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Uruguay—Second Review Under the Stand-By Arrangement, and Request for Waiver of a Performance Criterion—Staff Report; and News Brief on Executive Board Discussion

In the context of the Uruguay—Second Review Under the Stand By Arrangement, and Request for Waiver of a Performance Criterion, the following documents have been released and are included in this package:

- the Staff Report for the Second Review Under the Stand-By Arrangement, and Request for Waiver and Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on **August 23, 2001,** with the officials of Uruguay. **Based on information available at the time of these discussions, the staff report was completed on September 21, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a News Brief summarizing the **views of the Executive Board as discussed during its October 5, 2001 discussion** of the staff report that completed the review.

The documents listed below have been or will be separately released.

Letter of Intent by the Authorities of Uruguay
Memorandum of Economic Policies
Technical Memorandum of Understanding

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

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URUGUAY

Second Review Under the Stand-By Arrangement, And Request for Waiver of a Performance Criterion

Prepared by the Western Hemisphere Department
(In consultation with other Departments)

Approved by Claudio Loser and Liam P. Ebrill

September 21, 2001

Contents | Page

Figures

Attachments

EXECUTIVE SUMMARY

Background: Uruguay continues to face difficult economic conditions, caused by an outbreak of foot-and-mouth disease, the Argentine crisis, and the depreciation of the Brazilian *real*, and output is likely to contract for the third year in a row. The authorities have contained expenditures to meet the fiscal target under the program for end-June, but they placed external debt early, which caused a small overrun in the debt ceiling. There was progress with the observance of the structural benchmarks, but some were delayed. The banking system saw some slippages in its soundness indicators, especially in the public sector banks which (combined) incurred a sizeable loss in 2000 and early 2001. The banks underwent an independent external audit, and their capital was adjusted downward as a result of it. The external current account deficit held steady at close to 3 percent of GDP, notwithstanding a sharp drop in meat exports. To help overcome the external shocks, in June, the authorities doubled the pace of depreciation of the exchange rate band to 15 percent annually, and widened the band from 3 to 6 percent. Since then, there has been little pressure on the currency within the band, and the pass-through to inflation appears subdued. Competitiveness is being strengthened further by falling real wages. Uruguay has an investment credit rating, and there have been significant nonresident deposit inflows.

Policy issues: the economy is adjusting but output is not expected to pick up until 2002. In view of the effects of lower growth on revenue, the authorities have widened their deficit objective for year-end from 2.6 percent of GDP to 3.3 percent. This larger deficit is below what would have resulted from the automatic stabilizers, and can be financed with available domestic resources. The authorities have taken a calculated risk by accelerating the adjustment in the exchange rate band, given that nearly all the debt (private and public) in the economy is dollarized. However, they have also committed to a strengthened medium-term fiscal path, to compensate for the wider deficit in 2001, to ensure maintaining a turnaround in the debt-GDP ratio by 2003, and to limit inflation expectations. Nevertheless, the public debt has risen quickly in recent years, and Uruguay is **highly vulnerable** to further shocks in the region. The staff has urged the authorities to develop contingency plans in the event of further economic difficulties, including additional fiscal measures, and possible asset sales to lower the debt directly. The public banks need to be reformed and the authorities have requested technical assistance to deal with specific problems in the Mortgage Bank, and participation in the FSAP; the staff has strongly supported these requests. The strengthening of the fiscal balance, lowering the share of public debt in GDP, strong cost controls in the economy, including through generalized wage moderation, and productivity enhancements through investment and structural reform, are the key policies the authorities need to pursue for the medium term. The external current account deficit is expected to stabilize in 2001 before dropping in 2002.

I. Introduction

1. A staff team[1] visited Montevideo at end-June to conduct the discussions for the second review under the 2000–01 Stand-By Arrangement. The discussions were concluded at Headquarters in August, 2001. The arrangement was approved on May 31, 2000 for the equivalent of SDR 150 million (27 percent of quota on an annual basis), and the authorities are treating it as precautionary. Outstanding use of Fund credit is SDR 114 million (37 percent of quota).

2. At the conclusion of the last Article IV consultation and the first review of the program in February 2001, Directors welcomed the authorities' efforts to reduce costs in the economy to improve competitiveness, and to aim fiscal policy at a medium-term turn-around in the debt/GDP ratio. They also urged the authorities to accelerate structural reforms.

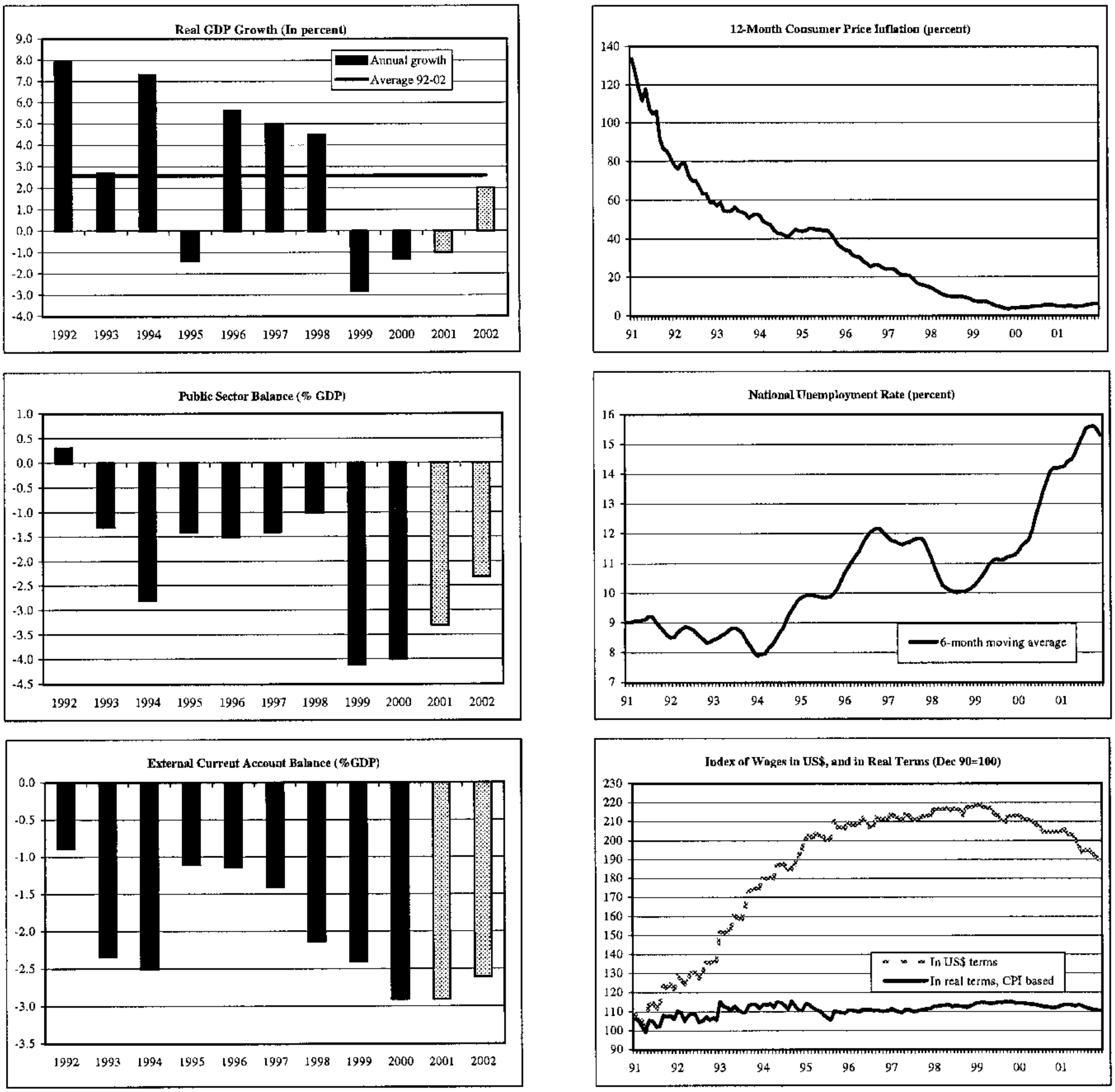
II. Background

3. **Uruguay continues to face a difficult economic environment in 2001 and output is likely to contract for the third year in a row** (Figure 1 and Table 1). Output recovered, on a seasonally adjusted basis, both in the last quarter of 2000 and the first quarter of 2001. However, in the period March-May, the recovery was aborted by a severe outbreak of foot-and-mouth disease in the cattle industry, the impact on Uruguay of the re-emergence of the Argentine crisis, and the slowing of growth in Brazil. The outbreak of foot-and-mouth disease paralyzed meat processing and exports, and all related activities in the rural sector for nearly five months. The difficulties in Argentina affected the economy by reducing confidence in the near term prospects for recovery, which slowed domestic demand, and by lowering exports to Argentina. The 30 percent depreciation of the Brazilian *real* in the year through end-August 2001 adversely affected Uruguay's exports to that country (Brazil is Uruguay's largest market for commodity exports).

4. Developments in the labor market broadly tracked the evolution of output. **Employment** was expanding at the end of 2000 and in early 2001, before dropping off recently, especially in the rural sector. However, labor supply increased as women and youths entered the market in an attempt to complement household income. This resulted in an **unemployment rate** of 15.9 percent in July, an unusually high rate for Uruguay. Wages and prices have been subdued. Average **wages** in constant pesos declined in 2000 by around 2 percent, and are projected to do so again in 2001 (Figure 1). Wages in U.S. dollar terms declined somewhat faster, especially recently, as in July 2001 the authorities accelerated the rate of depreciation of the exchange rate band (see below). Subdued wage developments assisted in moderating price inflation: the 12–month rate of **consumer price inflation** has eased in recent months and was 4.0 percent in August, below program projections.

[1] Comprising Ms. Honjo, and Messrs. Traa (Head), Jaramillo and Fuentes (all WHD).

Figure 1. Uruguay: Selected Economic Indicators 1/



Source: Ministry of Economy; Central Bank of Uruguay; and Fund staff estimates.

1/ Data for 2001 are program objectives and 2002 data are staff projections.

5. **The end-June quantitative performance targets under the program were met, with the exception of a minor overrun in the level of debt** (Table 2). Despite the slowing economy and some weakness in revenue, the public sector deficit and discretionary expenditure targets were observed. When the uncertainties in the region increased, the authorities made use of windows of opportunity quickly to place nearly all external borrowing needs for the year, well ahead of the program calendar. This produced a large (temporary) cushion of NIR in the Central Bank and the NIR and NDA targets were observed with large margins. However, it also resulted in a buildup of debt in excess of the program limit for end-June. The authorities are requesting a waiver for this missed performance target.

6. **The structural reform benchmarks were broadly observed, even though there were delays in some cases** (see Box 1). The public sector enterprises and banks published their financial reports for the quarter ended December, and their annual reports, for 2000. The quarterly reports for end-March 2001 have not yet been published for the Bank of the Republic (BROU), the Water Company (OSE), the Railroad Company (AFE) and the Ports Authority (ANP).[2] The large enterprises and public sector banks received an independent external audit, but the National Insurance Bank (BSE) did not.[3] The authorities are publishing on the web, on time, their monthly consolidated above-the-line fiscal results, but they are incurring a delay with the below-the-line data because of tardiness in receiving the monetary and balance sheet data from the BROU. The staff from the Fund's Fiscal Affairs Department completed with the authorities the background work for a study on quasi-fiscal operations in the public sector banks and enterprises, and FAD is now preparing the report on this study. Lastly, the authorities placed in Congress a draft reform law for the special pension fund (Caja Especial) for notaries, and shortly they will submit reforms for the special pension funds for university professionals and the police.[4] The reform of the pension

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[2] The delay in producing timely quarterly information by the Bank of the Republic is the most serious one. The bank is often late, but its information is important for closing the below-the-line public sector accounts.

[3] The Electricity Company (UTE) requested the audit, but the contract for it was challenged by a competing auditing firm, and the audit was delayed. The staff is concerned about the missed external audit of the state insurance bank, and has requested a full disclosure of the financial situation of the institution at the next review.

[4] Reforming the special pension funds is politically difficult, and progress with the notaries was substantial and could be completed on time. To help manage the more contentious discussions with the other funds, the authorities are guiding the draft law affecting the notaries through Congress first, as a benchmark for reform of the others. The authorities' consider that sequencing the proposals in this way, rather than placing them in Congress all at once, as was contemplated in the program, will produce more meaningful results.

Box 1. Structural Conditionality

Coverage of Structural Conditionality in the Current Program

Structural conditionality under the current program aims at **improving resource allocation and competitiveness**, and **medium-term growth prospects**. There are three broad areas covered by the benchmarks: (1) to improve transparency and disclosure, including of the public sector finances, and regarding the presence of quasi-fiscal activities carried out through public banks and enterprises; (2) to reduce costs specific to public enterprises to prepare them for a deregulated and competitive market; and (3) to securing a strong and competitive banking system, including with the introduction of independent external audits. Transparency and improved efficiency will help bolster productivity and support fiscal sustainability.

Status of Structural Conditionality from Earlier Programs

A requirement on timely submission of data from the Bank of the Republic (BROU) to the Central Bank of Uruguay has been missed intermittedly due to organization and computer problems in the BROU.

Structural Areas Covered by World Bank Lending and Conditionality

The World Bank is not, at present, engaged in program lending with structural conditionality.

