**FOR AGENDA**

SM/11/312

November 21, 2011

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Uruguay—Staff Report for the 2011 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2011 Article IV consultation with Uruguay, which is tentatively scheduled for discussion on **Monday, December 5, 2011**. At the time of circulation of this paper to the Board, the authorities of Uruguay have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Erickson von Allmen (ext. 34764), Mr. Rosales (ext. 38688), Ms. Perez Marulanda (ext. 39653), Mr. Podpiera (ext. 36753), and Ms. Gonzalez (ext. 39568) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, December 1, 2011; and to the European Commission, the European Investment Bank, and the Inter-American Development Bank, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

# URUGUAY

## STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

November 18, 2011

## KEY ISSUES

***Context***: The strong growth has continued into 2011, but a slowdown is underway supported by prudent macroeconomic policies. Still, the labor market is tight, wages are rising rapidly, and inflation remains above target.

***Perspectives***: The highly uncertain international outlook presents substantial downside risks. Uruguay's economic and financial vulnerabilities are modest, and the government has reduced debt vulnerabilities significantly and built important financial buffers; still the spillovers of a deteriorating global outlook could be significant.

***Near-term challenges:*** The immediate challenge is to support an orderly moderation in growth and inflation while reinforcing the economy's resilience to spillovers from abroad. Staff agrees with the authorities on the key aspects of their macroeconomic framework. Maintaining the flexible exchange rate as a shock absorber is crucial. While it will be important to accommodate a real exchange rate depreciation, if needed, part of the ample reserves could be used to contain overshooting. The broadly neutral fiscal stance in 2011 and also planned for 2012 is appropriate. Monetary policy has rightly been on pause since September until the outlook becomes clearer. If the economy takes a turn for the worse, monetary policy could be relaxed provided inflation expectations become reasonably anchored, while fiscal automatic stabilizers should be allowed to operate so long as prudent debt dynamics are maintained.

***Longer-term challenges***: A long-term challenge is to sustain high growth with less volatility than in the past, which will require tackling infrastructure gaps, raising labor skills, and increasing further the economy's resilience to shocks.

Approved By
**Rodrigo Valdés and Dominique Desruelle**

This report was prepared by team comprising U. Erickson von Allmen (Head), M. Rosales, C. Perez, J. Podpiera (all WHD), T. Wezel (MCM), M. Gonzalez (Resident Representative), and N. Melgar (office in Uruguay). Discussions were held in Montevideo October 24-November 4, 2011. R. Valdés (WHD) and D. Vogel (OED) participated in the concluding meetings.

## CONTENTS

## TABLES



## ANNEXES

# I. RECENT PERFORMANCE AND POLICIES

1. **Uruguay's strong economic growth in the last several years has produced significant welfare gains.** Per capita income in purchasing power terms has doubled from its pre-2002 crisis levels, unemployment has fallen to record lows, and social indicators—already high in the region—have improved further. Key factors supporting this excellent performance include significant policy reforms, prudent macroeconomic policies (including a floating exchange rate), social policies, substantial inflows of foreign direct investment (FDI), and a supportive external environment.

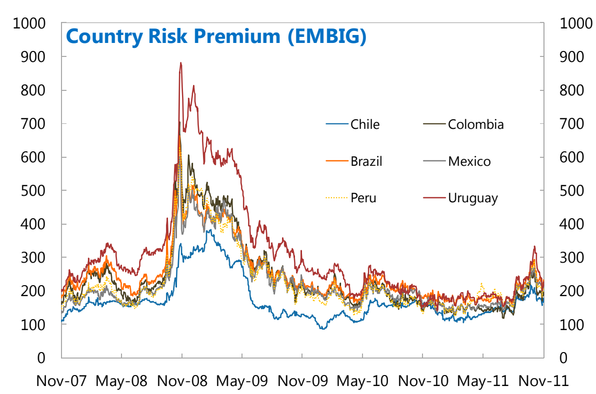
2. **Economic activity remains brisk but a slowdown is underway.** After the Lehman crisis, Uruguay experienced a sharp contraction in output in early 2009 that was followed by a quick and strong rebound. The growth momentum has continued into 2011, but a slowdown is underway driven by weakening exports (due to external demand and domestic supply factors) and moderating public investment. (Early estimates for Q3 show a rebound in growth from the weak Q2.) Domestic demand, in particular private consumption, has been resilient—boosted by rising household income (employment and real wages) and fueled by a rapid expansion in consumer lending from banks and non-bank institutions. But private consumption growth is decelerating and consumer confidence indicators point to further moderation.

GDP Growth and Contributions, 2009–11 Q2

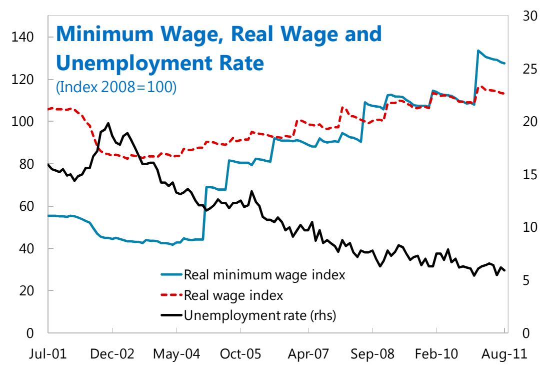
| | 2010 | | | | 2011 | |
|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Real GDP, quarter on quarter (S.A.) | 2.0 | 2.2 | 0.5 | 1.6 | 2.1 | 0.5 |
| | (Contributions to real GDP growth) | | | | | |
| Real GDP, year-on-year | 9.2 | 10.3 | 7.7 | 6.5 | 6.6 | 4.8 |
| Domestic demand | 11.0 | 10.0 | 7.3 | 14.2 | 9.2 | 11.7 |
| Private consumption | 5.9 | 9.1 | 8.4 | 8.6 | 6.7 | 6.8 |
| Public consumption | 0.4 | 0.2 | 0.1 | 0.2 | 0.3 | 0.3 |
| Private investment | 1.7 | 3.2 | 1.1 | 4.4 | 2.1 | 1.6 |
| Public investment | -0.6 | -0.2 | -0.9 | 1.3 | 0.2 | -0.3 |
| Changes in inventories | 3.6 | -2.3 | -1.3 | -0.3 | -0.1 | 3.4 |
| Net exports | -1.8 | 0.4 | 0.4 | -7.6 | -2.6 | -7.0 |
| Exports | 1.4 | 5.8 | 2.9 | 1.2 | 4.4 | -1.5 |
| Imports | -3.2 | -5.4 | -2.5 | -8.9 | -7.0 | -5.5 |

Sources: Banco Central del Uruguay and IMF staff calculations.

3. **The external current account deficit has widened modestly**. In the context of strong domestic demand and capital flows (mostly FDI), the peso has appreciated by 11 percent in real terms since July 2010 (the basis for last Article IV consultation analysis), and the current account deficit has widened (to 2.3 percent of GDP in the four quarters through June) despite favorable terms of trade. Spillovers from the turmoil in the euro area have so far been limited to the currency—which depreciated by about 10 percent against the dollar between end-August and late October but has since recovered—and an increase in the EMBIG in line with the region.

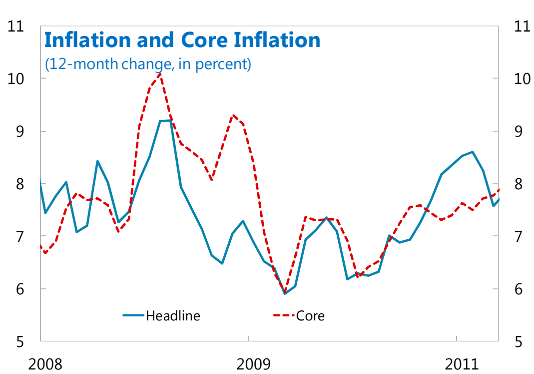


4. **The labor market is tight.** One success of recent years is the substantial job creation and the consequent sharp fall in unemployment (informal and formal sector) to 6 percent in September amid rising labor force participation and growing real wages. Many sectors report difficulties in hiring skilled labor and labor conflicts have been relatively frequent. The average nominal wage increased by 14 percent (September, y/y). In the 2010–11 wage negotiation round, nine out of 10 agreements include inflation-indexation clauses.



Sources: Instituto Nacional de Estadistica.

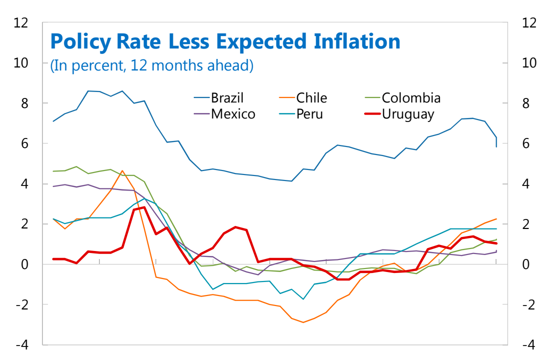
5. **Inflation remains above target.** Inflation was 7.9 percent in October, above the official target range (4–6 percent) reflecting second-round effects from the spikes in global food and fuel prices last year and early this year: staff's estimate of core inflation (which excludes fuel, food, and administratively set prices) rose to 8.4 percent in October.



Source: IMF staff calculations.

6. **Policies in 2011 have focused on moderating domestic demand and inflation, reinforcing buffers against global spillovers, and advancing on the social and structural agenda.** The Frente Amplio-coalition government led by President Mujica that took office in March 2010 has balanced cautious macroeconomic policies with progress on its social agenda. The balancing of the range of views within the coalition was not without episodes of tension earlier in the year. Key measures include:

- ***Domestic demand and inflation***. The authorities tightened monetary policy in the first half of the year, including via reserve requirements, and delayed part of the pass-through of international fuel prices. On September 30, in the context of increased global uncertainty, the Banco Central del Uruguay (BCU) left its policy rate unchanged to reassess the outlook. Furthermore, the fiscal policy stance has become broadly neutral (compared with a slightly positive stance projected in the last Article IV report) as capital spending has been moderated (current spending has continued to expand, though).



## Box 1. Social Policies and Income Distribution in Uruguay

**Uruguay has made progress in improving social conditions**. This trend towards better social indicators has been fostered by rapid growth and targeted social programs.

