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**Joint Statement by Ms. Grant, Ms. Kashima, Mr. Mochtar, Mr. Hteik, Mr. Watanabe,
and Mr. Yoo on Uruguay
(Preliminary)
Executive Board Meeting
November 29, 2021**

We thank staff for their informative reports and Mr. Chodos and Ms. Bustillo for their helpful Buff statement.

We commend the Uruguayan authorities for their effective and decisive policy responses to combat the pandemic. Their swift vaccination program has controlled the number of COVID-19 cases and laid the foundation for a gradual recovery. We also welcome the strong commitment of the authorities to economic reforms in various areas even during the pandemic. However, we note that the recovery in early 2021 was sluggish and uneven, and Uruguay's long-term growth has been significantly lower than in peer economies. Going forward, efforts are needed to support the recovery and raise potential growth, while rebuilding buffers. Structural issues such as labor market rigidities, inefficiencies in state-owned enterprises (SOEs), and export diversification should be addressed. **We agree with the thrust of the staff appraisal and policy recommendations, and would like to offer the following points for emphasis.**

We positively acknowledge the authorities' prudent approach to fiscal policy, including targeted support to vulnerable sectors and people. We note that the fiscal balance is expected to steadily improve on the back of economic recovery and further restraints on discretionary spending, but more is likely to be required to achieve fiscal sustainability. To this end, we welcome the introduction of the new fiscal rule and the establishment of the independent Advisory Fiscal Council, and encourage the authorities' further efforts to enhance fiscal credibility and public finance sustainability. Any future favorable terms of trade shock should also be seen as an opportunity to further secure sustainable debt reduction and build fiscal buffers. *Do staff see any bottlenecks/challenges regarding further refinements to the framework and on the pension reform? How can the Fund support the authorities' efforts on this front?*

We concur with staff that accommodative monetary policy is appropriate to support the recovery at this juncture. But we also underscore the importance of closely monitoring inflation developments and anchoring expectations, and leveraging the gains in credibility from recent changes to the monetary policy framework. Improving monetary policy credibility will help reduce a degree of dollarization. We commend the authorities' proactive stance on implementing decisive policies such as credit guarantee programs of providing financial assistance to highly affected SMEs. Nevertheless, such regulatory moratorium measures should be phased out as the recovery takes hold, and financial stability risks need close monitoring. In addition, further strengthening the financial sector resilience such as enhancing AML/CFT measures and developing domestic capital market are warranted on the medium-term perspective.

Making progress on structural issues is critical for sustainable and inclusive growth in the medium-term. Enhancing labor market flexibility and supporting the development of human capital are key to boosting potential economic growth and addressing high youth unemployment and skills mismatch. SOE reforms would also boost potential growth, with a focus on reducing inefficiencies, separating commercial and social objectives, improving independence governance. Further reform efforts such as pursuing greater trade integration or addressing climate change are recommendable to achieve Uruguay's further competitiveness. We also welcome staff's selected issues paper on export product diversification. *In this regard, what are the key challenges for the authorities to proceed with the necessary reforms in the areas of the labor market, diversification to higher value-added industries and climate change? How could the Fund offer support?*

With these comments, we wish the authorities every success in their economic endeavors.