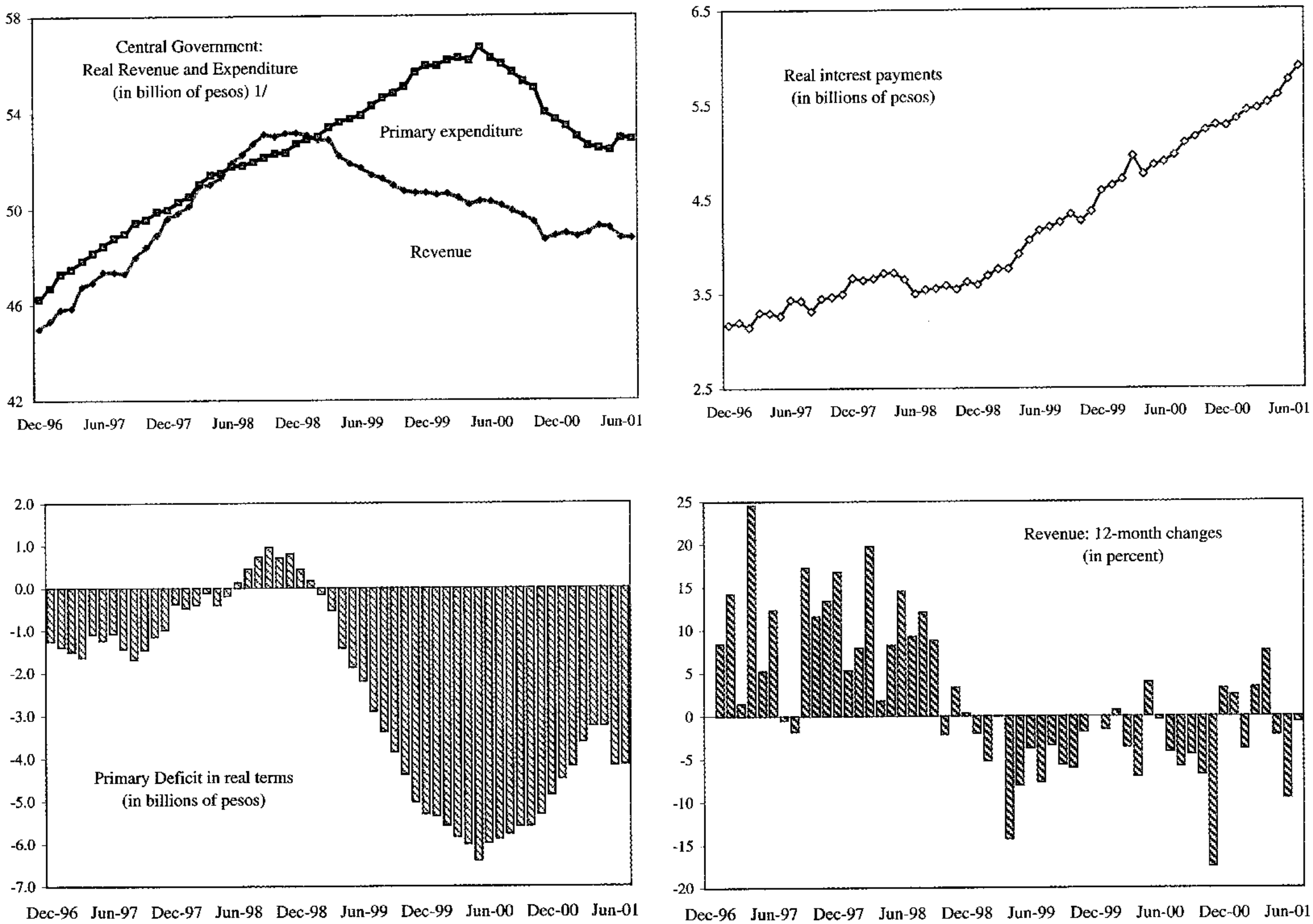
Other Relevant Structural Conditions not Included in Current Program

None.

fund for the military has been delayed because it requires first a modification in the basic law for the military, which is to be send to Congress before year-end. The banking union and the banker's association are currently negotiating the reform of their special pension fund, which is not in good financial shape. There is considerable pressure on these parties to strengthen the fund, and the authorities do not wish to intermediate in this process prematurely, not least to avoid being forced into absorbing a large bail out cost. They anticipate to complete this reform in 2002.

7. **In the fiscal area,** revenues were slightly below programmed levels, especially toward the end of the second quarter, and the shortfall widened further in July. Nevertheless, cautious expenditure management (Figure 2) delivered a mid-year deficit below the program target, with some cuts in discretionary current and capital outlays more than offsetting larger-than-expected social assistance spending. The results of the state enterprises was stronger

Figure 2. Uruguay: Fiscal Indicators



1/ 12-month moving average of monthly data through July 2001 deflated using July 2001 CPI. Does not include Fondos de libre disponibilidad.

than programmed, as tariffs were increased while expenditure, including some cuts in capital projects, remained below planned levels. Adjustments in fuel prices of the State Oil Company (ANCAP) were introduced effective March 1, 2001, and the company adopted a new mechanism in which prices will be adjusted every two months, reflecting variations in international oil prices, rather than on a discretionary basis, as had been the practice so far. The quasi-fiscal deficit of the Central Bank was lower than expected, influenced by the strong boost in reserves which provided additional interest receipts (Table 3).

8. **In the banking system,** private institutions generated lower profits in 2000—US$100 million compared with US$135 million in 1999—reflecting higher provisioning and write-offs, but maintained generally sound balance sheets. The state-owned Bank of the Republic (BROU), however, broke even, and the National Mortgage Bank (BHU), which is feeling the effect of operating inefficiencies and currency mismatch on its balance sheet,[5] incurred a loss of over US$200 million (1 percent of GDP).[6] Problem loans in these public sector banks (which account for 40 percent of assets in the financial system), were determined at 42 percent of total loans by end–2000.[7] This change from 28 percent at end–1999, reflected in part the audits that led to a recognition of problem loans already on the balance sheets (Tables 6 and 7).

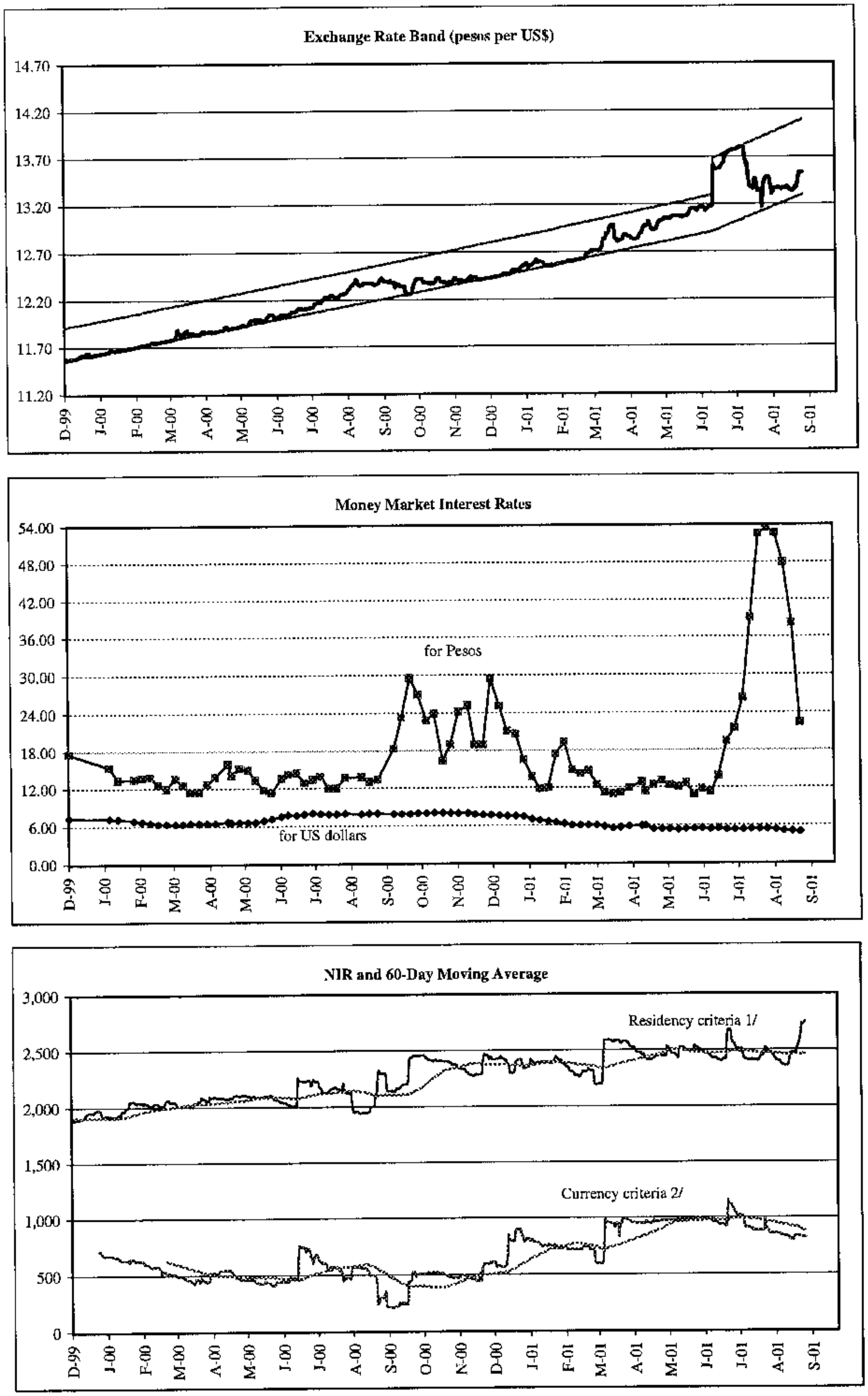
9. **The authorities made a significant adjustment to the exchange rate band at end-June 2001.** Two days after Argentina introduced the merchandise trade-compensation factor to its currency peg, and as the rapid depreciation of the *real* was slowing exports to Brazil, the Uruguayan authorities doubled the pace of depreciation of the band to 15 percent annually, and widened the band from 3 to 6 percentage points (Figure 3). Initially, the peso moved to the most depreciated limit (top) of the band, and there was some foreign exchange market intervention by the Central Bank. As the peso market tightened again, the short-term peso interest rates (a thin market as most credits are negotiated in U.S. dollars) increased to over 50 percent annual rate. Since then, the markets have adjusted to the new exchange rate band: the peso interest rates settled down to a level that is comparable with U.S. dollar rates plus the new rate of depreciation; interest rates in the dollar segment of the money market remained subdued at around 6 percent; and the currency returned close to the most appreciated (lower) limit of the band. To date, there has been no discernable pass-through to prices. The acceleration of the exchange rate band is temporary—through end-June 2002.

[5] Mortgages are indexed to average wages, which are falling in dollar terms, whereas deposits are in dollars.

[6] The BROU has not yet released results for early 2001; the deficit in the BHU widened to US$60 million in the first quarter of 2001.

[7] Problem loans are those classified as 3–5, where 1 is best and 5 is nonrecoverable.

Figure 3. Uruguay: Financial Indicators



Source: Central Bank of Uruguay.

1/ Gross international reserves minus short-term liabilities to nonresidents.

2/ Gross international reserves minus all short-term liabilities in foreign currency (including those to residents).

10. **Uruguay maintained good access to financial markets**. The authorities placed in March a US$250 million bond in Japan, and a US$150 million bond in Chile—both at spreads of about 250 basis points above U.S. Treasuries (Table 4). In early May, Uruguay placed a US$125 million tranche of the 30–year (2027) bond at a spread of 259 basis points, and in June a US$160 million eurobond at a spread of 270 basis points. The spread over long-dated U.S. Treasury instruments has remained between 250–300 basis points. The international credit rating agencies recently confirmed Uruguay's investment credit rating, but one agency placed the country on negative watch owing to the potential for contagion.

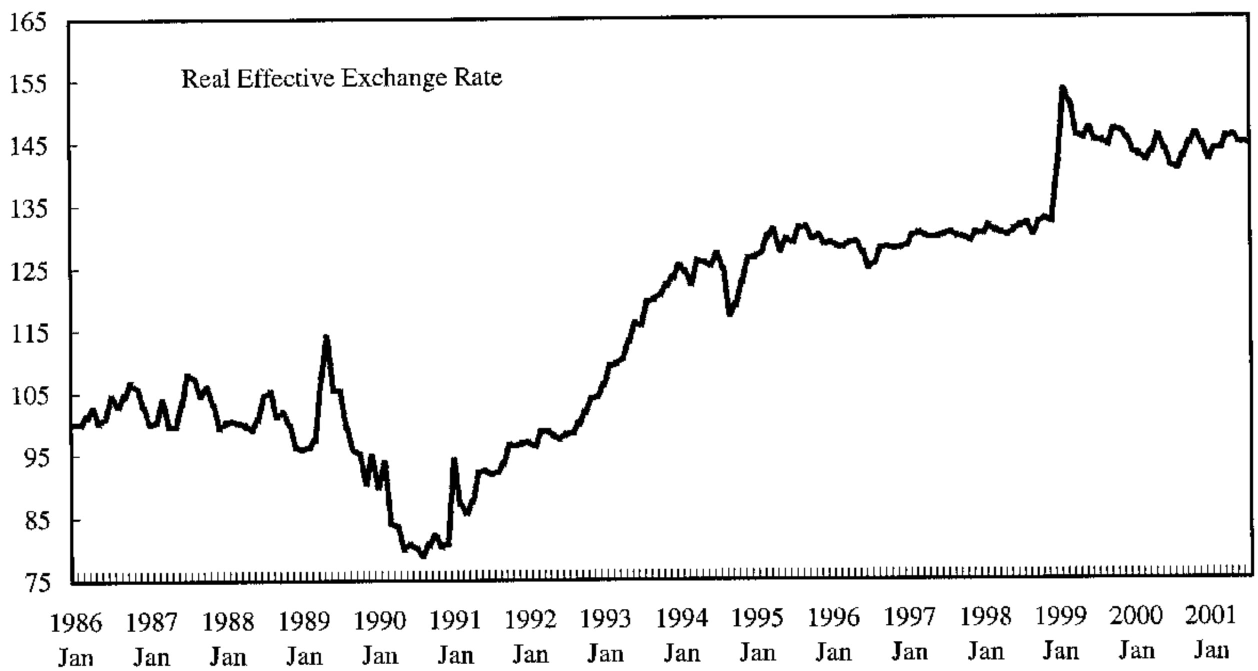
11. **The external current account deficit is holding steady at just below 3 percent of GDP**, slightly above the level anticipated in the program (Table 8 and Figure 4). The supply shock in the cattle sector curtailed meat exports from April onward and contributed to a drop in merchandise exports of 4 percent in U.S. dollar terms in the first half of the year compared with the same period in 2000.[8] Merchandise imports, however, have declined even faster, by 8½ percent in U.S. dollar terms, with capital goods imports as the weakest component. As a result, the trade balance improved slightly. In the nonfactor services balance, although tourist numbers remained high, their spending per capita declined and the nonfactor services terms of trade are estimated to have dropped by about 2 percent. Net interest payments to abroad increased owing to lower interest rates on foreign assets while higher debt is leading to a gradual increase in the external interest bill. Developments in the **capital account** during the first semester were dominated by the Government's early placement of bonds abroad, and by net private sector capital inflows from the region. Consistent with past experience, when uncertainty in the neighboring countries increases Uruguay tends to receive nonresident deposits, and these increased by some US$900 million from end-December 2000 to August 2001. The bulk of deposit flows is passed on to financial centers in the U.S. and Europe, but a small amount, some 8 percent of the gross flow, remains in Uruguay and is held by banks in liquid form.