Socio-economic Indicators in Uruguay and Comparators

| | Uruguay | | LAC-5 1/ | OECD |
|---|---|---|---|---|
| | 2004 | 2010 | 2010 | 2010 |
| GDP per capita (PPP US$) | 9,844 | 14,022 | 11,605 3/ | 33,078 3/ |
| Income inequality GINI index (lower value=less inequality) 2/ | 46.0 | 42.1 | 54.1 4/ | 31.6 4/ |
| Human Development Index ranking (169 countries: lower value=better ranking) | 50 | 52 | 63.2 4/ | 22.0 4/ |
| Unemployment (average) | 13.3 | 7.0 | 7.1 3/ | 8.4 3/ |
| Population (in millions) | 3.3 | 3.3 | 60 4/ | 36 4/ |
| Poverty (percent of population below poverty line) 2/ | 31.9 | 18.6 | 30.7 3/ | n.a 3/ |
| Illiteracy (percent of population age 15 years and over) 2/ | 2.4 | 1.8 | 7.1 4/ | 1.6 4/ |
| Life expenctancy at birth (years average) | 75.5 | 76.7 | 76.2 4/ | 79.5 4/ |

Sources: UNDF Human Development Report, World Bank Indicators, Worldw ide Governance Indicators, World Economic Outlook, and Instituto Nacional de Estadistica.
1/ Brazil, Mexico, Chile, Colombia, and Peru.
2/ Latest survey.
3/ Weigthed Average w ith population.
4/ Simple Average.

**The main social policies in recent years include the following:**

- Reform of the health system to increase gradually the coverage by over 2.2 million people by 2016.
- Expansion of the Family Allowance Program, which covers over 185,000 low-income households (2010). The average monthly transfer is US$70.
- Establishment of the Family Food Card Program, which covers 88,000 households with a monthly allowance of about US$40.
- Expansion of unemployment benefits and provision of old-age pensions to people who had not contributed to the pension system.
- Increase in the progressivity of the tax system with the introduction of the personal income tax.

**The government has put forward several new initiatives:**

- Refund the 22 percent VAT on purchases made with Food and Family Allowance cards to 200,000 low-income households.
- Increase the non-taxable base of the personal income tax while broadening the base for the 25 percent bracket and introduce a new 30 percent bracket;
- Allow mortgage deductions for houses valued up to US$93,370 (benefiting about 6 percent of households).
- Add nearly 400,000 retirees to the health system.

- ***Debt management and financing***. The gross public debt has continued to decline, reaching 55 percent of GDP in June 2011—net debt is lower at 28 percent—and debt management has reduced debt vulnerabilities significantly. Out of concern with the global outlook, the government also has built deposits at the BCU covering 18 months of scheduled debt service and has arranged contingent credit lines with the Corporación Andina de Fomento (CAF), the Fondo Latino Americano de Reservas (FLAR), and the World Bank for a total of US$1.1 billion, while exploring an additional line with the Inter-American Development Bank.

- ***Structural and social agenda***. In July, the law for Public-Private Partnerships (PPP) was approved. The government's social agenda includes tax reforms in favor of low-income households and a significant expansion in the public health system coverage (Box 1).

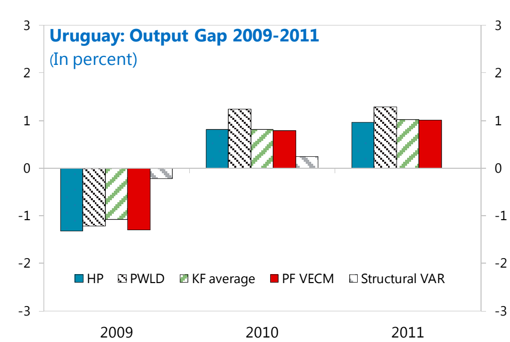
## Four Questions about the Current Conjuncture

7. **Is the economy still at risk of overheating?** The 2010 Article IV staff report warned about overheating risks and recommended more restrictive monetary and fiscal policies. Although recent indicators—a positive output gap, core inflation and inflation expectations above target, the widening current account deficit, the tight labor market—suggest such risks persist, they are being mitigated by the slowdown underway, supported by the monetary and fiscal policy tightening in 2011 (Box 2). Still, inflation is likely to decline only gradually due to wage indexation and the imperfect traction of the target.

8. **Is there a property price bubble that could burst?** Real estate prices, for which data is limited to Montevideo, rose by roughly 12 percent a year in dollar terms in 2005-10, less in local currency (Annex I). While considerable, this increase does not appear

### Box 2. The Output Gap[1]

**Following the strong economic growth in recent years, Uruguay's output gap is now positive.** Output gaps are notoriously difficult to estimate, so the results should be interpreted with caution. For Uruguay, potential output was estimated with a battery of techniques—including the Hodrick-Prescott filter, which rely on GDP time series, economic models using the Kalman filter, the standard growth accounting technique, a Vector-Error Correction model, and a structural Vector Autoregression (VAR) All approaches point to a small positive output gap in 2010 and 2011 averaging about 1 percent of potential GDP. The reduced gap may reflect that the methods used capture a large part of the fall in actual GDP in the 2002 crisis as a fall in potential output, followed by a strong recovery in actual and potential output. Using a long-term trend output as potential output would produce a larger positive output gap in 2010-11.




Sources: IMF staff calculations.

[1] Based on the Selected Issues paper: *Uruguay: Estimating Potential Output and the Output Gap and Spillovers from Agriculture*, by M. Rosales.

out of line with fundamental factors, including the growth in household disposable income, the increase in construction costs and land prices, the fall in structural unemployment, and the sizeable foreign demand. However, there is anecdotal data that price increases are larger in certain parts of the country, and also that prices in some segments are high compared with other countries. Nonetheless, and importantly, housing activity has been funded mostly through FDI and cash (self-financed) so while a fall in property prices could have important wealth effects and consequences for construction activity, it would not trigger major ripple effects in the banking system.

9. **Is the peso overvalued and are there external stability risks?** The real effective exchange rate has appreciated substantially over the past eight years and it is now 12 percent above its pre-2002 crisis levels. However, productivity and price gains in the tradable sector have raised the equilibrium rate, and CGER estimates, while dispersed, do not suggest a large overvaluation. The deterioration in the current account balance lends weight to the view that the peso is on the strong side, but the deficit is too small to present immediate stability concerns. Broader macroeconomic signs of overvaluation are not evident: tourism had a record season in 2011 and a strong season is expected for 2012; Uruguay's exports, despite a weakening lately, remain buoyant and have risen faster than world exports; and economic growth is still robust. Other external stability risks appear

Exchange Rate Assessment 1/
(REER deviation from equilibrium, in percent)

| | 2011 |
|---|---|
| I. Macroeconomic Balance 2/ | 0.4 |
| II. External Sustainability 2/ | 2.6 |
| III. Equilibrium Real Exchange Rate 3/4/ | 0.3 |
| IV. Vector Error Correction Model 5/ | -0.5 |
| Overall CGER misalignment (average I-III) | 1.1 |
| Overall REER misalignment (average I-IV) | 0.8 |

1/ Please refer fo Country Report No.11/62 for a summary of the methodologies used.
2/ Considers an underlying current account balance that strips out temporary factors.
3/ Considers the REER as of July 2011.
4/ A worsening of the terms of trade by a cumulative 10 percent in 2011-16 from the baseline projection would lead the ERER to be to be overvalued by 7.5 percent.
5/ Considers the average REER as of 2011Q2.

Gross International Reserves

| | |
|---|---|
| In billions of U.S. dollars (latest) | 10.2 |
| In months of imports (2012) | 8.7 |
| In percent of: | |
| GDP (end of 2011) | 21 |
| Short-term debt (end of 2011) | 653 |
| ST debt and nonresident deposits (end of 2011) | 155 |
| M2 (latest) | 144 |
| M3 (latest) | 66 |
| Memo Item | |
| *New reserve adequacy metric range (in billions of U.S. dollars)* | 5.3-7.9 |

Sources: Banco Central del Uruguay, and IMF staff calculations.

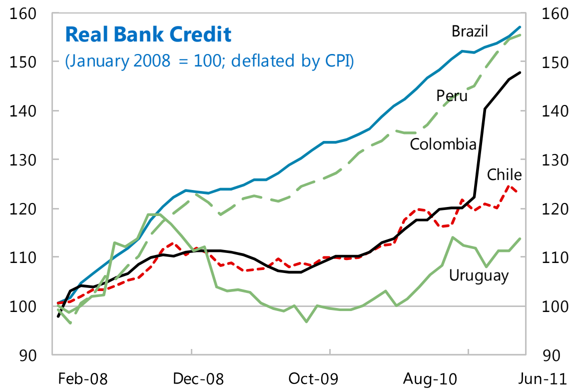
International Investment Position
(In percent of GDP)

| | 1999 | 2003 | 2007 | 2010 |
|---|---|---|---|---|
| Assets | 53 | 118 | 85 | 68 |
| Of which: | | | | |
| Portfolio investment | 4 | 15 | 10 | 10 |
| Currency and deposits | 29 | 66 | 50 | 33 |
| Reserve assets | 13 | 17 | 17 | 19 |
| Liabilities | 61 | 128 | 94 | 84 |
| Of which: | | | | |
| FDI | 7 | 15 | 27 | 37 |
| Portfolio investment | 10 | 23 | 33 | 21 |
| Loans | 20 | 57 | 15 | 11 |
| General government | 8 | 24 | 10 | 8 |
| BCU | 1 | 23 | 1 | 0 |
| Other | 11 | 10 | 5 | 3 |
| Nonresident deposits | 21 | 20 | 12 | 10 |
| Net position | -7 | -10 | -8 | -17 |

Sources: Banco Central del Uruguay, World Economic Outlook, and IMF staff calculations.

modest: sudden-stop risks are contained (though not eliminated) by the dominance of FDI, the moderate stock of short-term external liabilities, and the substantial reserves holdings. Moreover, the international investment position (IIP) seems solid. In sum, external stability risks appear low and the real exchange rate is not out of line with fundamentals.

