DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.

GRAY/23/4643

May 11, 2023

Statement by Mr. Parkyn and Ms. Karl on Uruguay
(Preliminary)
Executive Board Meeting
May 15, 2023

We thank staff for the insightful reports and Mr. Herrera and Ms. Bustillo for their informative buff statement.

Uruguay's strong institutional frameworks and sound macroeconomic policies have supported the economy's resilience to domestic and external shocks. The medium-term outlook is positive despite the expected slowdown in 2023. We encourage the authorities to maintain policy agility and contingency planning in light of the risks relating to external headwinds and the severe drought.

We welcome Uruguay's prudent fiscal policy and adherence to the rules-based fiscal framework. We agree with the authorities on the priority of embedding the existing rules-based fiscal framework, rather than augmenting its three pillars, at this stage. Fostering political commitment, public understanding and reputational incentives for compliance are critical for fiscal frameworks to endure. We consider that an explicit debt objective could be a useful component of a medium-term fiscal strategy to guide fiscal policy, without amending the fiscal rule pillars. Such an approach could build the authorities' comfort with the calibration of a medium-term debt objective, without risking the credibility of the rules-based framework in the interim. We note staff's analysis that recommends a lower public debt ratio based on a buffer estimated from simulations of historical shocks. *In light of the more shock-prone environment, and increasing frequency of climate shocks, we wonder if this recommended public debt level would provide an optimal buffer for future shocks and sufficient flexibility to avoid pro-cyclical fiscal responses? A fiscal stress testing analysis may be a useful complementary analysis. Staff's comments would be welcome.*

Strengthening the credibility of monetary and exchange rate policies and de-dollarization remain critical to increase efficiency. The authorities continued commitment in this regard is commended, particularly their commitment to bring down inflation within the target range and to remain vigilant to further tighten monetary policy if additional inflationary pressures materialize. Addressing high dollarization can also be supported by implementing financial sector development measures. Central bank independence should be strengthened to support policy continuity and credibility. We positively note the authorities' efforts in allowing the peso to float to act as a shock absorber with FX interventions limited to disorderly market conditions. Continued implementation of the FSAP and Mutual Evaluation Report recommendations is important to enhance financial sector resilience.

Deepening trade integration would support higher productivity. Enhancing market access and reducing trade barriers could support Uruguay's economy to move into higher value product spaces, including leveraging the potential of the export-oriented agricultural sector. We note Uruguay has formally requested to accede to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is a high-quality, modern trade agreement covering markets with around 500 million consumers and over 10 percent of global GDP. *Could staff comment on whether Uruguay's aspirations to join CPTPP, which has high standards for accession, has implications for its policy agenda?* We also welcome the authorities' deep structural reforms to improve educational attainment and pension sustainability.

Uruguay should continue its transformation to a sustainable and climate-resilient economy. We commend Uruguay's leadership on the climate transition, including a remarkable reduction in its emissions intensity. Managing climate transition risks and building resilience to climate shocks remain important policy priorities. We also note the innovative issuance of a sovereign sustainability-linked bond, which was denominated in foreign currency. *Could staff comment on the compatibility of the authorities' objectives for developing sustainability-linked finance with the goal of increasing the depth of local-currency capital markets?*