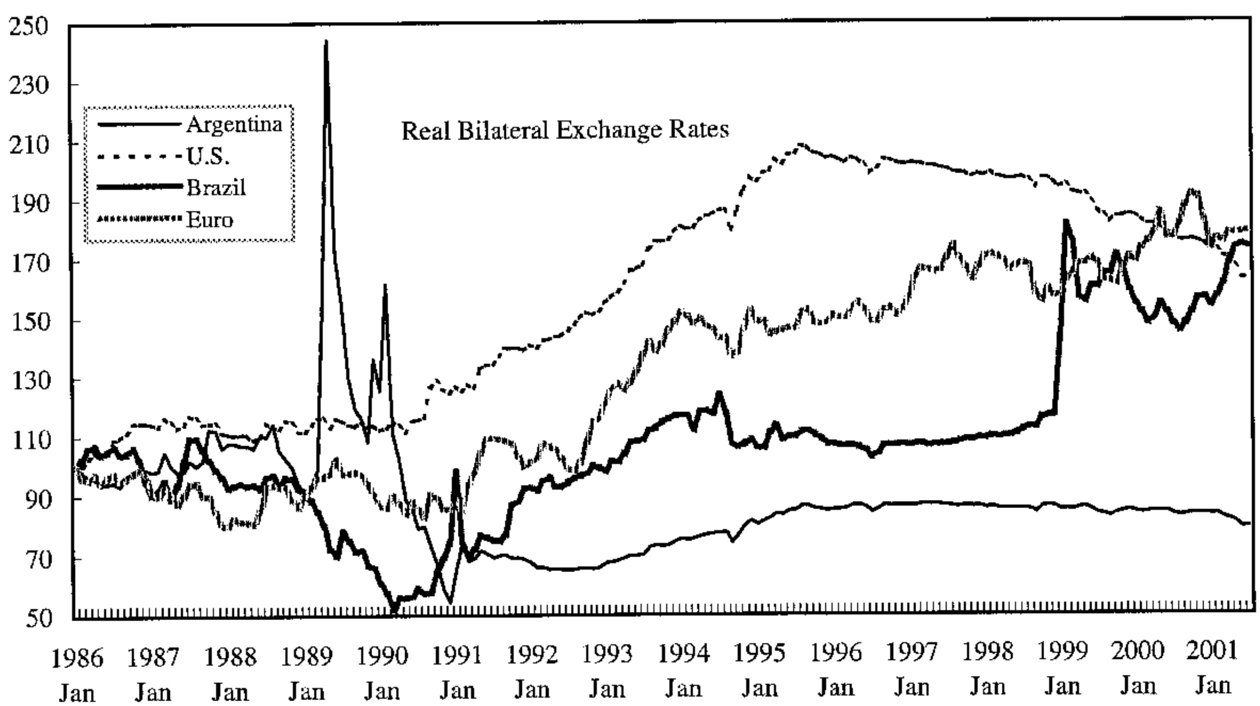
III. THE POLICY DISCUSSIONS

12. The policy discussions took place at a time of continued economic uncertainty for Uruguay. While the regional setbacks and the outbreak of foot-and-mouth disease were events beyond control of the authorities, they placed into focus the importance of appropriate domestic policies. The authorities' program, aimed at reducing costs in the economy, diversifying export markets, and improving productivity through structural reform, is sound as it aims to bolster competitiveness and achieve a lasting strengthening of economic activity. Monetary policy is limited, with over 80 percent of deposits and credits in the economy dollarized. Indeed, the high rate of dollarization is a point of vulnerability given the regional

[8] Normally, meat exports are some US$400 million a year, or 2 percent of GDP.

Figure 4. Uruguay: Real Exchange Rate Indicators (Jan 1986=100) 1/





Source: INS and Fund staff estimates.

1/ Data through July 2001. Data through June 2001 base on INS, July figures are Fund staff estimates.

context. The authorities have taken a calculated risk by implementing a temporary acceleration in the rate of depreciation of the exchange rate band, to help speed up cost reductions in U.S. dollar terms. The early results from this policy are favorable, but circumstances require continued vigilance. The authorities have re-affirmed their commitment to price stability with support from fiscal policy and structural reform, which, in the end, are the principal policy levers in Uruguay's dollarized economy.

13. The 2001 program was based on output growth of 2 percent, with activity picking up mostly during the second half of the year. **The prospects for the economy are now less favorable**. Economic activity in the rural sector is expected to rebound in the last quarter of the year, and the slowdown in Brazil is gradually abating, favoring exports, but Argentina continues to search for a firmer footing, and the world markets have slowed from earlier in the year. Against this backdrop, economic activity is expected to recover only slowly, and the financial program for the second review is based on a **downturn in real output by 1 percent for the year. Inflation is projected at around 6 percent,** as the pass-through from the exchange rate is likely to remain small, given weak demand.

A. Fiscal Policies

14. **The authorities are modifying the fiscal deficit objective for 2001 from 2.6 percent of GDP (hitherto the indicative target) to 3.3 percent (the quantitative limit under the program).** Now that growth is negative, revenues are weaker, and the full effect of the automatic stabilizers would have moved the deficit to at least 4 percent of GDP. However, because of concerns about the growing debt burden and other risks noted above, the authorities do not want to accommodate fully the automatic stabilizers and have implemented some tax measures while restricting expenditures in the central government and the public enterprises further to limit the increase in the deficit (the expenditure ceiling under the program remains unaltered). In late May, the authorities introduced a tax on final manufactured goods (Cofis) of 3 percent, and in July raised the statistical tax on imports from 1.1 to 3 percent. Revenues from the Cofis are destined for the social security system, to help offset some reductions in employer social security contributions and other charges that are being phased in for sectors that have been most affected by the recent adverse shocks. The bulk of the deficit containment comes from expenditure restraint, with reductions in discretionary current outlays and a slowing of capital projects. The overall surplus of the public enterprises is higher than was expected owing to lower oil import prices, abundant availability of less-expensive hydroelectricity, and economizing on capital spending. The local governments have very limited access to credit, but they are receiving higher transfers from the central government beginning this year, and are adjusting to maintain a balanced budget. The authorities are not expected to face difficulties in financing the wider deficit as Uruguay has maintained access to domestic and foreign capital markets and thus far prospects in this regard do not appear impaired.

15. **The authorities are tightening the medium term fiscal objectives to compensate for the wider deficit in 2001, ensure a turnaround in the debt/GDP ratio beginning in 2003, and prevent the temporary acceleration in the exchange rate to become embedded in inflation expectations.** Gross debt at end-2001 is projected to reach

49.3 percent of GDP and, with the new medium-term deficit path, is projected to peak in 2003 at about 53 percent of GDP. For 2002, the authorities' intention is to bring the deficit down by at least a full percentage point, based on a pick up of revenue as the economy recovers, and through expenditure restraint (including on wages, which will be adjusted by a minimal amount in January 2002). Real GDP growth is assumed to be 2 percent in 2002, down from 4 percent in the previous medium-term fiscal outlook. This implies that, adjusted for the level of activity, the fiscal path already will be tighter in 2002 than was anticipated originally. This cautious stance would be maintained through the medium term, consistent with bringing the deficit down to about ½ percent of GDP in 2005.[9] The *level* of Uruguay's debt/GDP ratio is very sensitive to the exchange rate path, and the debt ratio has increased relative to the previous medium term debt scenario, reflecting a more depreciated peso. This highlights the dilemma faced by the authorities, who seek to improve competitiveness by accelerating the decline of dollar prices in the economy, while incurring negative effects from this effort on the debt which is highly dollarized. The authorities are trying to balance these opposing factors with their cautious medium term fiscal stance (Figure 5).

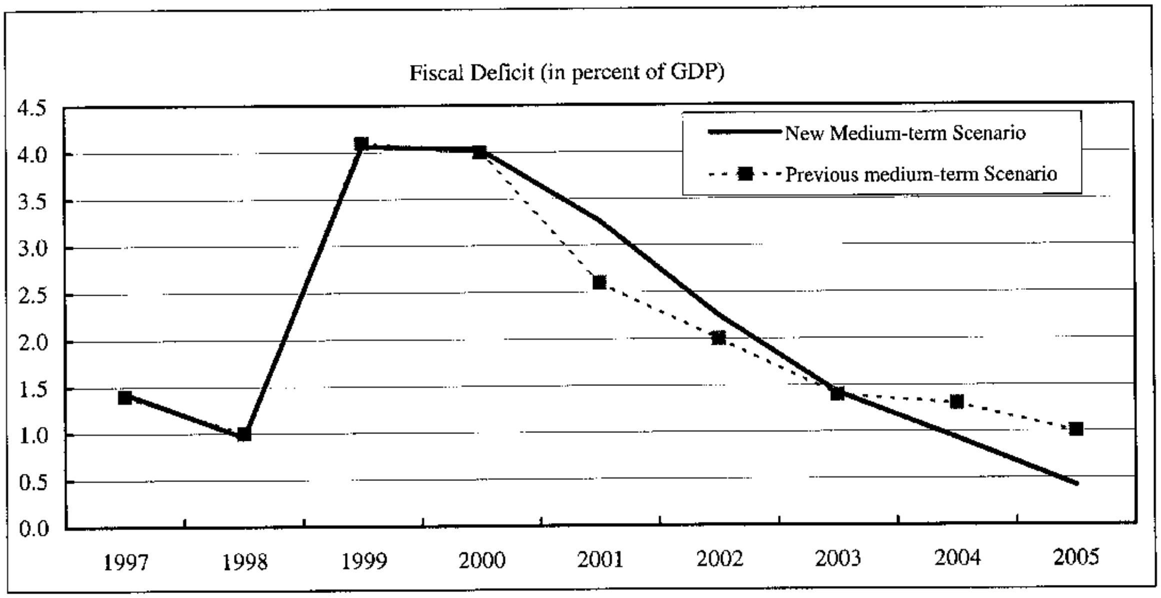
16. **The staff discussed a (preliminary) public sector balance sheet with the authorities.**[10] The balance sheet captures the steady increase in the public debt, and suggests a considerable drop in the net worth of the fully-owned enterprises and banks (Table 5). The latter in turn reflects the effect of the recession since 1999 on the companies, and some sizeable one-time write-offs in the capital of the two large banks following the audits in 2000 and the decision to clean up the balance sheets of nonperforming loans ("sinceramiento").[11] The staff strongly endorses the authorities' efforts to bring up to date the balance sheets of all enterprises and banks and provide the public with an improved picture of the public sector's corporate holdings. It also demonstrates the appropriateness of the authorities' policies to lower the annual fiscal deficits and bring the debt under control, while reforming the enterprises and placing them in competitive markets, which in the end will better reflect

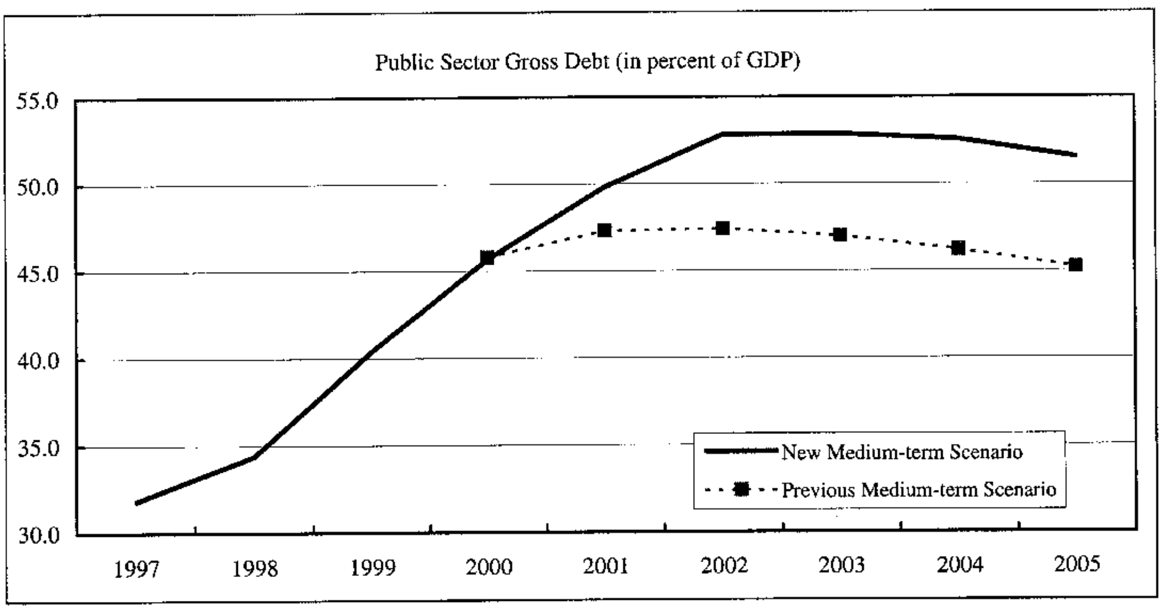
[9] The authorities' recently announced plan to remove exemptions and unify, in future, the VAT rate at around 19 percent (current rates vary from 0-23 percent), needs to be fitted into the medium-term objective. An appropriately cautious approach would remove exemptions first, followed by lowering the top rate, to achieve a revenue neutral reform.

[10] The balance sheet can provide useful information (stock data) and guidance to policy making, as a complement to the annual budget and financing tables already in use (flow data). Now that the authorities are publishing annual audited, and quarterly, balance sheets and profit and loss statements on the public enterprises, public sector commercial banks, and the Central Bank, this information can be weighted against the public sector debt and other relevant assets and liabilities to ascertain the evolution of the public sector net worth.

[11] Still, the net worth of the enterprises is an impressive US$5.5 billion, or the equivalent of 60 percent of the total gross consolidated public sector debt.

Figure 5. Uruguay: Previous and Revised Medium Term Fiscal Scenario





	2000	2001	2002	2003	2004	2005
Real GDP Growth (in percent)						
New Medium-term Scenario	-1.3	-1.0	2.0	4.0	4.0	3.0
Previous Medium-term Scenario	-1.0	2.0	4.0	4.0	3.1	3.1

Source: Fund staff estimates.

the value of the enterprises and strengthen the public sector. The authorities noted, and the staff agreed, that the information contained in the "net worth" of the public sector needs to be interpreted carefully. Specifically, they said that the social security reform of 1996 averted what would have been a certain bankruptcy of the system, and that the actuarial position of the social security system in Uruguay was in fact improving as the reform reached maturity and more pensioners were shifting to the fully funded private system. As a result, they would prepare periodic estimates of the actuarial value of the social security system, to be included in the balance sheet at a future date.

17. **The Fund's Fiscal Affairs Department is assisting the authorities with a study on quasi-fiscal activities in the public sector.** The study suggests that there are a considerable number of such activities (more broadly speaking: distortions from treating the public sector banks and enterprises different than those in the private sector). The losses from these activities, if they involve subsidies; or profits, if they involve taxes or surcharges, are often not visible in the fiscal accounts, but they do emerge in the public sector balance sheet because they erode or enlarge the net worth of the enterprises or banks. For instance, the tax and (in practice) the prudential regulations are different between private and public sector banks. The public banks enjoy some privileges that are either consumed in the banks through inefficiencies, overstaffing etc., or they are passed on to selected clients of the banks (mortgages from the National Mortgage Bank and some consumer credits from the Bank of the Republic are exempt from the VAT, whereas such credits in any private bank are subject to the full VAT). While the quantification of these effects is controversial as it depends in part on assumptions involving shadow prices, etc., the staff found that in some years, the Mortgage bank was generating quasi-fiscal losses in excess of 1 percent of GDP, whereas the Bank of the Republic showed a quasi-fiscal loss of nearly ¾ percent, none of which was explicitly reflected in the deficit, but was eventually reflected in the large write-offs of capital on the balance sheet, as noted above. The authorities are keen to reduce distortions in the economy, including those that originate in quasi-fiscal activities, and they have taken a great interest in this study. Some operations and policy recommendations identified in the aide-memoir from FAD have already been implemented. The authorities agreed that, with the final report from FAD, they would prepare their own discussion paper and reduce further the incidence of quasi-fiscal activities, or bring them explicitly into the fiscal accounts.