10. **Is there a credit boom underway that could negatively affect the banking system?** Bank's consumer lending expanded by 48 percent in real terms in August (y/y), albeit from a small base (5 percent of GDP). There also has been a surge in consumer lending from less regulated non-bank institutions, and it now equals one-quarter of banks' consumer lending. However, there is no generalized credit boom in Uruguay, and the overall credit growth has been more muted than elsewhere in the region. Banks are well-capitalized and liquid, and delinquency rates are low and provisioning is high. The low vulnerabilities owe significantly to Uruguay's strong supervision and pioneering (in Latin America) dynamic provisioning system. One vulnerability is the still high dollarization of deposits and credits (including to borrowers without a natural hedge). Profitability is an issue for some banks, though recently it has been understated by the official reporting standards.[1]




Sources: IMF Regional Economic Outlook Western Hemisphere and Haver Analytics.

Uruguay: Selected Financial Soundness Indicators

| | 2006-2009 | 2010 | 2011 2/ | LA5 2/ |
|---|---|---|---|---|
| Regulatory capital in percent of risk-weighted assets | 17.1 | 15.2 | 17.1 | 16.9 |
| Non-performing loans in percent of total loans 1/ | 1.8 | 1.0 | 1.1 | 2.7 |
| Household non-performing loans in percent of total household loans | 4.9 | 3.1 | 3.2 | n.a |
| Specific loan-loss provisions in percent of non-performing loans | 61.0 | 72.2 | 70.4 | 167.1 |
| Efficiency ratio (net operating costs in percent of net income) | 75.8 | 78.6 | 77.0 | 108.5 |
| Return on assets | 1.4 | 1.2 | 1.2 | 2.4 |
| Return on equity | 14.7 | 12.1 | 12.2 | 24.2 |
| Liquidity ratio (maturities of up to 30 days) | 63.5 | 56.9 | 54.1 | 30.6 |
| Deposits (private resident and public) in percent of total liabilities | 63.7 | 64.3 | 67.9 | 49.8 |
| Dollarization of loans 1/ | 73.2 | 74.2 | 67.9 | 13.2 4/ |
| Dollarization of deposits | 79.8 | 74.3 | 73.3 | 13.1 4/ |
| Private sector credit to GDP | 23.6 | 22.9 | 20.5 | 31.8 |
| Household consumer credit to GDP | 3.5 | 4.9 | 5.0 | n.a |
| Implict exchange rate risk index 3/ | 34.5 | 31.4 | 31.4 | n.a |

Sources: Banco Central del Uruguay, IMF Global Financial Stability Report and IMF staff calculations. Data excludes Banco Hipotecario del Uruguay.
1/ Loans to the nonfinancial sector.
2/ Latest data (June, July, August).
3/ 2011 data is preliminary.
4/ Excludes Brazil.

[1] See the Selected Issues Paper: *Uruguay: Some Aspects of Financial Intermediation,* by J. Podpiera and T. Wezel.

# II. OUTLOOK AND RISKS

11. **Uruguay's near-term prospects will be shaped by the uncertain global and regional developments, but the baseline is good.** In staff's baseline scenario—very similar to that of the authorities—Uruguay's real GDP growth would decelerate to 6 percent in 2011 and to 4 percent over the medium term but subject to episodic volatility related to external developments. Private consumption, which will remain the principal driver of GDP growth in 2012-13, will cool further as household income growth continues to moderate. Large FDI inflows in the pipeline, in particular in the pulp sector, will also bolster growth and widen the current account deficit temporarily in 2012-13. The demand for Uruguay's exports has held up well—reflecting the diversification to dynamic emerging markets; still, export growth will be less buoyant than in recent years because of the anemic growth outlook in advanced economies and slowdown in other key partner countries.

12. **Although there are upside risks to this outlook, they are dwarfed (at this time) by the severe downside risks in the major advanced economies.** The immediate downside risk is that the global economy tips into a downward spiral of increased uncertainty and risk aversion with falling demand—e.g., by further turmoil in Europe. Even in a less severe scenario, major advanced economies could face protracted low growth. For the longer term, a challenge is to advance quickly in improving key infrastructure and raising labor skills. The newly discovered sizeable iron mining resources (about 2 million metric tons) present a substantial upside opportunity.

13. **Uruguay's economic and financial vulnerabilities are modest, and somewhat lower than pre-Lehman; still the effects of a deteriorating global outlook could be significant.** Uruguay does not have major macroeconomic imbalances, the external position is robust, the floating exchange rate is not overvalued, households are not heavily leveraged, and there is no credit or property price boom that would amplify an external shock. Also, Uruguay's relatively lower integration into global capital markets should dampen direct effects from international financial volatility as in 2009. Nonetheless, a shock involving sharply lower export earnings (terms of trade and volume) and FDI inflows could inflict major dislocation in the economy and hurt medium-term growth prospects.

Selected Vulnerability Indicators

| | Pre-Lehman | Latest |
|---|---|---|
| Locally issued Gov't Security 1/ | Aug-2007 | Oct-2011 |
| *(Yield)* | *4.2* | *4.6* |
| GDP Growth | 2007 | 2011 |
| *(In percent)* | *7.3* | *6.0* |
| Government Debt | 2007 | Jun-2011 |
| *(In percent of GDP)* | *63* | *55* |
| *(Dollarization)* | *69* | *53* |
| Reserves | 2007 | Latest |
| *(In US$ billion)* | *4* | *10* |
| *(In % of ST debt)* | *472* | *683* |
| NPLs | 7-Dec | Latest |
| *(In % of total Loans)* | *1.0* | *1.0* |
| Nominal GDP | 2007 | 2011 |
| *(In US$ billion)* | *24* | *48* |
| Gross Public Financing Need | 2009 | 2012 |
| *(In percent of GDP)* | *3.0* | *2.4* |

Sources: Banco Central del Uruguay and IMF staff calculations.
1/ 5 year inflation adjusted bonds.

14. **The authorities broadly agreed with this outlook and risk assessment.** They thought Uruguay should be able to withstand slower growth in advanced economies so long as commodity prices hold up or recover quickly—as they did after the Lehman crisis—a view shared by many private sector representatives. One broadly shared concern was the risk of rising protectionism (in the region and elsewhere) in response to a downturn in the global economy. Several analysts expressed concern over the outlook for FDI from Argentina into real estate.

# III. POLICY DISCUSSIONS

*The near-term challenge is to balance domestic cyclical policy requirements with the risk of spillovers from abroad. The longer-term challenge is to bolster growth prospects while reducing Uruguay's relatively high output and employment volatility.*

## A. Near-term Policies

15. **The authorities and the staff agreed that the uncertain outlook warrants continued prudent economic policies and efforts to reinforce buffers further.**

- ***Monetary policy.*** Staff supported keeping monetary policy unchanged until the outlook becomes clearer. There was broad agreement that it is too early to start easing given core inflation and inflation expectations (6.8 percent 18 months out) above targets, and given the prevalence of wage indexation. Indeed, absent a major downward revision to the baseline scenario, a resumption of tightening may be needed to bring inflation toward the target range, though any rate adjustment should be tailored to the evolving growth and inflation outlook. The authorities also stressed that the policy stance should maintain a long-term perspective, looking through the short-term noise. Staff noted (as in the last Article IV staff report) that bringing inflation to the mid-point of the target would create space for cutting rates in a downturn.

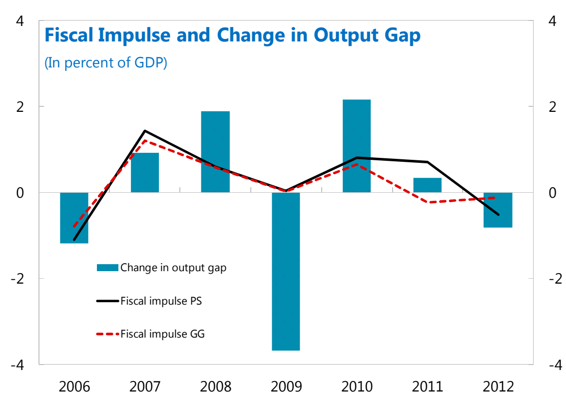
- ***Fiscal policy.*** Staff welcomed the shift to a broadly neutral fiscal stance in 2011 and that the fiscal plans—still anchored in reducing the public debt to 40 percent of GDP by 2015—imply a similar (or somewhat tighter) stance in 2012. Staff welcomed that the net costs of the government's social agenda, including the changes to the income tax (see Box 1), as well as a planned cut in the VAT from 22 to 20 percent for purchases with debit and credit cards, are not expected to be large in part because the planned gradual implementation. Staff suggested slower growth in real current spending (which was

7.3 percent a year in 2009–11) in the coming years would help ensuring adequate room for investment. While staff supports the authorities' plans to overcome infrastructure gaps through PPPs, it is not clear that PPP investments can expand quickly enough to replace a large portion of public investment in the short term. The authorities did not see much scope to reduce current spending growth given expenditure rigidities and also because some of the new spending relates to recent social reforms.

Public Sector Operations, 2009–11
(In percent of annual GDP, unless otherwise noted)

| | January–September | | | Annual | |
|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2010 | 2011 Est. |
| Public sector revenue | 20.3 | 21.5 | 21.1 | 28.8 | 28.3 |
| Public sector primary spending | 19.5 | 19.9 | 19.2 | 27.2 | 27.0 |
| percent change, real terms 1/ | 13.5 | 9.4 | 0.4 | 7.2 | 4.2 |
| *Of which*: Current spending 1/ | 11.3 | 7.8 | 5.2 | 6.5 | 5.7 |
| *Of which*: Capital spending 1/ | 33.7 | 21.4 | -31.8 | 11.7 | -6.4 |
| Public sector primary balance | 1.1 | 1.8 | 2.2 | 1.7 | 1.5 |
| General government primary balance 2/ | 1.5 | 1.2 | 1.7 | 1.1 | 1.4 |
| Public sector overall balance | -1.1 | -0.4 | 0.0 | -1.2 | -1.4 |

Sources: Ministerio de Economia y Finanzas del Uruguay and IMF staff calculations.
1/ Change from same period in previous year.
2/ Defined as central government plus Social Security Bank.



Source: IMF staff calculations.

- ***Exchange rate policy.*** The authorities and staff agreed that the floating exchange rate is crucial for dealing with external shocks, for de-dollarization, and for monetary policy traction. The authorities saw the excess global liquidity as a likely temporary situation and, while fully committed to a flexible exchange rate system, they were taking a pragmatic approach to intervention, focusing on containing possible overshooting and being prepared to ensure orderly market conditions in case of stress. Staff was encouraged by the more limited exchange rate intervention recently, as, in the staff's view, large-scale and frequent interventions risk complicating the conduct of monetary policy—and are generally not effective in preventing a trend real appreciation. If substantial appreciation pressures resume, staff would favor some more fiscal restraint with a focus on current expenditures and taxes to help ease the pressure on monetary policy.

