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**Statement by Mr. Hosseini and Mr. Sassanpour on Uruguay  
(Preliminary)  
Executive Board Meeting  
November 29, 2021**

We thank staff for a set of well-written papers and Mr. Chodos and Ms. Bustillo for an informative Buff statement. **We are in broad agreement with the staff appraisal.**

We commend the authorities for managing the crisis successfully, including by rolling out a highly effective vaccination campaign and through well-calibrated measures to cushion incomes and jobs, and to protect the vulnerable groups. The strong social protection and health systems already in place in Uruguay also shielded the population.

The authorities' policy foresightedness was borne out by their implementation of major structural reforms in the depth of the recession in 2020. The fact that Uruguay kept its sovereign investment grade status and maintained favorable access to international capital markets during the crisis are a testament to the authorities' policy creditability, despite the crisis-related increase in public debt.

The approval of the five-year Budget Law and the adoption of the fiscal rule that effectively caps fiscal deficits were significant steps in strengthening the fiscal framework and enhancing policy predictability and transparency. The government has already demonstrated its commitment to the rule by meeting its three criteria in the year of crisis and recession. The channeling of Covid-related spending through the dedicated Solidarity Fund to ensure proper targeting, facilitate follow-ups, and improve monitoring and transparency was also a novel idea. We welcome the authorities' strong commitment to medium-term fiscal prudence to ensure debt sustainability, and support their view that budget savings achieved through greater efficiency in structural spending would be more appropriate within a growth-friendly policy framework.

Maintaining liquidity support during the crisis and the subsequent gradual exit from the expansionary phase have been appropriate. The fundamental changes in the monetary policy framework (again, a major structural reform during the crisis) should also strengthen policy credibility and contain the cost of disinflation. In the near term, it is important that monetary policy remains tight enough to lower inflation to, and anchor inflation expectations at, the mid-level of the new inflation target band. We welcome the authorities' determination to press ahead with de-dollarization of the economy and developing *peso* debt markets that would further strengthen the effectiveness of monetary policy. As stressed by Mr. Chodos and Ms. Bustillo, de-dollarization is a long-term strategy that, in addition to strong policy credibility, would require changes in the mindset and perceptions of savers and investors that could only happen gradually over time. Further, as staff analysis suggests, structural reforms, notably decentralization of wage determination and strengthening of some institutional features, could also contribute to reducing and keeping inflation low.

We are comforted by staff's assessment that risks to financial stability are contained and that stress tests suggest that the financial sector could withstand major adverse scenarios. The upcoming FSAP assessment provides a great opportunity to identify potential pockets of vulnerability and measures to address them.

Exchange rate flexibility has served Uruguay—a small, highly open economy—well and we welcome the authorities' commitment to continue the policy while preventing disorderly market conditions and volatility. The country's ample foreign reserves are also a major source of confidence.

Staff's analysis identifies a number of areas where structural reforms could lift Uruguay's medium term potential growth durably, particularly in view of the pandemic's long-lasting effects on output. Among them, we would like to stress measures: to reverse the erosion of human capital through education and retraining; increase the flexibility of the labor market to facilitate labor reallocation and job creation; and reforming SOEs, including by separating their commercial and social objectives and state's ownership and regulatory functions. There are non-strategic areas where activity and productivity would benefit from increased private sector investment.

We wish the Uruguayan authorities and people every success.