B. Money and Banking Policies

18. **Monetary policy in Uruguay is largely passive and subordinated to the exchange rate regime.** The peso market is small with transactions mainly for wage payments and working balances. Large transactions, all trade, and the substantial flows of nonresident deposits and other external capital flows occur in U.S. dollars and by-pass the foreign exchange and peso money markets. Private banks are fully hedged and maintain high liquidity levels. The mortgage bank, however, has currency mismatch on its balance sheet and both public banks suffer from adverse client selection, so that their risks to a downturn in activity or an acceleration of the exchange rate band is greater—including for those loans denominated in dollars since most of their clients earn an income in pesos. In the context of the exchange rate band acceleration, the large foreign exchange cushion that had been built

up in previous months in the Central Bank provided confidence and helped minimize pressures on the peso. The authorities had been skillful in building the liquidity reserves for just such a contingency. Gross reserves, at three times currency issued, and a year's worth of short term external liabilities (excluding the stock of nonresident deposits), appear adequate and need to be maintained. In this regard, if pressure on the exchange rate were to re-emerge, the staff recommended that interest rates be increased before there is a need to intervene at the limit of the band. Credit to the private sector was flat in real terms in the first half of the year, and is not envisaged to expand noticeably through year-end as neither demand for credit is strong, while banks are keeping their resources liquid. The rate of dollarization of resident deposits and credit has increased slightly, from already high levels (above 80 percent of total).

19. **The Bank of the Republic is providing assistance to the cattle industry by refinancing its debts.** With the interruption of activity and cash flow in the rural sector, the BROU is permitting affected producers to enter into a 20 year refinancing program, on a total stock of credits of about US$500 million. Farmers receive a grace period on interest payments until April 2002, and on principal through 2004, when they have to provide a zero-coupon collateral that covers the principal of their debts at the end of the refinancing period (modeled after the Brady scheme). The interest rate on the refinanced loans would be slightly higher than the average rate on the existing loans. To compensate the BROU for the liquidity effects of the interest grace period and other transitional costs, the Treasury has committed up to US$20 million to the BROU.

20. That something needed to be done for the cattle sector was evident; nevertheless, the staff voiced **concerns about the refinancing scheme**. In the past, such schemes have led to capital losses at the banks without always being properly recorded and hence caused an overstatement of the true capital of the banks. Indeed, the plans are more akin to quasi-fiscal operations, rather than reflecting commercial portfolio management, which suggests that the costs should be captured in the budget, not in the banks' balance sheet. There is also a risk of **moral hazard** since the refinancing program is sectoral, rather than on a case-by-case basis, as is being done in other banks that have exposure to the cattle industry. Lastly, it is unclear what will happen at the end of year four, if farmers still are not able to surrender the collateral.

21. The authorities said they were mindful of the problems with the refinancing scheme, but noted that **the difficulties for the cattle sector developed at such speed that there was little time for policy fine tuning**. The BROU is the largest institution providing credit to the farm sector, and that made it the natural candidate to manage the financial difficulties that resulted from the crisis. In effect, the details of the refinancing scheme were still being discussed, and the BROU is now evaluating the plan more on a case by case basis, to recognize those clients that had always serviced their debts properly, versus those that had debt servicing problems in the past. Also, the authorities said that the financial commitment to the BROU was intended to reflect in the budget some of the costs of the operation, without forcing the BROU to absorb all of them on its own—the full losses on the farm portfolio could not be determined at this time. Lastly, the prudential regulations had not been altered

for the BROU, and loan classifications would need to be changed as payments became overdue by 90 days, 180 days, etc.. The final modalities of loan classification, once the BROU officially refinanced the credits, could not be determined as a general rule, and judgments would need to made based on the case-by-case evaluation.

22. **The authorities are requesting participation in the FSAP exercise, and technical assistance to consider options for reforms in the National Mortgage Bank (BHU).** As noted, the BHU incurs operating losses and suffers from currency mismatch on its balance sheet that has become more acute with the acceleration of the exchange rate band. The audit for 2000 reduced the capital of the bank by half to US$750 million and, while this is still nearly three times its minimum requirement, some further write-offs may be necessary, and the bank lost some US$200 million in 2000. The authorities have taken several measures to improve performance, including: (1) mortgages in URs (the index of average wages in the economy) are no longer issued, rather all credits are now issued in U.S. dollars; (2) the pace of foreclosures has been doubled and loan servicing controls have been tightened; (3) a market for secondary mortgage paper is being developed, and parts of the BHU's portfolio are being securitized (this does not resolve underlying currency mismatch, but it improves the bank's liquidity and loan servicing); and (4) loan to value ratios are being reduced from 100 to 90 and 80 percent, and below. Both the BROU and the BHU need to be reformed. While the BROU is facing new challenges in its farm credits, it is on the whole a more diversified, and exhibits stronger prudential ratios than the BHU. Also, it has progressed faster in cutting costs and improving its operating results (the BROU breaks even). While this program needs to continue, and be accelerated where possible, the staff agrees with the authorities that the immediate priority is now for the BHU to address its losses and its dangerous currency mismatch.

C. External Policies

23. **The staff supports the temporary acceleration of the exchange rate band, under the present difficult conditions.** The authorities took this action with some trepidation, because of the risks of a devaluation in a highly dollarized economy. However, some depreciation in the real effective exchange rate would be welcome to bolster competitiveness and assist growth. Moreover, added flexibility in the exchange rate band has boosted confidence in the system, which has been affected by the recent increase in the risks to the international economy. When the economic situation stabilizes, the authorities intend to re-evaluate, and possibly reduce the pace of depreciation of the exchange rate band. Together with the strengthened medium-term fiscal program and an acceleration in structural reform (see below), this is helping to contain inflation expectations and pressure on the exchange rate within the band.

24. **The authorities believe that protectionism ultimately damages competitiveness, and they have been largely resisting the growing pressures for trade restrictions.** Following Argentina, in mid-year Uruguay lowered the external tariff on capital goods (except in information technology) to zero percent. They did, however, increase the statistical tax (an across-the-board tax on imports from Mercosur and non-Mercosur countries) from

1.1 to 3.0 percent, and earmarked the proceeds for debt reduction. Also, they provided domestic producers access to a data base containing information on prices and cost structures of imported goods, which domestic firms can consult to detect dumping.

D. Structural Reforms

25. **The pace of structural reforms in deregulation and in the nonfinancial enterprises is accelerating.** The authorities have implemented ahead of time (compared with the program) some measures to demonopolize the public sector enterprises, and added new reforms in 2001 that originally were contemplated for a later date. Specifically, they have:

- Activated the new regulatory commission for telecommunications (URSEC), which is overseeing the removal of the monopoly on international long-distance telephony. Some 12 international telephone companies have expressed interested in entering this market (the deregulation was begun in September, 2001).[12]

- The authorities are auctioning two telecommunications (wireless) frequencies. This concession envisages an up-front payment together with annual contributions. As the timing of the cash flow of the concession is not certain, the 2001 program does not included any revenue that may yet materialize this year.

- In July, the container port facilities were placed in concession with the private sector.

- In July, bills were placed in Congress to remove the monopoly status of the National Petroleum Company (ANCAP) on imports of crude petroleum, and refining (a benchmark under the program for end-December).[13] Seven international petroleum companies are now submitting bids to form an association with ANCAP in these areas. Moreover, the authorities will send to Congress before year-end a complementary bill to de-monopolize the importation of petroleum derivatives.

- The authorities are removing the monopoly status of the National Insurance Bank (BSE) on work accident policies. Earlier, they had removed the obligation of public entities to purchase their insurance policies only from the BSE.

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[12] The multi-year budget law that was adopted at end-2000 defined the monopoly status for the National Telephone Company (ANTEL) only for traditional fixed-line (copper) domestic telephony. All other services (data, wireless, internet protocol, optical, international long distance, etc.) are open to competition, subject to the appropriate regulations.

[13] ANCAP has engaged the private sector in investments in the oil refinery via a lease mechanism. As per the Fund's guidelines on lease arrangements, the NPV of the lease contract is captured in the debt statistics for program monitoring purposes.

- In July, the authorities announced steps to make the labor market more flexible, improve the employment opportunities for new entrants, women, and lower productivity workers, and to remove some inefficiencies for employers in managing flexibly their human capital. Measures included regulatory modernization for seasonal employment; permitting easier working-hours substitution in flex-time contracts; and liberalization in work assignments.

- The authorities are licensing concessions to the private sector to build and operate a gas-fired electricity generating plant; and various services provided in the international airport of Montevideo. Other significant measures include the Central Bank Board of Directors' approval of a regulation that permits private pension funds (AFAPs) to invest a share of their capital abroad; the executive's draft law sent to Congress authorizing the reduction in the ICOME and the social security surcharge for state enterprises (these were special taxes unique to state enterprises, which needed to be removed to permit them to compete effectively in fully contested markets); and a number of further concessions for private sector involvement in state hospitals, and road works and toll ways to stimulate investment in infrastructure.

The staff believes that **these measures signal important progress in structural reform,** which will contribute to bolstering productivity and competitiveness. They need to be complemented now by the full implementation of those reform measures that were delayed in the program, as noted in paragraph 6.

E. Medium-Term Scenario

26. The essence of the medium-term scenario has not changed relative to that reported on the occasion of the first review of the SBA and the Article IV consultation (Table 9). However, the output recovery, and the corresponding medium-term growth trajectory, have been delayed by about a year. As indicated above, the fiscal path, adjusted for the cycle, has been strengthened to continue aiming for a reduction in the debt/GDP ratio from 2003. The debt service to exports ratio has bumped up in 2001, from 230 to 280 percent, owing in part to the supply interruption in the meat sector. The staff believes that Uruguay is poised to overcome this problem and the debt servicing ratios are therefore expected to decline again. Uruguay has maintained good relations with the international capital markets and the Fund, the authorities are treating the program as precautionary, and based on their good track record of policy implementation and quick response to challenges from the region, the staff believes that the revolving nature of the Fund's resources under the SBA is safeguarded.

F. Performance Criteria and Other Issues

27. As indicated in Table 1 attached to the authorities' Letter of Intent, the quarterly quantitative performance criteria for the limit on the deficit of the consolidated public sector, and the corresponding overall gross debt, have been modified from the original (indicative) targets for end-September and end-December 2001. All other performance criteria are unchanged. The limit on the public sector short-term debt is defined at present based on the

original maturity of the debt. The authorities are preparing short-term debt statistics based on residual maturity which, it was agreed, would be employed in the next review.

28. Uruguay is providing timely information on the fiscal and most monetary accounts on the Internet. The disclosure of quarterly balance sheet and profit and loss statements on the state enterprises and banks is very helpful, and it is important not to incur slippages in the publication of this information.[14] Uruguay's statistical information is broadly adequate for surveillance purposes but the reporting delay of BROU to the Central Bank needs to be resolved. Uruguay is preparing to subscribe to the SDDS by end–2001; FAD has completed a Report on Observance of Standards and Codes (ROSC) on fiscal transparency, and the ROSC on data dissemination practices, prepared by STA, has also been approved by the authorities for publication, a few days ago. The staff has obtained the financial information of the Central Bank of Uruguay for year-end 2000, and the quarterly reports through June 2001, to update the Fund's safeguard assessment.

IV. Staff Appraisal

29. Uruguay is facing a third year of negative output growth in 2001. Three economic shocks help explain this difficult operating environment: a severe outbreak of foot-and-mouth disease; the impact on consumer confidence and domestic demand of the crisis in Argentina; and a new 30 percent slump in the value of the Brazilian *real*, which hampered exports to this important market. **The authorities are making substantial efforts to respond to these challenges**, and all quantitative performance criteria for end-June are estimated to have been met, except for a technical overrun in the debt ceiling (the counterpart of a temporary but large increase in international reserves). Notwithstanding some slippages, there was also progress with the structural reform benchmarks under the program.

30. **While the results of its efforts are not yet reflected in a resumption of growth, Uruguay is making progress with economic adjustment.** The structure of demand is changing, with a significant contribution to growth from the foreign balance. Wages and prices in U.S. dollar terms are falling, as needed to improve competitiveness. On a cyclically adjusted basis, government expenditures are falling, thereby strengthening the underlying structural fiscal position of Uruguay; while the deregulations of public sector monopolies, and other structural reforms, are accelerating. Uruguay is highly integrated in the Mercosur, and the economy needs some stability in the region, together with a continuation of the cautious policies in place, to rebound decisively.

31. **The authorities have taken a calculated risk by doubling the pace of depreciation of the exchange rate band to 15 percent a year, for the period through end-June 2002.**

[14] Each enterprise should place the quarterly annotated accounts on its web site with a delay not exceeding ten weeks. The state banks need to report their quarterly data equally promptly to the supervisory authorities, for publication in the quarterly *Boletin*.

Since Uruguay is a highly dollarized economy, with nearly all public debt, and much of household and corporate liabilities, denominated in U.S. dollars, the new policy has obvious risks. However, Uruguay is situated between one large trading partner with a floating exchange rate, which is subject to substantial downward pressure, and another with a fixed rate. In this context, the adjustments made to the exchange rate band have served the country well allowing it to improve its competitiveness, and facilitating changes in relative prices in a deflationary environment. The added flexibility provided by the wider exchange rate band is also helping the country cope with the recent increase in the risks to the international economic and financial environment. The pass-through from the exchange rate to consumer prices has been negligible to date, and inflation remains below the original program assumptions. The temporary nature of the measure, and the authorities' commitment to fiscal adjustment, together with an acceleration of structural reforms, have bolstered confidence that a price-wage spiral can be avoided.

32. **The authorities are modifying the fiscal deficit objective from the indicative target of 2.6 percent, set earlier in the year, to 3.3 percent of GDP, and a corresponding adjustment in the debt target, through end–2001, reflecting the weaker output growth.** Moreover, in view of the risks associated with the acceleration of the exchange rate band noted above, the authorities also have **committed to strengthening the underlying fiscal position in 2002 and the medium term** to preserve the objective for a **turnaround in the debt/GDP ratio in 2003**. The request has merit, given the policy response to the unexpectedly difficult circumstances. The authorities recognize that Uruguay can ill-afford much further expansion in the debt, which, at close to 50 percent of GDP, and being nearly fully dollarized, renders the country highly vulnerable to exchange rate shocks or further regional disturbances. This message has also been consistently conveyed by the international rating agencies. The staff shares the authorities views that contingency plans in the event of further economic shocks need to include measures to strengthen the fiscal position further, potentially coupled with a restructuring of the public sector balance sheet, where Uruguay holds large equity investments in enterprises that yield low rates of return, while it accumulates expensive debt. The authorities need to continue elaborating these plans.