- ***Debt management.*** Staff praised the active debt management—an area where Uruguay can be a model for other countries—which has reduced debt dollarization to 53 percent (95 percent in 2003), lengthened maturities to an average of 12 years and thus reducing rollover requirements, and increased the share of public debt at fixed interest rate to close to 90 percent. Indeed, the improved debt outlook and declining dollarization has contributed to Uruguay being raised to one-notch below investment grade by the three major credit rating agencies, and (de facto) enjoying investment-grade level market spreads for most of 2011 (Box 3).

## Box 3. Uruguay's Road Toward Investment Grade[1]

**In recent years, Uruguay has moved close to regaining investment grade status—lost in the aftermath of the 2002 crisis.** The three main global credit rating agencies upgraded Uruguay's sovereign risk rating to one notch below investment grade in the summer of 2011. The reduction in sovereign debt spreads suggests that the market already (implicitly) has awarded Uruguay such a status.

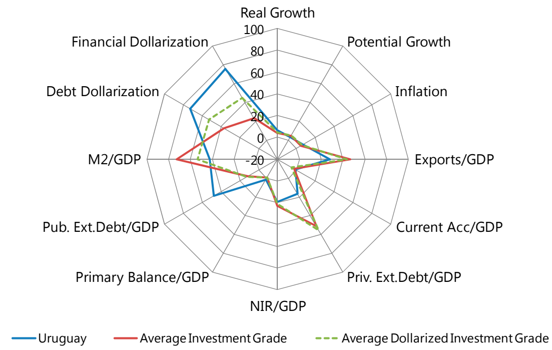
**A study on the determinants and effects of obtaining investment grade finds the following;**

- The external public debt burden and a trend of public debt and financial de-dollarization are significant determinants of investment grade.

- There are large benefits from getting investment grade in the form of lower sovereign debt spreads, though the benefits are somewhat lower for dollarized economies.

- Countries, like Uruguay, that trade at investment grade levels when classified below this grade can show resilience during financial stress episodes.

**Comparative Key Fundamentals, Average 2005-10 1/ 2/**




Source: IMF staff calculations based on data from WEO, IFS, and rating agencies.
1/ For countries that were Investment Grade in 2010.
2/ Cutoff of financial dollarization chosen at 30 percent of deposits denominated in foreign currency.

---

[1] Based on the Selected Issues Paper: *Investment Grade for Dollarized Countries: The Uruguayan Case,* by M. Gonzalez and L. Shui.

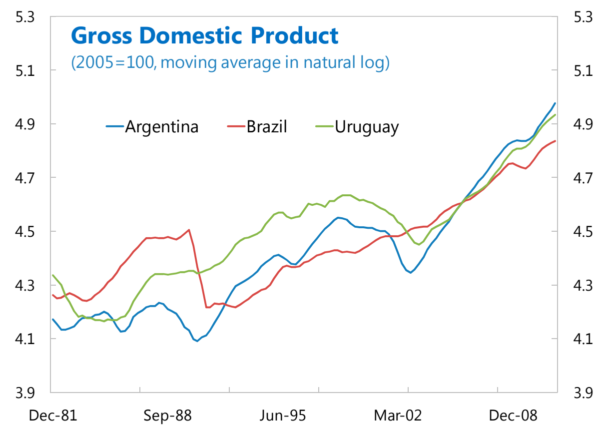
## B. Coping with Spillovers and Risks

16. **Global and regional spillovers have been positive for Uruguay in recent years, but at this time they present also substantial downside risks.** Uruguay has benefited from strong growth in key trading partners, low global interest rates, and favorable terms of trade. At this time, though, the most acute risks and tail risks to the outlook stem from potential spillovers from the euro area and from the region via extensive real and financial linkages.

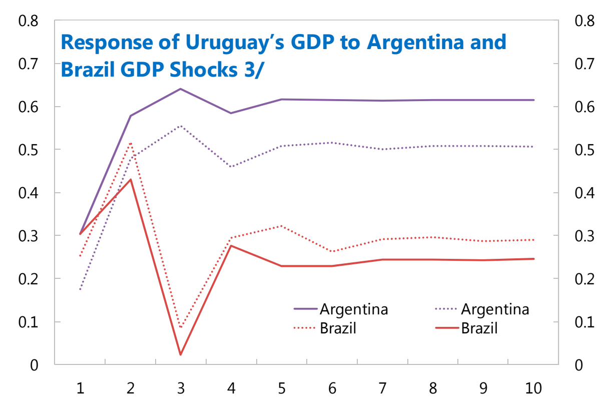
17. **Uruguay's real and financial links to the global economy and regional partners have changed, with implications for potential spillovers.** The growing reliance on commodities exports (mainly food items) has increased Uruguay's exposure to changing global commodity demand conditions, though (as many noted) food demand is less sensitive than other commodities to cyclical conditions and eventual rebalancing in China. Uruguay has also broadened its export base (soy and pulp are recent additions) and export markets (with Russia and, in particular, China rising). Still, Argentina and Brazil remain key partners via the extensive trade and FDI links (Box 4). Uruguay's broader global financial integration, as measured by the gross IIP asset and liability positions, has declined even if it remains high

## Box 4. Real Links and Spillovers from Argentina and Brazil

**Argentina and Brazil are Uruguay's two most important partner countries**. About one third of Uruguay's exports go to Argentina and Brazil, and over half of tourism receipts and one third of FDI come from Argentina. The correlation between GDP growth in Uruguay and Argentina is 0.94 and between Uruguay and Brazil it is 0.83. These two countries affect Uruguay directly and indirectly by amplifying shocks from the rest of the world. This box quantifies some spillover effects using simple trade elasticities and a Vector Auto Regression (VAR) model.




***Trade elasticities.*** A simple elasticity calculation shows that a decrease of 10 percent in Argentina imports will reduce Uruguay's GDP by 2.7 percent; the response from Brazil is similar.[1] The Brazil effect is roughly similar to those found in the *Regional Economic Outlook—Western Hemisphere*, Fall 2010 (Box 2.6).




Note: Continuous lines based on a VAR that controls for a number of international exogenous variables; dotted lines based on a VAR that does not include international variables.

***VAR.*** The standard VAR model builds on Sosa (2010) and includes real GDP in Uruguay**,** Argentina, Brazil, and the rest of the world, as well as some external factors such as world real interest rates, oil prices, and non-fuel commodity prices.[2] It is estimated using quarterly data for 1980Q1–2011Q2. Impulse responses show that the impact of a 1 percentage point increase in Argentina's GDP growth leads to an increase in Uruguay's GDP of 0.6 percentage points after three quarters. The impact from Brazil is similar, but lasts only for two quarters.

______________

[1] From a linear regression LN(URYGDP) = C(1)+ C(2)LN(Mi) Where Mi=Imports from Brazil and Argentina.

[2] Sosa, Sebastian. "The influence of "Big Brothers:" How Important are Regional Factors for Uruguay?" IMF Working Paper No. 10/60 March, 2010.

[3] Ratio of cumulative impulse responses of Uruguay GDP to a shock in Argentina (Brazil) GDP.

compared with the region. Notably, non-resident deposits (mostly from Argentina)—a critical link in the 2002 crisis—have fallen from 36 percent of total deposits in 2000 to 15 percent in 2011, and banks back match these with very liquid foreign currency assets.

Sources: Haver Analytics, World Economic Outlook, and IMF staff calculations.

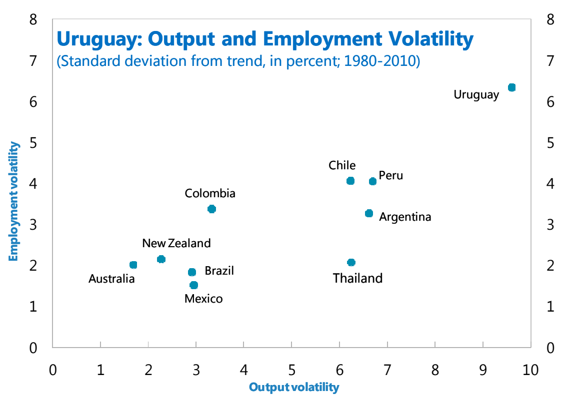
18. **In case of negative spillovers via the extensive exports and FDI links, the macroeconomic policy response should be prudent and flexible as it has been so far**. Sharply weaker global growth and surges in risk aversion could hit Uruguay by the trifecta of weaker terms-of-trade, lower external demand (volumes), and tighter global financial conditions (as after Lehman)—amplified with knock-on effects from Argentina and Brazil. The staff and the authorities agreed on the importance of accommodating a real exchange rate depreciation, if needed, but also that using part of the ample reserves could be appropriate to limit overshooting—given the high degree of bank and debt dollarization. A monetary policy easing should proceed so long as prospects for disinflation increase and inflation expectations become reasonably aligned with the target. The authorities broadly agreed, noting that inflation and inflation expectations would also fall in a downturn. It was also agreed that a reduction in reserve requirements could help support credit growth. Staff and the authorities concurred that there is room to allow fiscal automatic stabilizers (mostly revenue) to operate, although in the event of a lasting downturn the space would be limited by the need to preserve prudent debt dynamics, which are sensitive to growth and the exchange rate (Annex II). The risk to government funding is contained by the modest government's financing need (2 percent of GDP in 2012) and the buffers that the government has built.

19. **A specific financial risk relates to how funding or deleveraging pressures in Europe could affect Uruguay via the two large Spanish bank subsidiaries.** Santander and BBVA account for about one-fifth of all bank credit in Uruguay. In the tail risk event of a large and sudden scaling down of their activities, the macro-economic impact could be significant though less severe than in other countries in the region with similar links (see *Regional Economic Outlook—Western Hemisphere*; October 2011, IMF). The staff and the authorities agreed that the risk of contagion through this channel is moderated not only by these banks' strong liquidity positions and balance sheets, and their (like all banks in Uruguay) reliance on local deposit funding, but also because all foreign subsidiaries are subject to BCU's limits on net placements with parent banks. For the banking

system more broadly, the BCU's stringent stress tests indicate that banks should be able to absorb even a severe output shock and depreciation.[2] Furthermore, in October 2011, the BCU announced changes that will strengthen capital requirements further. The authorities have also established a Systemic Financial Sector Risk Committee to strengthen further the surveillance of systemic macro-financial risks.

