows financial intermediary institutions, financial services companies and credit administrators to extend maturity periods, both for capital and interest, of credits to the SNF for up to 180 days without the need to reclassify the category of credit or the category of the debtors.

From the business angle, this brings two benefits. On the one hand, it allows debtors to move the payment schedule forward so that they can allocate their scarce resources to cover other operating expenses more important to the functioning of the business. This is complemented by the deferral of (i) payment of contributions to the BPS by monotaxpayers and owners and shareholders of single person companies and personal companies with up to 10 employees whose contribution regime is industry and commerce[49]; and (ii) payment of VAT for companies included in section E, small companies under the minimo-VAT regime for the months of March and April[50].

47 As suggested by: Bai H. Carrasco P. Dean A & Perazzo I. (2020). "Los seguros de desempleo ante un mercado laboral en terapia intensiva. Insumos para enfrentar la pandemia". Institute of Economics of the University of the Republic (IECON).

48 Again, as suggested by: Bai H. Carrasco P. Dean A & Perazzo I. (2020). "Los seguros de desempleo ante un mercado laboral en terapia intensiva. Insumos para enfrentar la pandemia". Institute of Economics of the University of the Republic (IECON).

49 In addition, 40% will be subsidized by the State, thus the remaining 60% of these 6 instalments from the month of June.

50 This tax is financed in six instalments from the month of May.

On the other hand, by waiving the need for banks to reclassify credits or recategorize debtors, these companies, at least no more than now, do not see their possibilities of access to financing on accessible terms downgraded.

In the same vein, the monetary authority implemented a temporary reduction, applicable until 30 June, of the mandatory minimum national currency reserves, the Uruguayan peso and Indexed Unit, for financial institutions. This reduction of compulsory minimum reserves is conditional on the increase pf credits by each institution to the non-financial private sector compared with the value of its portfolio at the end of February, and has limits with respect to the current compulsory minimum reserves. According to the BCU, if the increase in credits reaches the total allocated, credits to the private sector would have increased by a total of UYU 14,000 million.

Figure 24. Compulsory minimum reserves for liabilities in national currency

	Current rate	Reduction	New rate
Liabilities with maturities up to 30 days	22%	7%	15%
Liabilities with maturities between 30 and 90 days	11%	5%	6%
Liabilities with maturities between 91 and 180 days	7%	5%	2%
Liabilities with maturities between 181 and 366 days	5%	3%	2%

Source: Own elaboration from Central Bank of Uruguay.

Both measures seek to increase the level of liquidity in pesos in the local sector. This said, the first seeks to directly improve the financial situation of companies in the real economy which it seeks to assist, while the second seeks to ensure an adequate level of liquidity in the local financial sector so that institutions belonging to the financial system do not see their supply of credit reduced due to problems of liquidity.

This type of measure is a requirement for credit to flow normally, into the real economy, which is what it needs most at the moment, unlike others where liquidity needs were in the financial system. In any case, as mentioned above, it must be borne in mind that these measures might not be sufficient in that the financial institutions could opt to reduce their supply of credit, or at least not match the needs of the real economy, due to the exogenous increase in credit risk in a context of extreme uncertainty.

Bearing this in mind, the decision to reduce minimum compulsory reserves conditional on the increase in credits would seem to be a certain movement by the authorities to ensure that liquidity flows to the market only if it is destined to finance the productive sector. The possible retraction of the supply of credit by the banks in a context of greater liquidity could generate unwanted pressures on the exchange rate with the consequent impact on inflation.

To mitigate the problem of the supply of credit, the Government announced the strengthening of the National Guarantee System (SIGA(through the creation of an SIGA" Emergency Fund. This latter will provide partial guarantees of credit to smaller companies, so that they can access financing on favourable conditions. According to what was announced by the Government, the fund will leverage, through the guarantees, a total of USD 2,500 million in credits for these companies.

As regards the guarantees, companies can obtain these to apply for credits destined for working capital, investment capital or restructuring of existing debt up to 1,200,000[51]. In the first two cases, the guarantee covers up to 80% of the capital lent. In the case of applications for credit to restructure existing debts, the guarantee covers

51 Which allows access to credits of between USD 2,000 and USD 153,000 if it is assumed that 80% of the amount is guaranteed 80%. Source: www.siga.com.uy/garantias/siga-emergencia.

between 50% and 70% of the credit balance. In addition, the minimum amount of the guarantees is IU 16,000 while the maximum is IU 1,200,000.

This mechanism allows financial institutions to share the credit risk assumed in each of their new transactions with companies in the real economy with the Government. This reduces the risk assumed for a given level of uncertainty, which allows the credit offer for this level of uncertainty to be increased.