33. **The public sector banks need to be reformed.** This has become urgent for the National Mortgage Bank, which is losing one percent of GDP a year owing to operational inefficiencies and currency mismatch on its balance sheet. The authorities have assigned priority to solving the difficulties in this bank, and they have requested technical assistance from the Fund/World Bank in this area. The bank still has nearly three times the minimum capital requirement on its books, but the restructuring plan needs to be fully implemented in 2002 to avoid triggering a future need for fiscal assistance. The Bank of the Republic is more diversified and somewhat stronger than the mortgage bank, but it is merely breaking even, and has taken on the difficult task of assisting the cattle sector with overcoming the financial problems associated with the outbreak of foot-and-mouth disease. The Bank has an adjustment program in place, which needs to be accelerated. Also, the Bank is notoriously tardy in submitting its monetary and financial data to the Central Bank. Reporting duty has been a structural benchmark in the program on previous occasions, and some improvement had been achieved, but the delays are re-emerging; this is a problem that needs to be dealt with once-for-all. Statistical and prudential regulations, and penalties for nonobservance,

need to be applied with equal determination for all banks, including the public sector institutions. The staff strongly welcomes the authorities request for an FSAP.

34. **The authorities are accelerating the deregulation of the economy and are providing additional opportunities for private sector investment through concessions.** These efforts are important and substantial. Uruguay is achieving a breakthrough by demonopolizing three critical and politically sensitive enterprises: the petroleum company; the telecommunications company; and the port authority. The concessions program includes the licensing of two cellular telecom frequencies; a gas-fired electricity generator; airport services; public hospitals, toll roads and infrastructure maintenance and management. This is good progress and the efforts need to be complemented by the full implementation of the delayed reforms under the program structural benchmarks.

35. The authorities are requesting a waiver for the nonobservance of the end-June debt ceiling, and they are modifying the (hitherto indicative) fiscal deficit and debt ceilings for end-September and end-December under the SBA. The staff supports the request and the proposed modifications in view of the adverse shocks that have affected the economy, and hence the fiscal position, and the substantial efforts at expenditure restraint the authorities are undertaking. The authorities' commitment to compensate for the fiscal and debt setbacks with a strengthened medium-term program, coupled with the structural reform efforts, merit support. It is expected that the next Article IV consultation mission and review under the program will take place in February 2002.

Table 1. Uruguay: Economic and Financial Indicators

	Average 1990-96	1997	1998	1999	2000	2001 Prog.	2001 Revised Prog.	2002 Proj.
	(Percentage change)							
Output, prices, and wages								
Real GDP	3.7	5.0	4.5	-2.8	-1.3	2.0	-1.0	2.0
Consumer prices (average)	64.6	19.8	10.8	5.7	4.8	5.0	5.1	7.5
(end of period)	60.9	15.2	8.6	4.2	5.1	4.7	6.1	6.5
Public sector wages (end of period)	58.3	18.7	11.7	6.9	2.9	4.5	5.2	1.0
Unemployment rate (percent, end of period)	9.4	10.3	10.3	11.4	14.4	13.4	15.1	14.4
GDP (Ur$ billions)	72.3	204.9	234.3	237.1	242.6	265.6	257.0	282.1
GDP (US$ billions)	15.1	21.7	22.4	20.9	20.0	20.5	19.3	18.8
Monetary indicators								
Currency issued	65.9	22.0	13.8	6.9	-3.9	8.7	5.2	9.5
M-2 1/	58.3	23.1	9.2	4.7	5.0	8.3	4.0	6.9
M-3* 2/	54.4	27.2	17.1	13.2	10.6	9.4	11.6	13.7
Credit to the private sector 3/	59.6	29.6	22.4	10.1	7.4	6.5	12.1	13.2
Prime interest rates (percent, average)								
Foreign currency loans	8.1	8.5	8.5	8.3	8.0	...	...	...
Domestic currency loans	70.3	39.2	30.6	24.4	19.0	...	...	...
	(In percent of GDP, unless otherwise indicated)							
Public sector operations 4/								
Revenue	29.9	30.3	32.9	32.3	31.5	31.9	31.8	31.9
Noninterest expenditure	28.8	29.8	31.9	34.4	32.9	31.9	32.2	31.1
Primary balance	1.1	0.5	0.9	-2.0	-1.4	0.0	-0.4	0.8
Interest bill	2.6	2.0	1.9	2.1	2.6	2.7	2.9	3.0
Overall balance	-1.5	-1.4	-1.0	-4.1	-4.0	-2.6	-3.3	-2.3
Savings and investment								
Gross domestic investment	15.0	15.2	15.9	15.1	13.9	15.2	12.8	13.4
Public	3.4	2.7	2.8	3.4	3.5	3.9	3.2	3.4
Private	11.6	12.6	13.1	11.8	10.4	11.3	9.5	10.0
Gross national savings	14.3	13.9	13.7	12.7	10.9	12.7	9.8	10.8
Public 5/	2.7	2.4	3.2	0.3	-0.6	1.3	0.3	1.4
Private	11.6	11.4	10.5	12.4	11.5	11.4	9.5	9.4
Foreign savings	0.7	1.4	2.1	2.4	2.9	2.5	2.9	2.6
External indicators								
Merchandise exports, fob (US$ millions)	1,879	2,793	2,829	2,291	2,380	2,564	2,203	2,446
Merchandise imports, fob (US$ millions)	-2,189	-3,498	-3,601	-3,186	-3,314	-3,420	-3,036	-3,218
Terms of trade (NA goods & nonfactor services)	...	1.2	4.6	-2.5	-4.9	...	...	...
Current account balance	-0.7	-1.4	-2.1	-2.4	-2.9	-2.5	-2.9	-2.6
Overall balance of payments	0.8	1.4	1.6	0.1	0.7	-0.3	-0.5	0.0
Public sector gross debt	32.9	31.8	34.4	40.4	45.7	46.7	49.3	52.3
Public sector external debt	28.5	23.3	25.2	26.5	29.1	32.7	34.5	36.6
Gross official reserves (US$ millions)	1,273	2,068	2,589	2,606	2,742	2,682	2,637	2,637
In months of imports of goods and services	5.2	5.7	6.9	7.8	7.8	7.6	8.1	7.6
Ratio to short-term debt 6/	...	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Ratio of financial system foreign assets to short-term debt	...	1.0	1.0	1.1	1.2	1.2	1.2	1.2
Central bank short-term for. liab. (US$ millions)	...	3	162	159	149	149	149	149
Central bank external debt (US$ millions)	...	860	963	944	837	950	950	950
REER (percentage depreciation -, e.o.p.)	35.1 7/	1.8	1.3	10.2	-0.7	...	...	...

Source: Data provided by the Uruguayan authorities; and Fund staff estimates.

1/ Currency plus demand and savings deposits in domestic currency.

2/ M-2 plus foreign currency deposits of residents (valued at end-of-period exchange rate).

3/ Flows of credit in foreign currency are valued at end-of-period exchange rates.

4/ Includes extrabudgetary operations (*Fondos de Libre Disponabilidad*) from 1998.

5/ Public sector total revenue minus current expenditure

6/ Includes nonresident deposits in the banking system.

7/ Cumulative change.

Table 2. Uruguay: Performance Under the 2001 Economic Program 1/

	31-Dec-2000	Jan-Mar 2001			Jan-Jun 2001		
		Prel.	Target	Margin (+)	Prel.	Target	Margin (+)
A: Quantitative Performance Criteria							
	(In millions of Uruguayan pesos)						
1. Combined public sector balance (floor)		-1,242	-2,150	908	-4,707	-5,000	293
2. General government expenditure (ceiling)		6,527	7,250	723	13,868	14,900	1,032
3. Change in the net domestic assets of the BCU (ceiling)		-3,042	1,060	4,102	-4,824	2,325	7,149
4. Net international reserves of the BCU (-decrease) (floor)		141	-140	281	298	-220	518
	(Stock of debt at the end of the period; in millions of U.S. dollars)						
5. Combined public sector debt (ceiling)							
a. All maturities	9,156	9,377	9,604	227	9,691	9,589	-102
b. Less than 1 year	200	200	200	0	200	200	0

B: Structural Benchmarks	
Before end-March 2001	
1. Publish quarterly reports for 2000 Q4, for the public sector financial and nonfinancial enterprises.	Observed
2. Complete independent external audit of BROU, BHU, and BSE.	Missed BSE
3. Complete independent external audit of ANCAP, UTE, ANTEL, OSE, AFE, and ANP.	Missed UTE 2/
Before end-June 2001	
4. Submit law to Congress to reform special pension funds (Banks, unversity professionals, notaries, police and the military).	Observed for Notaries
5. Finish the study on quasi-fiscal operations of the public sector.	Observed
6. Publish annual reports of BROU, BHU, BSE, ANCAP, UTE, ANTEL, OSE, AFE and ANP.	Missed BSE

Sources: Ministry of Economy and Finance; and Central Bank of Uruguay.

1/ As defined in the Technical Memorandum of Understanding (EBS/01/17).

2/ UTE's audit was delayed owing to a legal dispute; it will receive the independent external audit beginning in 2001.

Table 3. Uruguay: Public Sector Operations

	1997	1998	1999	2000	2001 Prog.	2001 Revised Prog.	2002 Proj.
	(In millions of pesos)						
Revenue	**62,140**	**77,049**	**76,699**	**76,332**	**84,766**	**81,730**	**89,957**
Taxes	42,737	50,500	50,294	50,774	56,102	55,700	62,032
VAT and excise taxes	23,677	27,447	26,985	27,409	30,627	29,018	32,231
On income and profits	8,660	10,785	12,064	12,641	12,884	12,992	13,461
On foreign trade	2,155	2,577	2,242	1,968	2,757	2,672	3,273
On property and other 1/	8,245	9,691	9,004	8,757	9,834	11,018	13,067
Social security contributions 2/	12,183	14,350	14,974	14,879	15,563	14,552	15,147
Nontax revenue 3/	2,383	6,352	6,505	5,849	6,571	5,047	5,903
Current surplus of public enterprises 4/	4,837	5,846	4,925	4,830	6,530	6,431	6,876
Noninterest expenditure	**61,072**	**74,833**	**81,463**	**79,802**	**84,704**	**82,779**	**87,800**
Current	53,606	64,988	71,224	71,372	74,441	73,562	77,615
Wages 3/	13,290	16,016	17,023	17,221	18,184	17,716	18,120
Goods and services 3/	7,923	11,510	12,983	11,260	13,155	12,818	13,950
Social security benefits	28,577	35,622	39,574	40,992	41,565	41,521	43,529
Other	3,816	1,841	1,643	1,898	1,536	1,507	2,016
Capital (Government and enterprises) 4/	7,467	9,845	10,239	8,430	10,264	9,217	10,185
Primary balance	**1,067**	**2,216**	**-4,764**	**-3,470**	**61**	**-1,049**	**2,157**
Interest	3,998	4,463	4,867	6,308	7,061	7,336	8,505
Overall balance	**-2,930**	**-2,247**	**-9,632**	**-9,778**	**-7,000**	**-8,385**	**-6,348**
	(In percent of GDP)						
Revenue	**30.3**	**32.9**	**32.3**	**31.5**	**31.9**	**31.8**	**31.9**
Taxes	20.9	21.6	21.2	20.9	21.1	21.7	22.0
VAT and excise taxes	11.6	11.7	11.4	11.3	11.5	11.3	11.4
On income and profits	4.2	4.6	5.1	5.2	4.9	5.1	4.8
On foreign trade	1.1	1.1	0.9	0.8	1.0	1.0	1.2
On property and other 1/	4.0	4.1	3.8	3.6	3.7	4.3	4.6
Social security contributions 2/	5.9	6.1	6.3	6.1	5.9	5.7	5.4
Nontax revenue 3/	1.2	2.7	2.7	2.4	2.5	2.0	2.1
Current surplus of public enterprises 4/	2.4	2.5	2.1	2.0	2.5	2.5	2.4
Noninterest expenditure	**29.8**	**31.9**	**34.4**	**32.9**	**31.9**	**32.2**	**31.1**
Current	26.2	27.7	30.0	29.4	28.0	28.6	27.5
Wages 3/	6.5	6.8	7.2	7.1	6.8	6.9	6.4
Goods and services 3/	3.9	4.9	5.5	4.6	5.0	5.0	4.9
Social security benefits	13.9	15.2	16.7	16.9	15.6	16.2	15.4
Other	1.9	0.8	0.7	0.8	0.6	0.6	0.7
Capital (Government and enterprises) 4/	3.6	4.2	4.3	3.5	3.9	3.6	3.6
Primary balance	**0.5**	**0.9**	**-2.0**	**-1.4**	**0.0**	**-0.4**	**0.8**
Interest	2.0	1.9	2.1	2.6	2.7	2.9	3.0
Overall balance (deficit -)	**-1.4**	**-1.0**	**-4.1**	**-4.0**	**-2.6**	**-3.3**	**-2.3**
Memorandum							
GDP (millions of pesos)	204,926	234,267	237,143	242,636	265,621	256,964	282,095
Public sector debt (in % GDP)	31.8	34.4	40.4	45.7	46.7	49.3	52.3

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes Cofis from 2001.

2/ Excluding contributions that are transferred to the private pension funds.

3/ Includes extrabudgetary operations (*Fondos de Libre Disponibilidad*) from 1998.

4/ Before interest expenditures.