## C. Longer-term Issues

20. **A long-term policy challenge is to sustain strong and balanced growth with less volatility than in the past.** Staff concurred with the authorities that Uruguay's growth prospects are generally bright, but sustaining growth at around 4 percent a year will require efforts to boost productivity growth. In parallel, efforts to strengthen further the economy's resilience to shocks will help reduce Uruguay's exposure to large fluctuations in output and employment.



Source: International Labor Organization, Haver, and IMF staff calculations.

21. **Private-Public Partnerships will play an important role in tackling the infrastructure gaps, and there has been important progress on the PPP framework.** Staff welcomed the passage of the PPP Law in July, and its assurances to fiscal sustainability—e.g., the limits on the stock of PPP-related liabilities and future spending. Staff also welcomed the authorities' commitment to transparent reporting of such liabilities, the inclusion of checks and balances throughout the process, and a fair risk sharing mechanism.

22. **Staff and the authorities discussed how Uruguay's prudent macroeconomic policy management could be enhanced further, including to deal with new challenges.**

- ***Public finances.*** To impart less pro-cyclicality in the budget, staff welcomed the authorities' intentions to cast budget presentations around the structural fiscal balance. Staff also encouraged consideration of making certain key expenditures less pro-cyclical. Moreover, the staff fully supported the government's prudent and inclusive approach for considering the management of the newfound iron resources (e.g., exploration framework, tax regime, and wealth fund design). Finally, parametric reforms in recent years have had an impact on

[2] The BCU's stress tests involve combined shocks to GDP, the exchange rate, international interest rates, country risk, and inflation. In its June 2011 Financial Stability Report, the crisis scenario involves a 31.7 percent depreciation and an 8 percent GDP contraction.

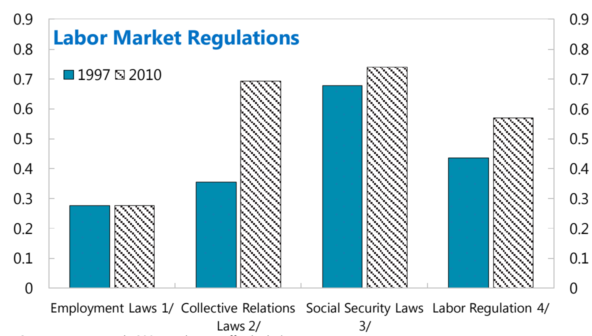
pension liabilities, and staff welcomed the plan to assess the medium and long-term outlook for the pension system 15 years after the two pillar system was introduced.[3]

- ***Monetary policy.*** Given the high dollarization and wage indexation, staff suggested that the BCU could strengthen further its influence over inflation expectations (and enhance monetary policy traction) by being more explicit in its communications about the inflation forecast and how it would respond to typical shocks. The BCU underscored that in the context of Uruguay's small market where a few agents have considerable market power, the merits of such communication had to be balanced against the need to retain an element of surprise in monetary policy.

23. **The labor market has a key role in supporting growth prospects and adjustments to shocks.** Staff welcomed the initiatives to enhance labor skills, including new university educational programs, a strategy for improving labor market policies, and the new National Institute of Employment and Training. At the same time, reforms in recent years seem to have intensified labor regulations, and it will be important to monitor the implementation of the new framework to ensure it allows for sufficient flexibility to support a dynamic economy and reduce the adjustment cost to shocks, while fostering equity (Box 5). The authorities considered that the labor market framework worked well, producing real wage increases broadly in line with productivity growth.

## Box 5. The Uruguayan Labor Market[1]

**Uruguay's labor market has undergone significant changes in recent years.** The unemployment rate has fallen to record lows amid rising labor force participation and increasing real wages. There has also been significant reform. Notably, since 2005, the minimum wage has been increased substantially, though it does not appear to be binding for wage dynamics and it is not excessive in a cross-country comparison. Collective bargaining was restored in 2005 and amended by a new wage negotiation law in 2009. In this context, wage indexation with respect to inflation has increased. Wage Philips curve estimates show that wage indexation and employment volatility is higher in Uruguay than in the region.




Sources: Botero et al. (2004) and IMF staff calculations.
1/ Employer's incremental cost of deviating from a hypothetical contract with specified job conditions and where worker cannot be fired.
2/ Protection of workers from employers through collective action.
3/ Generosity of benefits in percent of net previous salary covered.
4/ Average of the three sub-indices.

[1] Based on the Selected Issues Paper: *The Uruguayan Labor Market,* by N. Melgar and J. Podpiera.

24. **A robust and deeper financial sector can help foster long-term investment and growth.**

- ***Regulations.*** Staff welcomed the reforms announced in October (effective during 2012) to strengthen banks' capital (in line

[3] See the Selected Issues Paper: *Uruguay's Pensions System: An Overview*, by M. Rosales.

with Basel III), complete implementation of other Basel II requirements, and overhaul the design of the dynamic provisioning system (which has led to very high provisioning levels). In light of the expanding activities of the non-bank institutions, most of which have links to local banks, staff also welcomed that credit card administrators will be monitored more closely starting January 2012. Staff encouraged the authorities to consider increasing the information provision requirements for all non-bank institutions to allow closer monitoring. While noting that the scope of supervision must reflect the risk profile and systemic importance of these institutions, the authorities indicated they would increase the frequency of data collection from non-bank financial institutions (in 2012) and consider extending the data collection to money lenders.

- ***Intermediation.*** Bank credit intermediation is low (at 24 percent of GDP). The financial sector is more concentrated and exhibits a somewhat lower degree of competition than in peer countries.[4] The authorities' *bancarización e inclusión financiera* reform should help improve access to financial services. Staff also welcomed the BCU's plans to expand the central credit registry, noting that it could help promote greater competition in the sector. Staff also raised the idea of mutual credit guarantee funds to spur lending to small enterprises. Finally, staff suggested that the authorities consider eliminating the inflation adjustment in the official reporting of bank profitability as inflation is consolidating at low levels.

25. **There has also been progress towards complying with the OECD's international tax standards and in strengthening further Uruguay's AML/CFT regime.** With the purpose of complying with the OECD international tax standard, the government has implemented six tax-information sharing bilateral treaties, and several more have been agreed or are under negotiation. The authorities clarified that they will work toward addressing the pending issues reflected in the latest OECD review, including through establishing tax agreements with key partners to ensure information sharing in compliance with the international standard while preventing double taxation. Moreover, Uruguay's 2009 AML/CFT assessment report by Grupo de Acción Financiera de Sudamérica (GAFISUD) showed improved compliance with the Financial Action Task Force (FATF) standards and the government has been working on updating its 2007 AML/CFT national strategy with a risk-based focus, supported by Fund technical assistance. The revised strategy is expected to be put in place in the coming months.

[4] See Selected Issues Paper: *Uruguay: Some Aspects of Financial Intermediation*, by J. Podpiera and T. Wezel.

# IV. STAFF APPRAISAL

26. **Uruguay's impressive economic growth in recent years has produced significant welfare gains**. This is the result of stead-fast adherence to prudent policies, significant reforms, and positive external factors.

27. **The baseline outlook is positive but with considerable downside risk stemming from the highly uncertain global outlook.** Although the overheating concerns mentioned in the 2010 Article IV Consultation have diminished with the slowdown underway, private consumption remains buoyant and inflation is above target. At the same time, the risks are tilted heavily to the downside and relate to potential fallout from advanced economies and developments in the region.

28. **The uncertain external outlook warrants continued implementation of prudent economic policies.** Staff welcomes the monetary tightening in the first half of the year, and the pause since September until the outlook becomes clearer. It seems premature to start relaxing monetary policy given core inflation, inflation expectations, and the relatively high degree of wage indexation. Indeed, absent a worsening in the baseline scenario, a resumption of tightening may be needed eventually to bring inflation closer to target, though any rate adjustment should be tailored to the growth and inflation outlook. Staff also welcomes the shift to a broadly neutral fiscal stance in 2011 and that the plans imply a similar stance in 2012. The floating exchange rate is crucial for dealing with external shocks, supporting the de-dollarization in the private sector, and enhancing monetary policy traction further. Staff is encouraged by the more limited exchange rate intervention recently. If substantial appreciation pressures resume, staff would favor some more fiscal restraint with a focus on current expenditures and taxes to help ease the pressure on monetary policy. Finally, the active debt management has helped reduce public debt vulnerabilities significantly. Staff welcomes the building of large deposits at the BCU and the contingent credit lines arranged with international financial institutions.

29. **In the case of external shocks, the macroeconomic policy response should be prudent and flexible as has been the case so far.** A monetary policy easing could proceed so long as prospects for disinflation increase and inflation expectations become reasonably aligned with the target. Fiscal automatic stabilizers should be allowed to operate, although in the event of a lasting downturn, the fiscal space would be limited by the need to maintain prudent debt dynamics. With respect to the exchange rate, while it will be important to accommodate a real depreciation, if needed, part of the ample reserves could be used to limit overshooting—

important given the still high degree of bank and debt dollarization.

30. **A long-term policy challenge is to sustain strong and balanced growth with less volatility than in the past.** Continued progress in many areas will be needed. PPPs will play a key role in tackling the infrastructure gaps and staff welcomes the progress on the PPP framework, including its assurances to fiscal sustainability. Staff also welcomes the authorities' commitment to transparent reporting of PPP liabilities, the inclusion of thorough checks and balances throughout the process, and a fair risk sharing mechanism. Finally, staff applauds the government's prudent and inclusive approach for considering the management of the newfound nonrenewable iron resources.

31. **Uruguay's prudent macroeconomic policy management could be enhanced further to deal with new challenges.** To limit risks of pro-cyclicality, staff welcomes the authorities' intentions to cast budget presentations around the structural fiscal balance. Staff would also encourage consideration of changing certain expenditure rules to make them less pro cyclical. On monetary policy, given the high dollarization and significant wage indexation, staff suggested that the BCU might strengthen further its influence over inflation expectations (and enhance monetary policy traction) by being more explicit in its communications about the inflation forecast and how it would respond to typical shocks. As a general point, bringing inflation to the mid-point of the target range would create space for cutting rates in case of a downturn.