To complement these measures, other mechanisms were also announced which seek to facilitate obtaining low cost financing for small and medium-sized enterprises. These are the Targeted Credit of the National Development Agency and a "soft" credit line from the BROU.

On the one hand, the Targeted Credit programme of the National Development Agency(ANDE) subsidizes credit lines granted by microfinance institutions so that micro, small and medium-sized enterprises can access financing in national currency on good terms, long maturities, lower interest rates and/or extended grace periods. These credits can be used to finance working capital or to refinance existing debts, The terms of the credits will depend on the currency in which the credit is requested, and its purpose. In addition, a credit line has been made available by the BROU for micro, small and medium-sized enterprises that will have flexible terms for the companies that apply. According to the Government, this line will be able to finance up to USD 50 million, and work is going on to expand it to USD 125 million. In any case, it must be borne in mind that at the time of writing this document, this credit facility is still not operational.

At the same time, and with the objective of directly assisting micro and small enterprises that are more vulnerable to the suspension of activity as a result of the social distancing measures, provision was made for the payment of a subsidy to taxpayers registered as monotaxpayers with the Ministry of Social Development and the National Development Agency will provide a direct loan to the small enterprises most affected by the coronavirus.

With respect to the former, a monthly subsidy was introduced for enterprises registered under the MIDES monotaxpayer regime. This amounts to UYU 6,779 and will be paid for the months of April and May. This will not have to be repaid and will only be granted to enterprises that paid their corresponding obligations in 2019. In addition, with respect to the direct loan by the National Development Agency, this is targeted at owners of small businesses registered in the Social Insurance Bank under the monotaxpayer regime, or those whose area of activities is in the industry and commerce sectors. Specifically, the ANDE will grant a loan in IU for the equivalent of UYU 12,000 pesos, for the months of April and May. Like the BROU soft credit line, this facility is not yet operational at the time of writing this document.

Figure 25. Enterprises eligible for direct credit from the National Development Agency

Tax regime	Type of company	Conditionalities
Monotaxpayer	All	All
Small company – Section E	Single person	No employees
	De facto companies*	Max. 2 partners and no employees
	SRL*	Max. 2 partners and no employees
VAT – Non-professional personal services	Single person	No employees and max turnover of IU 1,000,000
General regime	Single person	No employees and max turnover of IU 1,000,000

*In these cases, both partners can request credit. Source: Own elaboration based on National Development Agency.

As can be seen from the table, some beneficiary companies of this National Development Agency credit are the same as those covered by the deferral of tax payments and social security contributions. This allows them to access resources that will be used to finance the operation of the business and avoid it using the financing to pay liabilities to the State.

Just like the social protection measures, the measures announced to date are going in the right direction, in the sense that they are well targeted and could help to mitigate the disruptive effects of the lockdown on the chain of payments and the productive capital of the economy. However, certain considerations may be made which could represent opportunities to improve on what has already been announced.

On the one hand, while the majority of the measures are aimed at stimulating and facilitating access to credit for micro, small and medium-sized enterprises, it could be the case that large companies also face this type of problem, in particular those whose area of activity is the most affected by the lockdown. To avoid this potential problem, mechanisms should be introduced which minimize the risk of a contraction in the supply of credit for large formal companies which may be facing these severe problems of liquidity. Among these, one might think of repurchase of loans granted by financial entities to the non-financial sector and/or greater strengthening of guarantee funds for credits to large companies. This, in turn, could have positive knock-on effects for micro, small and medium-sized enterprises in the payment chains. Adequate levels of liquidity in the latter could allow them to grant financing facilities – discounts on invoices to flexibilization of payment of debts, to the former[52].

iii. Final comments: brief notes for "the day after"

Finally, while it is not the purpose of this document, it is worth making a brief commentary relating to another type of measure which will eventually have to be evaluated thinking of the state of the process of reactivation. In relation to this, it is fundamental to underline the exceptional nature of the economic situation and the difficulties of identifying with precision the timing of the type of measures that it may be appropriate to deploy and the sequence at each moment of time (containment-reactivation, supply-demand). Without prejudice to the foregoing, as well as the measures deployed to soften the impact of the shock to the most vulnerable population and mitigate the risk that it will destroy the productive fabric (acquiring a more permanent rather than transitory nature), it is important to think about the design of other measures which might begin to drive the reactivation in the next few months, as the evolution of the virus becomes better calibrated. This is the case of the measures aimed at stimulating aggregate demand, especially investment

In relation to this, national legislation has developed a tax incentive scheme for investment consisting of the Investment Promotion Act (Act 16.906), schemes for specific sectors, the Free Zones, Industrial Estates Act and the Free Ports and Airports Act. At the same time, there are other specific sectors promoted through laws and decrees which establish specific tax exemptions, such as remote call centres, shared services, forestation, the software industry, tourism, foreign financial i0ntermediation (can operate only with non-resident agents and are exempt from all taxes on their activity) or private investment in housing.