Table 4. Uruguay: Public Sector Cash Flow

	1999	2000	2001	Proj. 2002	2001 Q1	Q2	Q3	Q4
	(In millions of U.S. dollars)							
Gross borrowing needs	**1,982**	**1,923**	**1,968**	**1,776**	**517**	**540**	**503**	**409**
Public sector deficit (+)	*849*	*808*	*639*	*424*	*90*	*251*	*176*	*123*
Central government	806	715	724	519	108	242	200	174
Local governments 1/	57	39	0	-17	-35	10	10	15
Public enterprises	-56	-22	-136	-127	-1	-17	-46	-72
Quasi-fiscal balance BCU	41	76	51	49	18	16	12	6
Amortization requirements	*1,133*	*1,115*	*1,329*	*1,352*	*427*	*289*	*327*	*286*
Amortization M&LT debt	174	207	248	305	101	4	37	106
Letras	594	501	666	591	244	211	164	47
WB, IDB, other official lenders	324	254	199	285	45	49	53	52
Commercial banks	...	...	132	93	28	11	31	62
Other	41	153	84	78	9	14	42	19
Gross financing	**1,982**	**1,923**	**1,968**	**1,776**	**517**	**540**	**503**	**409**
Placement of M&LT bonds	519	809	1,125	984	437	358	140	190
Letras	710	651	530	550	209	180	141	0
WB, IDB, other official lenders	411	320	238	260	42	34	42	120
Commercial bank lending	...	...	53	0	0	53	0	0
Foreign currency deposits in BCU	180	163	0	0	60	-84	63	-39
Increase in currency issued	7	58	-13	60	-59	37	-134	143
Drawdown of NIR (+) 1/	-13	-170	140	0	-121	13	281	-33
Other (residual)	169	92	-105	-78	-51	-51	-30	28
	(In percent of GDP)							
Borrowing requirement	**9.5**	**9.6**	**10.2**	**9.4**	**11.0**	**11.4**	**10.2**	**8.3**
Public sector deficit	4.1	4.0	3.3	2.3	1.9	5.3	3.6	2.5
Amortization	5.4	5.6	6.9	7.2	9.1	6.1	6.6	5.8
Gross financing obtained	**9.5**	**9.6**	**10.2**	**9.4**	**11.0**	**11.4**	**10.2**	**8.3**
Bonds & letras	5.9	7.3	8.6	8.2	13.7	11.4	5.7	3.8
WB, IDB, banks	2.0	1.6	1.5	1.4	0.9	1.9	0.8	2.4
BCU operations, net	0.8	0.3	0.7	0.3	-3.8	1.1	3.0	2.2
Other, net	0.8	0.5	-0.5	-0.4	0.2	-3.0	0.7	-0.1
Memorandum items (US$ millions):								
Net placement bonds	**345**	**602**	**877**	**679**	**336**	**354**	**103**	**84**
Placement domestic bonds	184	170	440	334	40	70	140	190
Placement foreign bonds	335	639	685	650	397	288	0	0
Amortization domestic bonds	174	64	148	155	1	4	37	106
Amortization foreign bonds	...	143	100	150	100	0	0	0
Net placement letras	**116**	**150**	**-136**	**-41**	**-35**	**-31**	**-23**	**-47**
Placement	710	651	530	550	209	180	141	0
Amortization	594	501	666	591	244	211	164	47

Sources: Central Bank of Uruguay; Ministry of Economy; and Fund staff estimates.

Table 5. Uruguay: Public Sector Balance Sheet (Preliminary)

	1995	1996	1997	1998	1999	2000	2001 Q1	2001 Q2
	(In millions of pesos)							
Total Assets	**81,745**	**99,715**	**113,044**	**129,668**	**139,382**	**136,249**		
Cash of the NFPS	...	...	...	...	...	...	...	
BCU net worth	9	-250	-1,402	-145	-68	-1,540	-1,210	-1,028
Equity participation in enterprises	*43,799*	*55,416*	*64,941*	*74,206*	*79,552*	*70,862*		
BROU 1/	5,516	6,622	7,631	8,221	8,792	5,985		
BHU 1/	10,114	12,390	14,282	15,388	16,491	9,411	9,135	
BSE	433	530	611	658	706	762	781	
ANCAP	3,342	3,908	4,263	4,862	5,461	5,255	5,693	
ANTEL 2/	5,999	8,275	9,869	11,993	12,758	11,571	12,031	
UTE	13,665	17,895	21,607	25,889	27,619	29,567	30,619	32,159
OSE	4,730	5,796	6,678	7,195	7,726	8,311		
AFE	527	645	743	801	858	927		
ANP	2,394	2,932	3,380	3,642	3,903	4,214		
Capital improvements General Government, net 3/	35,017	40,972	45,381	51,164	55,136	61,787	63,740	
Land and other fixed structures	...	...	...	...	...	...	...	
Total Liabilities	**81,745**	**99,715**	**113,044**	**129,668**	**139,382**	**136,249**		
Gross debt with residual maturity less than 1 year	15,322	18,186	20,532	22,391	28,380	33,515	27,856	
Gross medium & long term debt	29,435	37,645	48,794	60,835	69,546	81,085	92,404	
Minus: debt held by BCU 4/	-7,793	-8,440	-11,305	-14,343	-21,169	-24,091	-24,714	
Unfunded pension liabilities 5/	...	...	...	...	...	...	...	
Net worth	44,780	52,324	55,023	60,785	62,625	45,741		
	(In millions of U.S. dollars)							
Total Assets	**11,497**	**11,448**	**11,259**	**11,987**	**12,023**	**10,887**		
Cash	...	...	...	...	...	...	...	
BCU net worth	1	-29	-140	-13	-6	-123	-94	-75
Equity participation in enterprises	*6,160*	*6,362*	*6,468*	*6,860*	*6,862*	*5,662*		
BROU 1/	776	760	760	760	758	478		
BHU 1/	1,423	1,423	1,423	1,423	1,423	752	712	
BSE	61	61	61	61	61	61	61	
ANCAP	470	449	425	449	471	420	444	
ANTEL 2/	844	950	983	1,109	1,101	925	938	
UTE	1,922	2,055	2,152	2,393	2,382	2,363	2,387	2,341
OSE	665	665	665	665	666	664		
AFE	74	74	74	74	74	74		
ANP	337	337	337	337	337	337		
Capital improvements General Government, net 3/	4,925	4,704	4,520	4,730	4,756	4,937	4,970	
Land and other fixed structures	...	...	...	...	...	...	...	
Total Liabilities	**11,497**	**11,448**	**11,259**	**11,987**	**12,023**	**10,887**		
Gross total debt	6,295	6,410	6,905	7,694	8,447	9,157	9,377	
Residual maturity less than 1 year	2,155	2,088	2,045	2,070	2,448	2,678	2,172	
Medium&long term	4,140	4,322	4,860	5,624	5,999	6,479	7,205	
Minus: debt held by BCU 4/	-1,096	-969	-1,126	-1,326	-1,826	-1,925	-1,927	
Unfunded pension liabilities 5/	...	...	...	...	...	...	...	
Net worth	**6,298**	**6,007**	**5,480**	**5,619**	**5,402**	**3,655**		

Sources: data provided by the Uruguayan authorities; and Fund staff estimates.

1/ At end-2000, the BHU and the BROU incurred special charges of US$430 million and US$200 million, respectively, to write off non-recoverable assets.
2/ At end-2000, ANTEL transferred US$84 million in long-term deposits to the Treasury.
3/ Based on investment spending by the central and local governments during the past 20 years (perpetual inventory method, linear depreciation over 15 years).
4/ Already included in the net worth of the BCU; deducted to avoid double counting.
5/ The 1996 social security reform sharply reduced the future public sector pension costs; there are no annual estimates for remaining actuarial liabilities.

Table 6. Uruguay: Summary Accounts of the Banking System 1/

	1997	1998	1999	2000	2001 Prog.	2001 Revised Prog.	2002 Proj.
	(In millions of Ur$)						
	I. Central Bank						
Net foreign Assets	13,951	19,733	22,948	27,641	28,917	29,670	33,432
Net international reserves 2/	20,741	26,254	28,373	32,705	34,362	35,352	39,834
(in millions of U.S. dollars)	2,066	2,427	2,443	2,613	2,553	2,508	2,508
Other net foreign assets	-6,790	-6,521	-5,425	-5,064	-5,445	-5,682	-6,402
Net domestic assets	-4,392	-8,686	-10,787	-15,500	-15,754	-16,760	-19,274
Credit to public sector	549	-3,128	881	-3,685	-3,586	-3,971	-5,157
Credit to financial system	-7,346	-8,406	-13,992	-18,071	-18,896	-19,200	-20,904
Credit to the private sector	411	434	458	484	521	586	646
Other	1,993	2,414	1,866	5,772	6,207	5,824	6,141
Monetary liabilities	9,559	11,046	12,161	12,141	13,163	12,910	14,158
Currency issued	8,099	9,219	9,854	9,470	10,294	9,960	10,908
Currency outside banks	6,423	7,084	7,639	7,324	7,984	7,507	8,264
Vault cash	1,676	2,135	2,215	2,146	2,310	2,453	2,644
Private sector deposits	1,460	1,827	2,307	2,671	2,869	2,950	3,249
	II. Public and Private Banks 3/						
Net foreign assets 2/	-1,686	-3,240	-3,174	-7,094	-4,186	-8,417	-8,690
(in US$ million)	-168	-300	-273	-567	-311	-597	-547
Net domestic assets	76,463	91,085	102,773	118,258	125,930	133,120	150,861
Credit to the public sector	4,166	4,831	4,919	8,768	9,179	11,072	12,936
Credit to financial system	7,225	7,704	11,262	13,715	16,132	14,438	15,534
Credit to the private sector	87,606	107,288	118,105	126,871	135,160	142,230	161,072
Other	-22,534	-28,737	-31,513	-31,096	-33,194	-34,619	-38,681
Liabilities to private sector	74,777	87,845	99,599	111,164	121,743	124,703	142,171
Local currency liabilities	17,096	18,578	19,242	20,915	22,614	21,543	22,792
Residents' foreign currency liabilities 4/	57,681	69,267	80,357	90,249	99,129	103,160	119,378
	III. Banking System 3/						
Net foreign assets 2/	12,265	16,492	19,774	20,548	24,730	21,253	24,741
(in US$ million)	1,222	1,525	1,702	1,642	1,838	1,508	1,558
Net domestic assets	70,394	80,264	89,771	100,612	107,866	113,907	128,942
Credit to the public sector	4,715	1,703	5,800	5,083	5,593	7,101	8,002
Credit to rest of financial system	-1,797	-2,838	-4,945	-6,503	-6,970	-7,491	-7,999
Credit to the private sector	88,017	107,721	118,564	127,355	135,674	142,816	161,717
Of which: Local currency	35,618	41,530	46,125	45,679	49,629	47,049	48,931
Of which: Foreign currency	52,399	66,191	72,439	81,676	86,044	95,767	112,786
Other	-20,541	-26,323	-29,647	-25,324	-26,980	-28,519	-32,778
Broad money (M3*)	82,659	96,756	109,545	121,159	132,596	135,160	153,684
Currency outside banks	6,423	7,084	7,639	7,324	7,984	7,507	8,264
Local currency deposits	17,145	18,650	19,313	20,966	22,664	21,909	23,180
Residents' foreign currency liabilities 4/	59,091	71,022	82,593	92,869	101,947	105,743	122,240
	(Annual percentage change)						
Banking system credit to private sector	29.6	22.4	10.1	7.4	6.5	12.1	13.2
Currency issued	22.0	13.8	6.9	-3.9	8.7	5.2	9.5
Total deposits held by residents	27.5	17.6	13.6	11.7	9.5	12.1	13.9
Local currency	22.7	8.8	3.6	8.6	8.1	4.5	5.8
Foreign currency 4/	29.0	20.2	16.3	12.4	9.8	13.9	15.6
Consumer price index (e.o.p.)	15.2	8.6	4.2	5.1	4.8	6.1	6.5
Memorandum:							
Nonresidents' f/c deposits (US$ million)	3,071	3,367	4,663	5,284	5,032	6,084	6,084
BCU's NIR (program definition-US$ million)	...	...	...	849	789	789	789

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ End of period levels in the 2000 program and projections are not comparable because of recent revisions in the base.

2/ Gold valued at market prices

3/ The Bank of the Republic (BROU), the National Mortgage Bank (BHU), private banks and cooperatives.

4/ Includes indexed deposits

Table 7. Uruguay: Banking Soundness Indicators 1/

	December					
	1995	1996	1997	1998	1999	2000
Profitability ratios 2/						
(Percent of average total assets)						
Operating revenue	35.5	31.0	25.6	20.4	30.8	18.9
Operating expenses	26.5	23.5	19.2	14.8	25.4	14.5
Operating margin	9.0	7.5	6.5	5.6	5.4	4.5
from interest	8.0	6.4	5.4	4.6	4.3	3.5
from fees	1.0	1.1	1.0	1.0	1.0	0.9
Overhead expenses (including labor costs)	5.4	5.5	5.2	4.9	5.2	4.5
Pre-tax profits (nominal)	5.2	4.3	2.4	1.3	1.2	0.7
After-tax profits (adjusted for inflation)	1.4	1.2	0.7	0.9	1.2	-0.2
(Percent of equity)						
Pre-tax return on equity (nominal, percent)	26.8	23.1	12.8	7.3	7.8	4.6
After-tax return on equity (adjusted for inflation, percent)	7.2	6.1	3.7	5.0	7.5	-1.8
Private banks, excluding intervened banks	11.5	14.5	11.4	13.6	11.7	11.8
BROU	8.0	4.0	1.7	6.4	7.0	1.4
BHU	4.9	2.2	-2.3	2.4	0.3	-16.8
Asset quality ratios						
Nonperforming loans/total loans (percent) 3/ 4/	10.6	10.4	9.3	10.7	16.1	16.4
Loans with qualification "1 or 2" (percent of total loans	...	...	89.3	88.5	83.5	77.9
BROU and BHU	...	...	82.9	81.1	71.7	58.3
Private banks 5/	92.9	93.4	94.0	93.8	91.9	91.6
Loans with qualification "3 - 5" (percent of total loans)	...	...	10.7	11.5	16.5	19.6
BROU and BHU	...	...	17.1	18.9	28.3	41.7
Private banks 5/	7.1	6.6	6.0	6.2	8.1	8.4
Loan provisions/total loans (percent)	5.2	6.4	6.5	6.1	5.9	7.7
Uncovered nonperforming loans/total loans (percent)	5.4	4.0	2.8	4.6	10.1	8.6
Loan provisions/past-due loans (percent)	48.1	58.4	61.1	62.8	46.3	47.9
Liquidity ratios						
Total loans/total deposits (percent)	103.8	99.9	98.3	100.4	102.1	96.7
Total liquid assets/total deposits (percent)	16.7	19.0	18.8	16.6	15.5	16.3
Capital adequacy ratios						
Capital/assets (percent)	19.1	18.0	16.3	15.5	15.3	11.7
Capital/risk-adjusted asssets (percent) 6/	29.7	28.2	25.2	25.3	22.2	17.5
Private banks	13.0	13.4	11.3	11.2	10.2	11.7
BROU	25.3	22.0	16.1	24.1	18.2	14.9
BHU	53.4	52.9	50.7	45.3	42.4	25.2
Capital/(assets plus contingencies) (percent) 7/	4.6	4.5	4.5	5.2	5.8	5.5
Deposits/capital = leverage (percent)	398.3	432.9	479.4	514.4	517.1	713.2
Memorandum items:						
Private banks' share of total assets (percent)	49.5	51.9	54.5	55.8	59.0	60.1
BROU and BHU share of total assets	50.5	48.1	45.5	44.2	41.0	39.9

Source: Central Bank of Uruguay - Banking Superintendency.

1/ Comprising private banks; Bank of the Republic and National Mortgage Bank; and two intervened banks.

2/ Nominal profitability indicators include a statistical inflation bias.

3/ Loan classifications in the BROU and BHU have recently been revised in light of the independent audits for the year 2000. As a result, the figures on NPL prior to 1999 are not strictly comparable with (tend to be lower than) those for 1999 and 2000. Also, public banks take more time to write down unrecoverable assets, leading to a larger cumulation of the stock of these assets in the balance sheet.

4/ Loans with 1 rating are highest quality, 5 are lowest quality.

5/ Includes intervened banks.

6/ Minimum is 8.5 percent, to increase to 10 percent by early 2001.

7/ Minimum requirement is 4 percent.