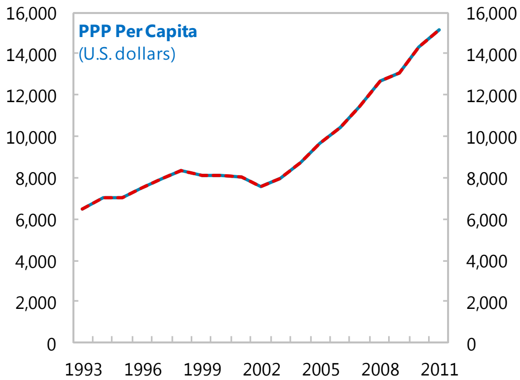
32. **The labor market has a key role in supporting growth prospects and adjustment to shocks.** Staff welcomes the authorities' various initiatives to enhance the skills of the labor force. Reforms in recent years seem to have intensified the degree of regulation in the sector, and it will be important to monitor the implementation of the framework to ensure it supports a dynamic economy and reduces the cost of adjustment to shocks, while fostering equity.

33. **A robust and dynamic financial sector can support long-term investment and growth**. Recently announced reforms will strengthen banks' and improve the dynamic provisioning. Staff welcomes that credit card administrators will be monitored more closely starting in 2012. While acknowledging that non-bank supervision must be tailored to the risk profile and systemic importance of financial institutions, staff encourages the authorities to raise the information requirements for all non-banks to allow closer monitoring of this dynamic market segment. Staff also suggests eliminating the country-specific inflation-adjustment in the official reporting of Uruguayan bank profitability.

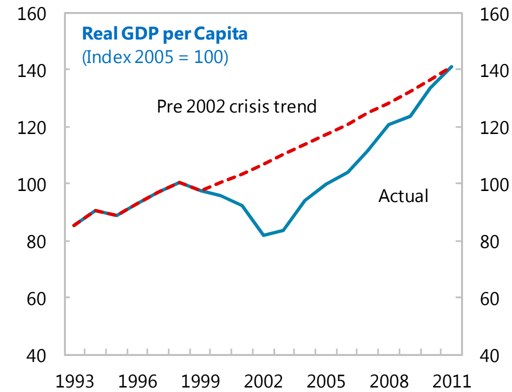
34. **Staff proposes that Uruguay remain on the 12-month Article IV consultation cycle.**

## Figure 1. Uruguay: The Long Term Economic Revival

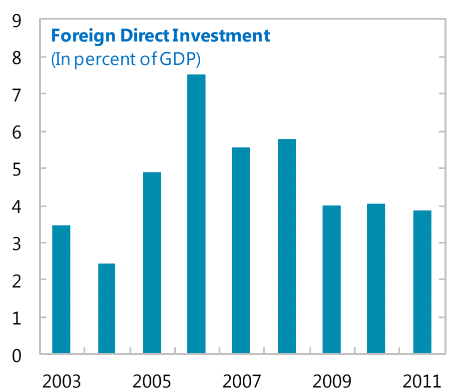
*Per capita income has doubled from pre-2002 levels ...*



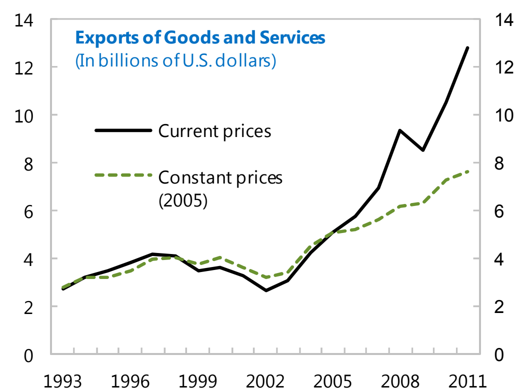

*... and the output loss (from pre-2002 trend) has been recovered.*



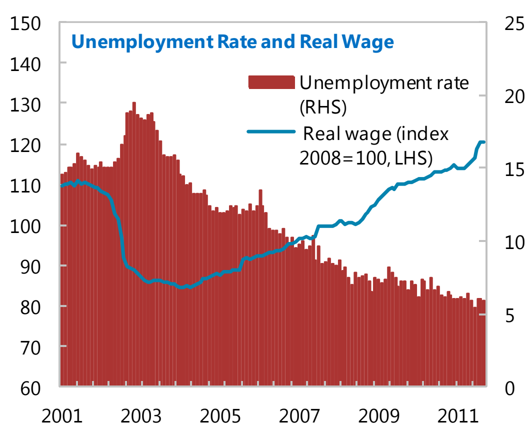

*Substantial FDI inflows have spurred growth ...*



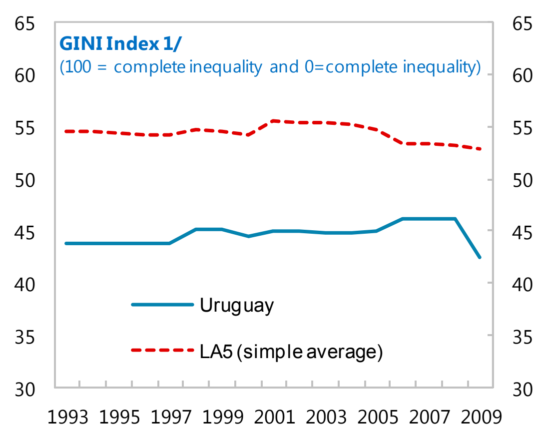

*... and bolstered exports, which have been helped also by favorable prices.*




*Unemployment has fallen to record lows while real wages have risen...*



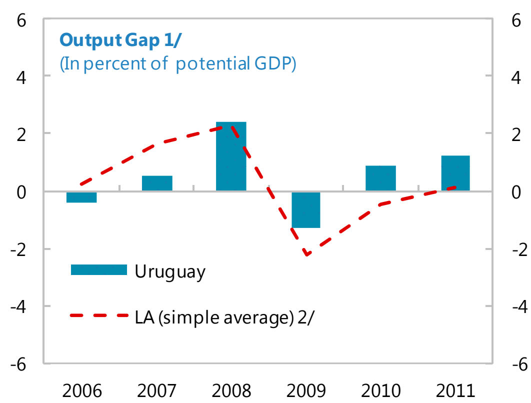

*... and income inequality remains below the regional average.*



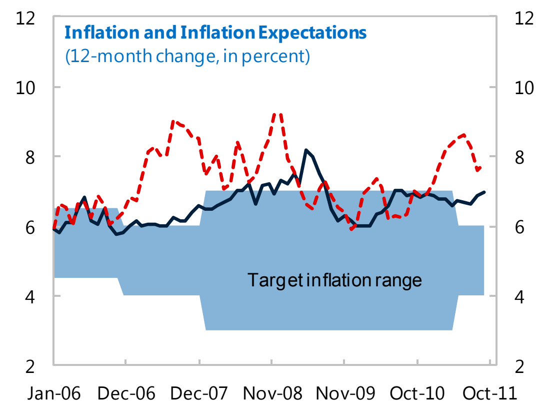

*Sources: World Economic Outlook, World Development Indicators, Haver Analytics, and IMF staff calculations with 2011 projections.*
*1/ Use preceding data to fill in the missing gap.*

## Figure 2. Uruguay: The Current Conjuncture

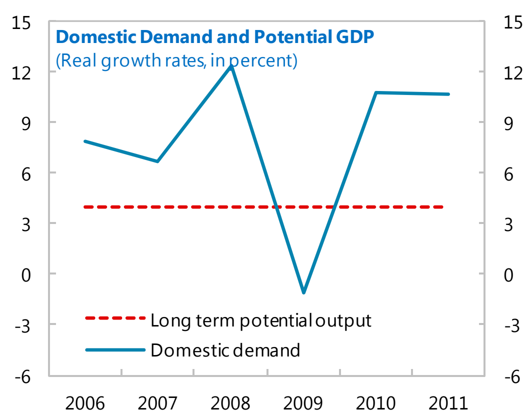
*Activity is above potential, ...*



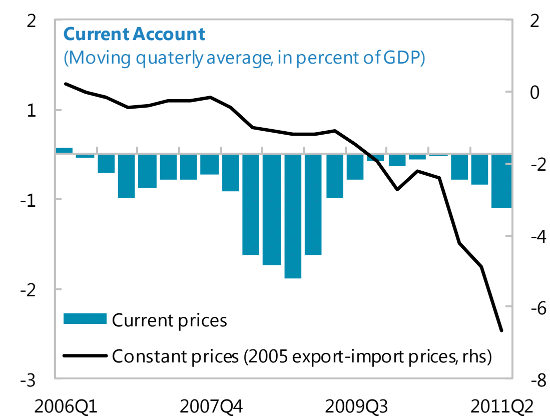

*... inflation and inflation expectations are above the official target ...*



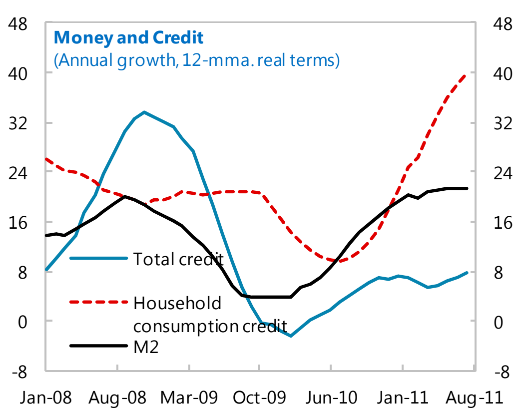

*... and domestic demand has been buoyant.*



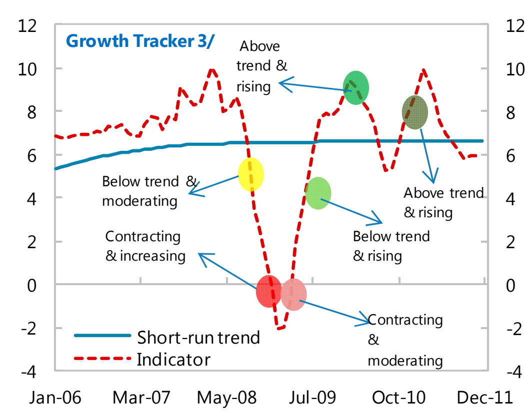

*The current account balance has deteriorated, but the deficit is not large thanks to favorable terms of trade.*