In particular, the Investment Promotion Act declares it of national interest to promote and protect investment by national and foreign investors in the national territory. The same treatment is guaranteed for foreign capital as for local, and the free transfer of capital and profits abroad is guaranteed. This Act is of a general character and sets out exemptions from the tax on Income from Economic Activities (IRAE) to be according to a given timescale, depending on the fulfilment of the objectives of the employment generation plan, decentralization of economic

52 Based on: *"¿Cómo evitar restricciones crediticias en tiempos de crisis?"* (Julio de Brun, 2020).

activity, increase in exports, investment in clean technologies or research, development and innovation, as well as other specific indicators depending on the Ministry which evaluates the project. In addition, other tax benefits are established, as in the case of (i) capital tax exemptions on fixed assets comprising the investment in the project, (ii) exemption from taxes and duties on imports of fixed assets declared not competitive with the domestic industry, and (iii) advance reimbursement of Value Added Tax (VAT) included in acquisition of materials and services for the construction of public works.

Since its creation in 1998, the legislative framework which governs the Investment Promotion Act has been amended to adjust to changes in the economic environment. In this regard, we have passed through Decrees Nº.455 of 2007, Nº.002 of 2012 and Nº.143 of 2018, currently in force. In addition, the Executive Power has issued other decrees on temporary incentives with the specific objective of offsetting the effects of the lower investment in specific periods or directly increasing the percentage exemption of the IRAE granting an additional 10% (as happened in 2008, 2015 and 2018).

Looking at what has happened during the last few years, it is possible to argue that the regime has lost its attraction in a framework of low economic growth and problems of profitability. For many years, the generosity of the regime meant that it use was fairly widespread among investors, which drove the materialization of a wide range of projects in various sectors of activity. However, this was changing as the economy became more dynamic and recorded rates of growth above its trend potential. In this framework, the requirements of the regime were increasing the effects of promoting investment with spillover into quality employment (although not quantity) or care of the environment.

By way of illustration, Decree 143/018 introduced changes in the evaluation matrix of investment projects. This means on the way in which points were allocated to each project in accordance with its characteristics, and, ultimately, the way in which the tax benefit was allocated. It is important to remember that in 2018, the economy was already going through a complex scenario, characterized by a marked slowdown in the rate of growth, fall in investment and loss of jobs. For this reason, the change in the regulation sought to address these problems by relaxing some of the criteria that were introduced years earlier, when the economy was growing at rates above 5% and unemployment was at historic lows. For example, the weight of the employment indicator in the matrix was increased and the way of calculating was simplified to give equal weight to the hiring of a worker independent of his wage grade. In addition, the legislative framework was introducing changes to promote more innovative projects and projects which included an environmental component, with preference to the latter. In short, the above highlights the capacity of the investment promotion regime to adapt to changes in the economic scenarios or the objectives or priorities of the authorities.

In the present context, it seems enough to redesign the legislative framework so as to make it attractive again to stimulate its use as the impact of the shock begins to fade and it is necessary to deploy reactivation measures on the demand side. This will mean evaluating the lifting of some restrictions, facilitating access to the instrument, and monitoring and control instruments. A similar path could be adapted for specific regimes for different sectors of activity. In addition, stimulus measures could be adopted in the sphere of public investment. A strategy like this would require adopting other types of action to lift some of the restrictions which are now in effect, and which are particularly strong in the light of the state of the public accounts in this economic situation. Indeed, the challenges for *"the day after"* will be of a significant scale and will require introducing reforms of a structural character. While this has already been taken on board by the new authorities, and formed part of a growing consensus among the rest of the relevant actors, the shock associated with COVID-19 will force us to impose a greater sense of urgency and expand the scope of the initiatives.

Specifically, and without claiming to be exhaustive, this means introducing changes in the field of international insertion, education, access to and payment for infrastructure, institutionality and sustainability of the public finances (which includes budgetary reform), public companies, modernization of labour bargaining, promotion of competition and transparency in the non- tradable sector. Indeed, the counter-cyclical policy measures (to shorten the length of the recession and soften its impact) must be complemented by actions designed to restore the growth rate in the long term, restore fiscal sustainability, and improve and complement the design of the social protection network.

Finally, by way of conclusion, it is important to note that the disruption associated with COVID-19 could transform many of the features of the global economy. Specifically, the outlook for key aspects in the investment sphere is still uncertain, especially with regard to foreign investment, capital flows or value chains

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