Table 8. Uruguay: Summary Balance of Payments

	1997	1998	1999	2000	2001 Prog.	2001 Revised Prog.	2002 Proj.
	(In millions of U.S. dollars)						
Current account balance	-298	-476	-506	-591	-504	-562	-497
Trade Balance	-704	-772	-895	-934	-856	-833	-772
Exports, f.o.b.	2,793	2,829	2,291	2,380	2,564	2,203	2,446
Imports, f.o.b.	-3,498	-3,601	-3,186	-3,314	-3,420	-3,036	-3,218
Nonfactor services	525	437	459	454	530	457	480
Exports, f.o.b.	1,417	1,307	1,262	1,354	1,395	1,305	1,440
Imports, f.o.b.	-892	-870	-803	-899	-865	-849	-960
Factor services (net)	-193	-199	-144	-177	-245	-249	-269
Transfers (net)	74	59	74	66	67	64	64
Financial account	539	697	777	875	444	555	497
Foreign direct investment	113	155	235	171	200	148	175
Portfolio investment	174	419	84	376	457	438	450
Inflows	299	419	291	908	660	644	700
Outflows	125	0	207	532	203	206	250
Other investment	252	123	457	328	-213	-32	-128
Commercial credit	44	38	0	0	44	0	15
Other net inflows	208	85	457	328	-257	-32	-142
Inflows	917	924	2,786	2,621	2,231	3,138	2,936
General government	170	163	400	259	97	84	81
Banks	711	752	2,334	2,303	2,050	3,004	2,805
Other sectors	36	9	52	59	83	50	51
Outflows	709	840	2,329	2,293	2,488	3,169	3,078
General government	0	0	128	102	124	125	139
Banks	682	755	2,125	2,035	2,305	2,975	2,855
Other sectors	27	85	77	156	59	69	83
Errors and omissions	73	140	-257	-114	0	-98	0
Change in international reserves (- increase)	-314	-362	-13	-170	60	105	0
Change in NIR (- increase, program definition) 1/	-314	-362	-13	-170	60	60	0
	(In percent , unless otherwise indicated)						
Memorandum items							
Current account/GDP	-1.4	-2.1	-2.4	-2.9	-2.5	-2.9	-2.6
Financial account/GDP	2.5	3.1	3.7	4.4	2.2	2.9	2.6
Public external debt/GDP	23.3	25.2	26.5	29.1	32.7	34.5	36.6
Gross official reserves (In million of US$)	2,068	2,589	2,606	2,742	2,682	2,637	2,637
In percent of short-term debt							
Including nonresident deposits	27.3	32.4	34.4	33.2	33.2	29.1	29.2
Excluding nonresident deposits	73.6	79.8	105.7	108.2	101.1	104.0	104.6
In months of imports of goods and services	5.7	6.9	7.8	7.8	7.6	8.1	7.6

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ As defined in the Technical Memorandum of Understanding (EBS/01/17). Gross international reserves minus all short-term liabilities in foreign currency (including those to residents).

Table 9. Uruguay: External Debt and Debt Service Indicators

	1995	1996	1997	1998	1999	Prel. 2000	Proj. 2001
	(In millions of U.S. dollars)						
Total external debt	**10,371**	**11,595**	**12,485**	**13,582**	**13,307**	**14,316**	**16,427**
(Excluding nonresidents' deposits)	6,850	7,443	7,735	8,844	8,187	8,604	9,915
Public sector	**5,193**	**5,387**	**5,459**	**6,036**	**5,895**	**6,147**	**6,983**
(Excluding nonresidents' deposits)	4,841	4,995	5,053	5,644	5,543	5,826	6,661
Nonfinancial public sector	**4,425**	**4,682**	**4,754**	**5,195**	**5,178**	**5,492**	**6,334**
By debtor							
Central government	3,272	3,580	3,733	4,197	4,284	4,658	5,556
Public enterprises	1,081	1,036	963	943	847	792	742
Local governments	72	66	58	55	48	42	37
By residual maturity							
Short term	1,081	846	596	538	510	582	561
Long term	3,345	3,836	4,158	4,657	4,669	4,909	5,774
Financial public sector	**767.6**	**705**	**705**	**841**	**717**	**656**	**649**
(Excluding nonresidents' deposits)	415.3	313	300	449	365	334	334
BCU	210.9	109	113	272	219	199	199
BROU	73.7	72	65	62	53	48	46
BHU	130.7	132	121	114	93	86	81
Nonresidents deposits in public banks	352.3	392	406	392	352	322	322
Private sector	**5,178**	**6,208**	**7,026**	**7,546**	**7,412**	**8,169**	**9,444**
(Excluding non residents deposits)	2,010	2,448	2,682	3,200	2,644	2,779	3,254
Bank credit	1,068	1,394	1,684	2,151	1,513	1,525	1,805
Suppliers' credits	422	397	465	486	413	401	425
Other	520	657	533	563	718	853	1,024
Nonresidents' deposits in private banks	3,168	3,760	4,344	4,346	4,769	5,390	6,190
Total external debt service	**1,316**	**1,364**	**1,049**	**1,017**	**1,296**	**1,392**	**1,377**
Principal 1/	728	751	347	270	522	590	560
Interest	588	613	702	747	774	802	817
External debt service of the NFPS	**1,082**	**1,079**	**696**	**644**	**895**	**985**	**963**
Principal 1/	727	749	345	270	517	584	555
Interest	355	329	351	374	379	401	409
	(In percent of GDP)						
Total external debt (excluding nonresidents deposits)	**37.3**	**36.3**	**35.6**	**39.5**	**39.1**	**42.9**	**51.4**
Nonfinancial public sector	22.9	22.8	21.9	23.2	24.8	27.4	32.8
Public financial sector	4.0	1.5	1.4	2.0	1.7	1.7	1.7
Private sector	10.4	11.9	12.4	14.3	12.6	13.9	16.9
	(In percent of exports of goods and services)						
Total external debt (excluding nonresidents deposits)	**195.3**	**193.5**	**183.7**	**213.8**	**230.4**	**230.4**	**282.6**
Nonfinancial public sector	126.2	121.7	112.9	125.6	145.7	147.1	180.6
Financial public sector	11.8	8.1	7.1	10.8	10.3	8.9	9.5
Private sector	57.3	63.6	63.7	77.4	74.4	74.4	92.8
Debt service	**37.5**	**35.5**	**24.9**	**24.6**	**36.5**	**37.3**	**39.3**
Principal	20.8	19.5	8.2	6.5	14.7	15.8	16.0
Interest	16.8	15.9	16.7	18.1	21.8	21.5	23.3
Debt service of NFPS	**30.9**	**28.0**	**16.5**	**15.6**	**25.2**	**26.4**	**27.5**
Principal	20.7	19.5	8.2	6.5	14.5	15.6	15.8
Interest	10.1	8.6	8.3	9.0	10.7	10.7	11.6
Memorandum items:							
Liabilities to the Fund: (US$ million)	0.0	8.6	0.0	160.8	156.7	154.5	142.8
(percent of quota)	0.0	2.7	0.0	50.8	37.3	37.3	37.3
Debt service to the Fund: (US$ million)	10.6	12.2	8.3	0.0	5.5	7.8	7.9
(percent of NFPS debt service)	1.0	1.1	1.2	0.0	0.6	0.8	0.8
Public sector external assets (US$ million) (BCU + BROU)	2,683	2,830	3,037	3,575	3,456	3,529	3,476
Of which short term	2,491	2,600	2,777	3,298	3,254	3,300	3,250
Private sector external assets (US$ million)	4,665	5,888	6,520	7,060	6,888	7,514	8,764
Of which short term	2,805	3,404	3,911	3,880	3,928	4,809	5,609

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ Excludes original maturities of less than one year.

Table 10. Uruguay: Medium-Term Macroeconomic Framework

	1998	1999	2000	2001	2002	2003	2004	2005
					Projections			
	(In percent of GDP)							
Gross domestic investment	**15.9**	**15.1**	**13.9**	**12.8**	**13.4**	**13.9**	**14.4**	**14.6**
Public sector, excluding public enterprises	2.8	3.4	3.5	3.2	3.4	3.5	3.5	3.6
Private sector	13.1	11.8	10.4	9.5	10.1	10.4	10.9	11.0
Gross national saving	**13.7**	**12.7**	**10.9**	**9.8**	**10.8**	**11.6**	**12.3**	**12.7**
Public sector	3.2	0.3	-0.6	0.3	1.4	2.1	2.6	3.1
Private sector	10.5	12.4	11.5	9.5	9.4	9.5	9.7	9.6
Foreign saving	**2.1**	**2.4**	**2.9**	**2.9**	**2.6**	**2.3**	**2.1**	**1.9**
Total external debt (incl. nonres. deposits)	**60.7**	**63.6**	**71.4**	**85.1**	**89.8**	**89.7**	**88.7**	**87.5**
Of which: Public sector	25.2	26.5	29.1	34.5	36.6	36.6	36.4	35.6
Private sector	14.3	12.6	13.9	16.9	18.6	20.1	21.1	22.1
Nonresident deposits	21.2	24.5	28.5	33.7	34.6	33.0	31.3	29.8
Public sector finances								
Revenue	32.9	32.3	31.5	31.8	31.9	31.5	31.5	31.6
Of which: taxes	21.6	21.2	20.9	21.7	22.0	21.8	21.8	21.8
Social security contributions	6.1	6.3	6.1	5.7	5.4	5.2	5.3	5.4
Expenditure	31.9	34.4	32.9	32.2	31.1	29.9	29.4	29.1
Of which: wages	6.8	7.2	7.1	6.9	6.4	6.1	5.9	5.8
Social security benefits	15.2	16.7	16.9	16.2	15.4	14.7	14.4	14.2
Primary balance (deficit -)	0.9	-2.0	-1.4	-0.4	0.8	1.6	2.1	2.5
Interest	1.9	2.1	2.6	2.9	3.0	3.0	3.0	3.0
Overall balance (deficit -)	**-1.0**	**-4.1**	**-4.0**	**-3.3**	**-2.3**	**-1.4**	**-0.9**	**-0.4**
Public sector total debt	**34.4**	**40.4**	**45.7**	**49.3**	**52.3**	**52.3**	**51.9**	**50.9**
	(In millions of U.S. dollars)							
Current account balance	**-476**	**-506**	**-590**	**-562**	**-497**	**-435**	**-413**	**-390**
Exports	2,829	2,291	2,380	2,203	2,446	2,690	2,946	3,226
Imports	-3,601	-3,186	-3,314	-3,036	-3,218	-3,449	-3,729	-4,046
Nonfactor services (net)	437	459	454	456	480	544	605	680
Factor services (net)	-199	-144	-177	-249	-269	-284	-299	-314
Transfers (net)	59	73	66	64	64	64	64	64
Financial account	**837**	**519**	**761**	**457**	**497**	**485**	**513**	**490**
Foreign direct investment	155	235	171	148	175	190	210	240
Portfolio investment	419	84	376	438	450	400	290	225
Other investment 1/	263	200	214	-129	-128	-105	13	25
Increase (-) in official reserves	**-362**	**-13**	**-170**	**105**	**0**	**-50**	**-100**	**-100**
	(Annual percentage change)							
Real GDP	4.5	-2.8	-1.3	-1.0	2.0	4.0	4.0	3.0
Consumer prices (end-of-period)	8.6	4.2	5.1	6.1	6.5	5.5	3.5	3.0
Merchandise export prices	-1.1	-7.3	-4.4	0.5	1.1	1.0	0.9	0.9
Export volume	2.4	-12.6	8.7	-7.9	9.8	8.9	8.5	8.5
Merchandise import prices	-5.9	-5.2	3.3	-0.7	0.0	0.8	0.9	0.9
Import volume	9.4	-6.7	0.7	-7.8	6.0	6.3	7.2	7.5
Merchandise terms of trade	5.1	-2.2	-7.5	1.2	1.1	0.2	0.0	0.0
	(In percent of exports of GNFS)							
Total external debt (excl. nonres. deposits)	213.8	230.4	230.4	282.6	267.3	256.3	243.1	230.4
Total external debt (incl. nonres. deposits)	328.4	374.5	383.4	468.3	434.9	405.7	375.5	349.3
Debt service	24.6	36.5	37.3	39.2	38.3	36.6	35.0	33.3
Of which: interest payments	18.1	21.8	21.5	23.3	24.2	23.2	21.5	20.0
Outstanding Fund credit	3.5	3.2	2.9	2.6	1.2	0.0	0.0	0.0
Fund charges and repurchases	0.0	0.2	0.2	0.3	2.0	1.8	0.1	0.0

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ Includes errors and omissions.

Table 11. Uruguay: Vulnerability Indicators

	1997	1998	1999	2000	2001 Proj.	2002 Proj.
(Annual percentage change, unless otherwise indicated)						
Financial sector indicators						
Broad money	27.2	17.1	13.2	10.6	11.6	13.7
Credit to the private sector	29.6	22.4	10.1	7.4	12.1	13.2
Share of nonperforming loans in total loans (in percent)	9.3	10.7	16.1	16.4	...	...
Prime interest rates (percent, average) - domestic loans	39.2	30.6	24.4	19.0	...	...
Prime interest rates, real (percent, average) - domestic loans	16.2	17.9	15.1	12.7	...	...
External Indicators						
Merchandise exports (in US$)	14.1	1.3	-19.0	3.9	-7.4	11.0
Merchandise imports (in US$)	11.6	2.9	-11.5	4.0	-8.4	6.0
Merchandise terms of trade	1.2	5.1	-2.2	-7.5	...	...
REER appreciation (+)	1.8	1.3	10.2	-0.7	...	...
(In percent of GDP, unless otherwise indicated)						
Current account balance	-1.4	-2.1	-2.4	-2.9	-2.9	-2.6
Capital and financial account balance	2.5	3.1	3.7	4.4	2.8	2.6
Of which: Net foreign direct investment	0.5	0.7	1.1	0.9	0.8	0.9
Inward portfolio investment (securities etc.)	1.4	1.9	1.4	4.5	3.3	3.7
Other net inflows (deposits, loans, trade credits, etc.)	1.2	0.5	2.2	1.6	-0.2	-0.7
Total external debt including nonresident deposits	57.5	60.7	63.6	71.4	85.1	89.8
Of which: Public sector	23.3	25.2	26.5	29.1	34.5	36.6
Foreign currency deposits (nonresidents)	21.9	21.2	24.5	28.5	33.7	34.6
In percent of exports GNFS	296.5	328.4	374.5	383.4	468.3	434.9
Total external debt excluding nonresident deposits	35.6	39.5	39.1	42.9	51.4	55.2
In percent of exports GNFS	183.7	213.8	230.4	230.4	282.6	267.3
External interest payments to exports GNFS (in percent)	16.7	18.1	21.8	21.5	23.3	24.2
External amortization payments to exports GNFS (in percent)	8.2	6.5	14.7	15.8	15.9	14.1
(In millions of U.S. dollars, unless otherwise indicated)						
Central Bank short-term foreign liabilities	3	162	159	149	149	149
Central Bank foreign currency exposure	-187	-198	-473	-526	...	...
Short term foreign assets of the financial sector	7,142	7,807	7,542	7,545	7,400	7,500
Short term foreign liabilities of the financial sector	6,336	6,877	6,790	7,128	6,950	7,000
Gross official reserves	2,068	2,589	2,606	2,742	2,637	2,637
In months of imports GNFS	5.7	6.9	7.8	7.8	8.1	7.6
In percent of total debt service	203.2	199.8	187.2	199.2	154.7	151.0
In percent of base money	217.0	217.0	305.9	363.8	351.1	355.0
In percent of broad money	25.1	28.9	27.6	28.3	27.5	27.2
In percent of short-term external debt incl. deposits 2/	27.3	32.4	34.4	33.2	29.1	29.2
In percent of short-term external debt excl. deposits 2/	73.6	79.8	105.7	108.2	104.0	104.6
Financial Market Indicators						
Foreign currency debt rating (Moody's)			Baa3	Baa3	Baa4	Baa4
Foreign currency debt rating (S&P)			BBB-	BBB-	BBB-	BBB-
Spread of benchmark bonds (basis points, end of period) 3/		257.0	194.0	290.0	295.0	...
Exchange rate (per US$, period average)	9.44	10.47	11.34	12.15	...	...