*Total credit is expanding at a moderate pace, while consumer credit is booming (from a small base) ...*




*... but overall economic activity is moderating.*




*Sources: World Economic Outlook, Haver Analytics, and IMF staff calculations.*

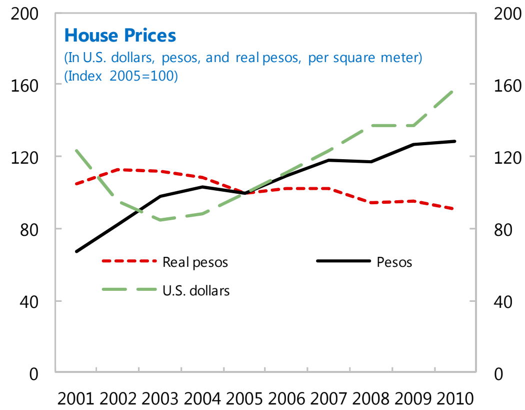
*1/ Output gap calculated with the Hodrick-Prescott filter.*

*2/ LA includes Brazil, Colombia, Chile, and Peru.*

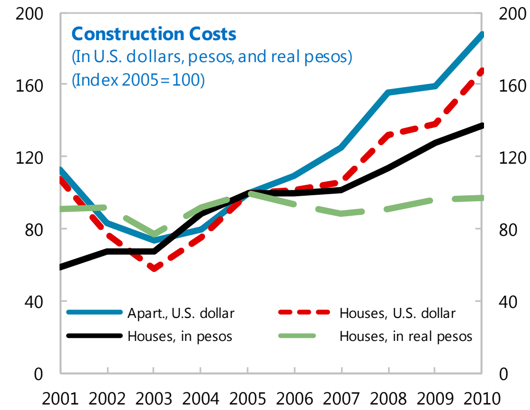
*3/ Constructed with a large set of daily, monthly, and quarterly indicators and a dynamic factor forecasting model that summarizes available data. The tracker is estimated and forecast at the monthly frequency and reflects the behavior of a centered 7-month moving average.*

## Figure 3. Uruguay: Real Estate Price Developments

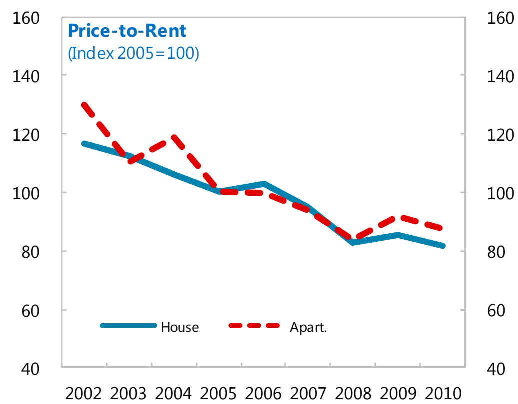
*Housing prices have increased in U.S. dollar terms but less in peso terms.*



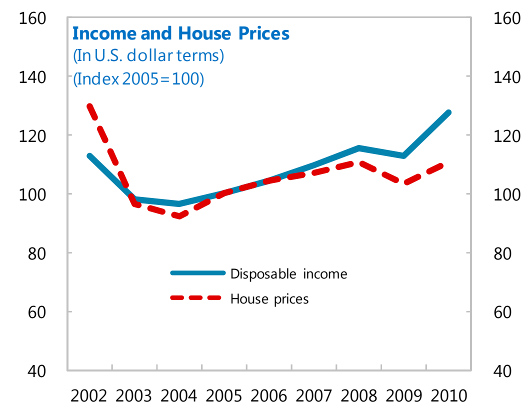

*The rising house prices reflect a similar trend in construction costs.*



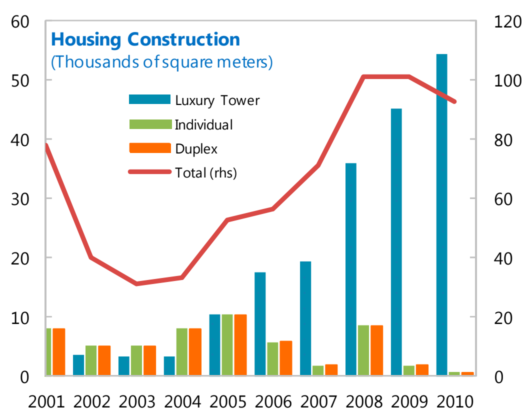

*Still, the price-to-rent ratio does not suggest overvaluation…*



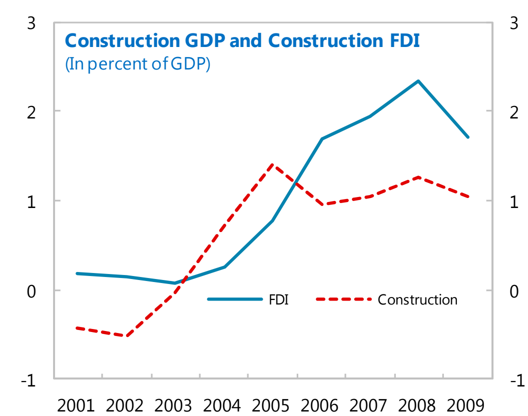

*…and prices have risen in line with income.*




*Construction activity has been strong…*



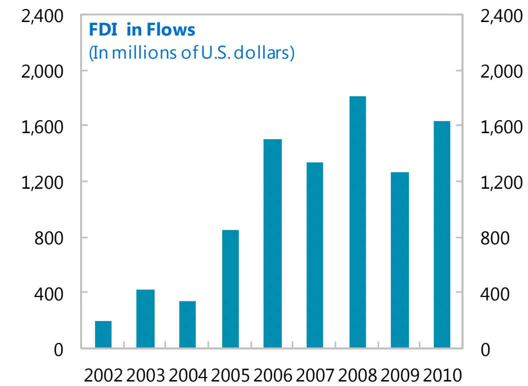

*… with substantial FDI financing.*



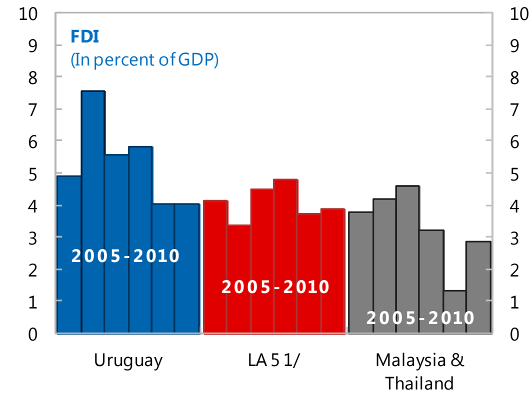

*Sources: Instituto Nacional de Estadistica del Uruguay and IMF staff calculations.*

## Figure 4. Uruguay: Trends in Foreign Direct Investment Inflows

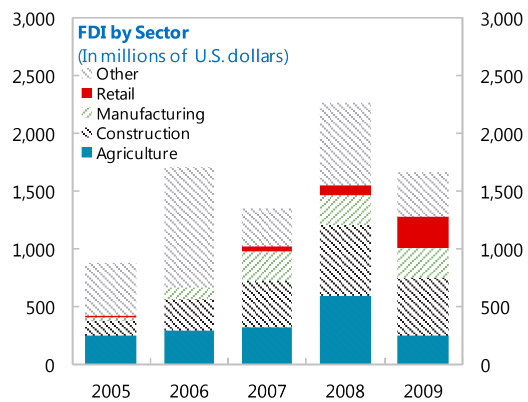
*FDI inflows have been substantial in recent years...*



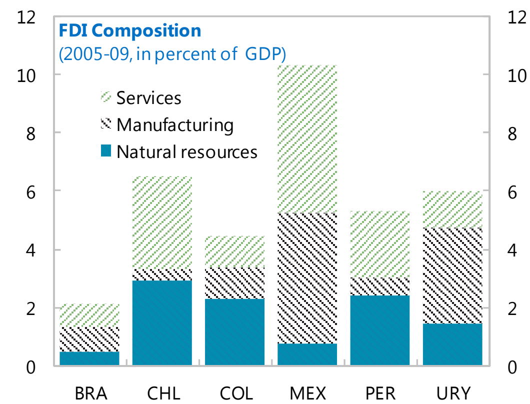

*... also when compared with other countries.*



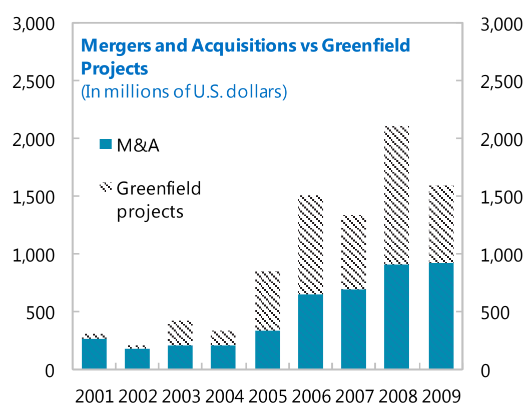

*FDI has gone to many sectors in the economy...*



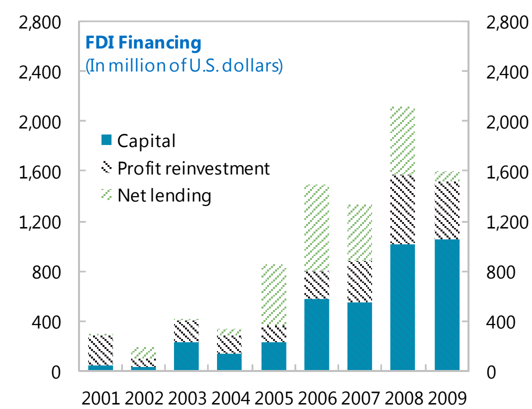

*... with manufacturing and services getting the lion's share.*




*Both M & A and Greenfield investment have increased.*




*Most FDI is new capital.*

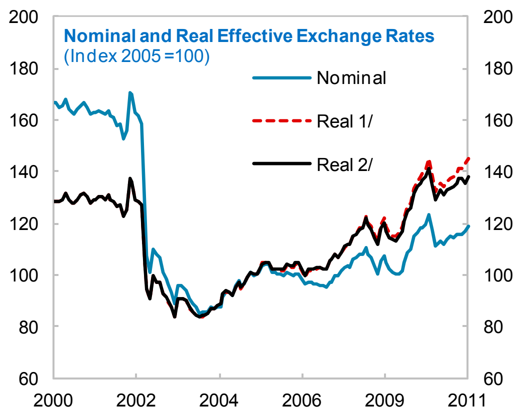



*Sources: Banco Central del Uruguay and IMF staff calculations.*

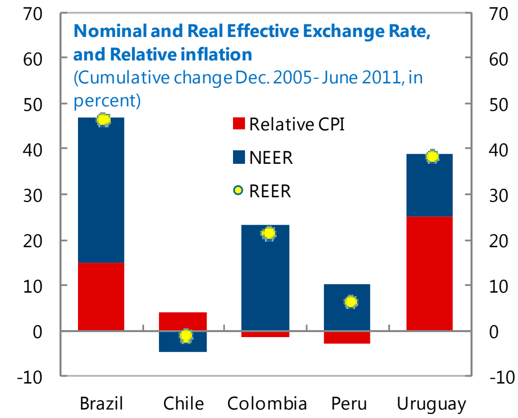
*1/ Brazil, Chile, Colombia, Mexico, and Peru.*