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ Excludes Central Bank.

2/ By remaining maturity.

3/ Ten-year bond.

Table 12. Uruguay: Proposed Availability of Purchases

Availability	Amount in Millions of SDRs	Conditions
October 5, 2001	112.0	Compliance with end-June performance criteria, and completion of review.
November 30, 2001	19.0	Compliance with end-Sept. performance criteria
February 28, 2002	19.0	Compliance with end-Dec. performance criteria, and completion of review.
Total access	150	
Percent of quota	48.9	
Annual access (in percent)	26.7	

URUGUAY-FUND RELATIONS
(As of July 31, 2001)

I. **Membership Status**: Joined March 11, 1946; Article VIII

A. Financial Relations

II. **General Resources Account**:	In millions of SDRs	In percent of Quota
Quota	306.50	100.0
Fund holdings of currency	385.03	125.6
Reserve position in the Fund	35.67	11.6

III. **SDR Department**:	In millions of SDRs	Percent of Allocation
Net cumulative allocation	49.98	100.0
Holdings	2.12	4.2

IV. **Outstanding Purchases and Loans**:	In millions of SDRs	In percent of quota
Stand-by arrangements	114.20	37.3

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	SDR Millions Amount Approved	SDR Millions Amount Drawn
Stand-by	5/31/00	3/31/02	150.00	0.00
Stand-by	3/29/99	3/28/00	70.00	0.00
Stand-by	6/20/97	3/19/99	125.00	114.20

VI. **Projected Obligations to Fund:** (SDR millions; based on existing use of resources and present holdings of SDRs):

	3/31/2001	Forthcoming 2001	2002	2003	2004	2005
Principal			57.1	57.1		
Charges/interest		3.4	5.9	3.5	1.8	1.7
Total		3.4	63.0	60.6	1.8	1.7

B. Nonfinancial Relations

VII. **Safeguards Assessment:**

Under the Fund's safeguards assessment policy, the Central Bank of Uruguay (CBU) is subject to the transitional procedures with respect to the Stand-By Arrangement which was approved on May 31, 2000 and which is scheduled to expire on March 31, 2002. The transitional procedures require a review of only the CBU's external audit mechanism. This assessment determines whether the CBU publishes annual financial statements that are independently audited in accordance with internationally accepted standards.

The External Audit assessment was completed on October 19, 2000. The assessment concluded that the CBU's current external audit mechanism may not be adequate in certain respects and appropriate recommendations have been made to the authorities, as reporte in EBS/01/17.

VIII. **Exchange Rate Arrangement**: The currency is the Uruguayan peso (Ur$). Since November 2, 1982, Uruguay has followed a crawling peg system within a band whereby the Central Bank announces periodically its intervention buying and selling rates. On August 31, 2001 buying and selling interbank rates for the U.S. dollar, the intervention currency, were Ur$13.284 and Ur$14.081 respectively. Uruguay's exchange system is free of restrictions on payments and transfers for current international transactions; there is no parallel market for foreign exchange.

IX. **Article IV Consultation:** The 2001 Article IV Consultation was concluded by the Executive Board on February 14 (EBS/01/17). Uruguay is on the standard 12-month cycle.

X. **FSAP participation, ROSCs, and OFC Assessments:** The authorities have requested participation in the FSAP, and an OFC assessment, for late 2001 or early 2002. The ROSC-module on fiscal transparency was published on March 5, 2000. A ROSC-module on data dissemination practices has been prepared by STA and is to be published shortly.

XI. **Technical Assistance**: A STA mission on money and banking statistics took place in March 1999, which reviewed the currentness, coverage, and classification of data reported for publication in *IFS* and made recommendations for improvement. A multisector STA mission took place in November 1999 which developed an overall action plan for statistics management in Uruguay, including datailed recommendations for bringing Uruguay's data dissemination policies and practices into line with the Fund's SDDS. Technical assistance in the areas of tax and customs administration had been provided by the Fiscal Affairs Department in 1996. In June 2000 and May 2001, FAD provided technical assistance in the area of quasi-fiscal activities in the public sector enterprises and banks.

XII. **Resident Representative**: none.

Relations with the World Bank

In the past, Bank project lending has been focused on infrastructure and agriculture development. In addition, in the late 1980s, the Bank began providing support through structural adjustment lending. The first SALs 1987 and 1989 supported export growth through incentives and tariff reform; strengthening public finances and the social security system; improving public investment programming; and strengthening the banking sector. A stand-alone debt and debt service reduction operation (DDSR) was also approved in 1991.

In the 1990s, the Bank continued to support infrastructure development oriented towards exports of natural resource-based goods (e.g., forestry). In addition, the Bank supported programs in basic education and institutional development of the health sector. An adjustment loan supported reforms that established the multi-pillar social security system.

The Bank's recent lending has continued to support the social sectors and selected infrastructure investment, with a focus on reforming public enterprises and the regulatory system. During 2000, two loans were approved: a Financial Sector Adjustment Loan (FSAL)—that supported actions to strengthen the framework for the functioning of the financial system—and a Water Sector Adaptable Program Loan. In early 2001, a technical assistance loan was approved to help establish a public utility regulatory department. In end-July, 2001, the Board approved the Foot and Mouth Disease Emergency Recovery Project that will finance livestock vaccinations. Based on the most recent Country Assistance Strategy (July 2000), further lending for public enterprise reform, the social sectors and natural resource management is anticipated.

FINANCIAL RELATIONS WITH THE WORLD BANK GROUP
(In millions of U.S. dollars)

	Commitments (Net of Cancellations)	Disbursements	Undisbursed Amount
I. IBRD Operations (as of June 30, 2001)			
Sectors			
Agricultural and rural development, and natural resources management	260.2	258.8	1.4
Industrial credit	34.3	34.3	0.0
Power	337.6	257.5	80.1
Transport and telecommunications	361.5	301.0	60.5
Education	68.0	53.6	14.4
Health	10.6	8.1	2.5
Refinery	24.4	24.4	0.0
SAL I and TAL I	80.9	80.9	0.0
SAL II and TAL II	145.5	145.5	0.0
Contractual savings	100.0	100.0	0.0
Water supply	55.2	22.2	33.0
Debt and debt service reduction	65.0	65.0	0.0
Public enterprise reform	6.6	6.6	0.0
Private sector development	0.0	0.0	0.0
Financial Sector Adjustment	80.9	80.9	0.0
Total	**1,630.7**	**1,438.8**	**191.9**
Repayments (includes repayments third parties)		882.0	
Total outstanding (due IBRD) 1/		556.8	

II. IFC Operations (as of July 31, 2001)

	Loans	**Equity**	**Quasi**	**Participation**
Held	9.89	5.98	6.17	3.64
Disbursed	6.39	5.98	6.17	3.64

III. IBRD Loan Transactions (calendar year)

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**[A/]
Disbursements	40.5	37.0	31.7	38.7	50.4	143.9	66.3	131.3	42.1
Repayments	49.2	56.2	77.8	69.7	67.9	64.1	63.2	43.2	48.4
Net lending	-8.7	-19.2	-46.1	-31.0	-17.5	79.7	3.1	88.1	-6.3

A/ as of August 31, 2001

Sources: World Bank (IBRD data); and IFC (IFC data).

1/ Uruguay's total obligations to the IBRD, including exchange adjustment, amount to US$546.1 million.

STATISTICAL ISSUES

The statistical database in Uruguay is generally adequate for the assessment and monitoring of macroeconomic policies. The multisector mission of November 10–24,1999 developed an action plan that includes recommendations for bringing Uruguay's data dissemination policies and practices into line with the Fund's Special Data Dissemination Standard (SDDS). The authorities have made significant progress in implementing the mission's recommendations, both with respect to timeliness of dissemination of the SDDS data categories, and in terms of methodological changes to improve data quality. During a recent staff visit to Montevideo (April 5–6, 2001) to present the findings of the data module of the Report on Observance of Standards and Codes (ROSC), the Uruguayan authorities reiterated their commitment to subscribe to the SDDS in the near future.

1. Real sector

National account statistics have a number of shortcomings, including the use of an outdated benchmark year, limited coverage of the enterprise survey, long publication lags, inadequate information on the informal economy, and incomplete quarterly accounts. The November 1999 multisector mission recommended a range of improvements including the completion of the revision of data and methods that had already been partially carried out, introduction of annually chained volume measures, incorporation of new benchmark survey data, and compilation of quarterly estimates of GDP at current prices.

The authorities do not provide trade price and volume indices for publication in the *IFS*.

Both the consumer and wholesale price indices are reported on a regular and timely basis for publication in the *IFS*. The consumer price index has a base period of December, 1985=100, and the wholesale price index has a base of 1988=100. No producer price index has been reported for publication in the *IFS*.

2. Government finances

Official data on the central administration, the state enterprises and the social security system are complete and current, but there are problems with the currentness of the data on the local governments; there are also problems with the currentness of the financing and debt data reported for inclusion in the Fund's statistical publications. The multisector mission that visited Uruguay in November 1999 reviewed the sources used for the compilation of central government financing and identified sources of information for local governments. The mission made recommendations for the compilation of these data and their reporting to STA. The information reported for publication in the Government Finance Statistics Yearbook 2000 included, in addition to the usual data on central government revenues and expenditures, some data on central government financing and on selected aggregates for local governments. Dissemination of fiscal data has improved significantly over the past year.

3. Monetary accounts

Two STA money and banking statistics missions visited Montevideo in July 1998 and March 1999. The missions reviewed with the authorities the currentness, coverage, and classification of the monetary accounts for the banking system and developed a unified system for reporting data to the Fund. The multisector mission that visited Uruguay in November 1999 continued previous missions' work on improving the basic source data and the methodology for compiling monetary statistics. The mission developed a database that contains the data needs for publication in *IFS* and for operational uses by WHD.

The Central Bank of Uruguay (CBU) has adopted the new presentation of the monetary accounts for the central bank and a new call report form for the other depository corporations. The multisector mission recommended adopting the new reporting system which is based on these tables. STA has already received a submission of data based on the new reporting system for the central bank, however, the timeliness of the data for the other depository corporations is hampered because the Bank of the Republic (BROU) has not yet sent data to the CBU using the new call report form. The BROU is upgrading its information systems and will not be able to adopt the new call report form until this process is completed later this year. The BROU will provide preliminary balance sheet data until it is able to provide data in the new call report form.

4. Balance of payments

Balance of payments statements are compiled and published on a quarterly basis. Data are compiled following the recommendations of the Balance of Payments Manual (5th edition). However, data are published with less detail and with a different classification than the one recommended in BPM5. The authorities have made significant progress in implementing the mission recommendations in order to improve the coverage and quality of the balance of payments estimates. The directory of direct investment enterprises have been updated and measures have been introduced to improve the survey on inward investment; quarterly surveys have been introduced in the case of services, and other activities not currently covered; the coverage of reserve assets has been revised to exclude certain assets that are not available to finance balance of payments needs. Uruguay compiles and reports to STA annual data on the international investment position (IIP). The new surveys would also allow for improved coverage of the private sector in the international investment position.

URUGUAY: Core Statistical Indicators

as of September 14, 2001

	Exchange Rates	International Reserves	Reserve/base money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Public Debt
Date of latest observation	9/13/01	9/13/01	8/01	8/01	7/01	9/13/01	8/01	6/01(X) 7/01 (M)	3/01	7/01	3/01	7/01
Date received	9/14/01	9/14/01	9/10/01	9/10/01	9/12/01	9/14/01	9/5/01	9/01	6/01	9/01	9/01	9/01
Frequency of data	Daily	Daily	Monthly	Monthly	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly	Monthly
Frequency of reporting	Daily	Daily	Monthly	Monthly	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly	Monthly
Source of data	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Institute of Statistics	Central Bank	Central Bank	Ministry of Finance	Central Bank	Central Bank
Mode of reporting	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail/ Web	E-mail/ Web	E-mail/ Web	E-mail/ Web	E-mail/ Web	Web
Confidentiality	None	None	None	None	None	None	None	None	None	None	None	None
Frequency of Publication	Daily	Daily	Monthly	Monthly	Monthly	Daily	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly

INTERNATIONAL MONETARY FUND

NEWS BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 01/99
FOR IMMEDIATE RELEASE
October 5, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Completes Uruguay Second Review

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Uruguay's performance under a 22-month, SDR 150 million (about US$ 193 million) stand-by credit approved on May 31, 2000 (see Press Release 00/35). As a result, Uruguay will be able to draw, if needed, up to the equivalent of SDR 112 million (about US$ 144 million) from the IMF. The Uruguayan authorities have indicated that they intend to continue treating the credit as precautionary.

In commenting on the Executive Board discussion, Eduardo Aninat, Deputy Managing Director and Acting Chairman said:

"Uruguay continues to face a difficult economic environment in 2001, with adverse external shocks and a severe outbreak of foot-and-mouth disease hindering the economic recovery that was anticipated in the program. The economy has shown great resilience and the authorities are responding to these challenges with renewed effort to attain sustainable growth. Among other things, they are maintaining cautious public sector expenditure policies, accelerating deregulation of the economy, and seeking to moderate labor costs, and have increased the pace of adjustment of the exchange rate band.

"In addition, the economic program for the remainder of 2001 has been revised to allow for a somewhat larger fiscal deficit. At the same time, the authorities are committed to a strong underlying medium-term fiscal position to ensure the sustainability of the public finances, lower the ratio of the public debt to GDP from 2003 onwards, and preserve Uruguay's good standing in international capital markets.

"Uruguay has made good progress in improving the supply conditions in the economy by accelerating deregulation and encouraging private sector investment. It is important that the full slate of structural reforms be implemented without delay," Aninat said.