## Figure 5. Uruguay: External Stability

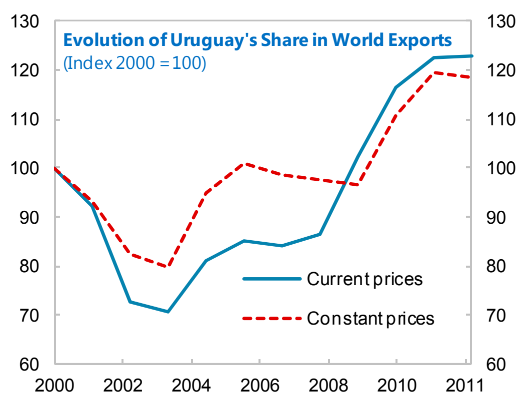
*The REER has appreciated significantly in recent years…*



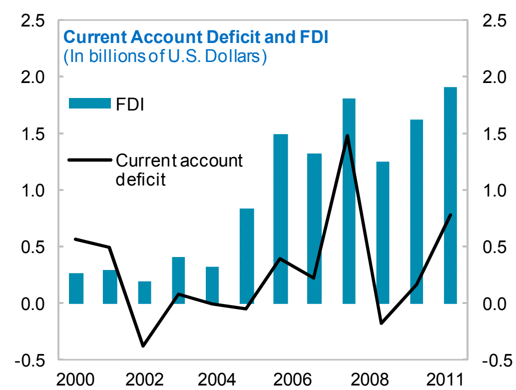

*…since 2006 mostly because of higher inflation than in partner countries.*



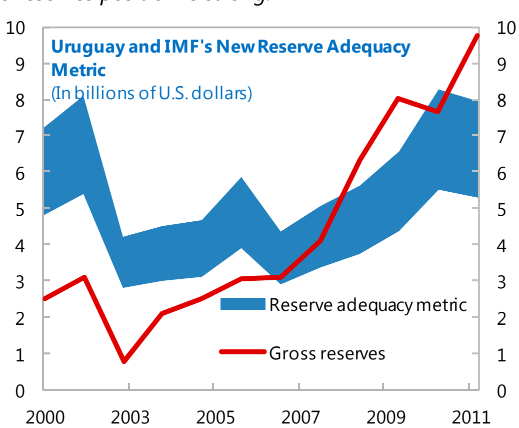

*However, Uruguay's exports have increased faster than world exports.*



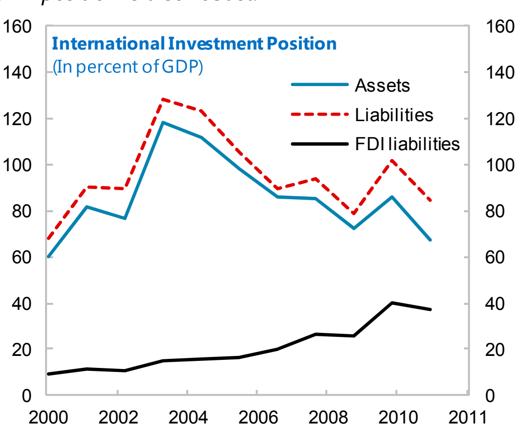

*The current account deficit is not large and it is amply covered by FDI.*




*The reserves position is strong.*



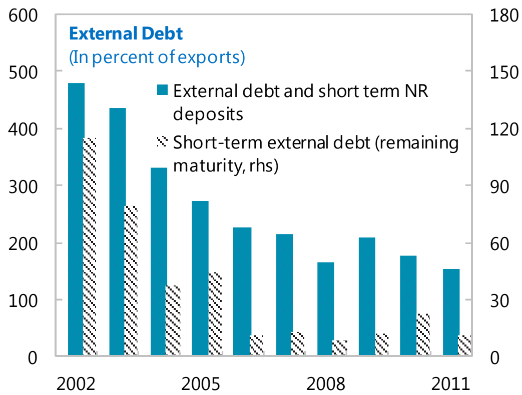

*The IIP position is also robust.*



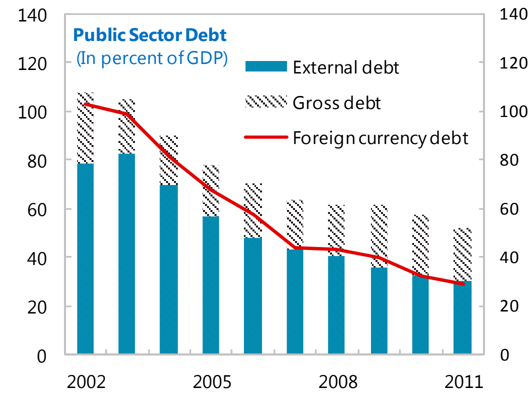

*Sources: World Economic Outlook, Haver Analytics, and IMF staff calculations.*
*1/ Calculated using official CPI for Argentina.*
*2/ For the inflation rate in Argentina, we use IMF staff's estimate of the average inflation rate in 11 provinces, excluding Buenos Aires. A Laspeyres index is used to aggregate price changes across provinces, using weights derived from the 2004/5 National Household Expenditure Survey (ENGH). Based on data for 11 provinces for which data on their provincial CPI are available through 2011.*

## Figure 6. Uruguay: Balance Sheet Vulnerabilities

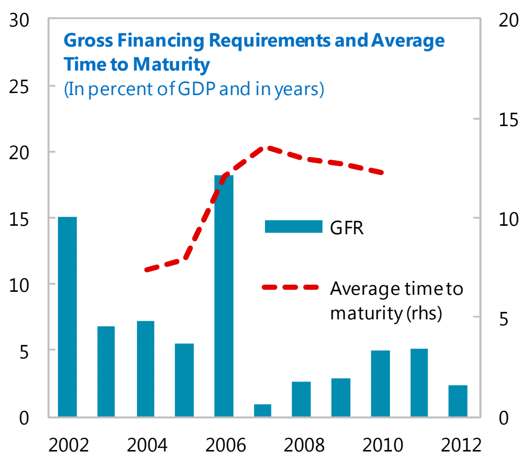
*Uruguay's external debt position has improved significantly.*



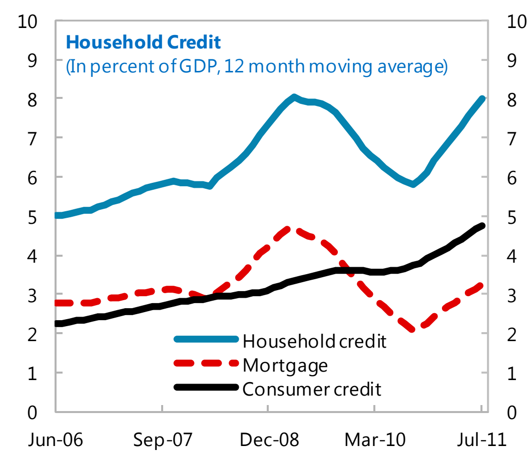

*The public debt has also fallen, and mostly the external and foreign currency components.*



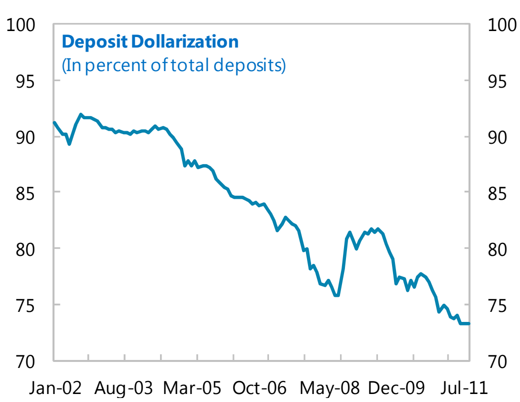

*Gross public financing requirements have declined.*



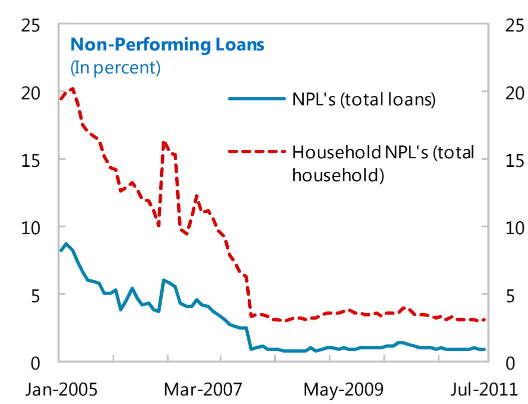

*Household indebtedness is moderate.*




*Banking sector dollarization has continued to decline...*



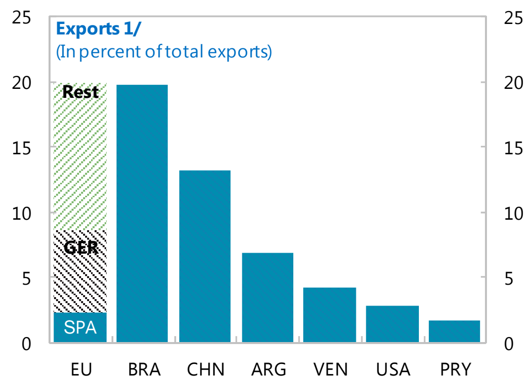

*...and bank NPLs remain very small.*



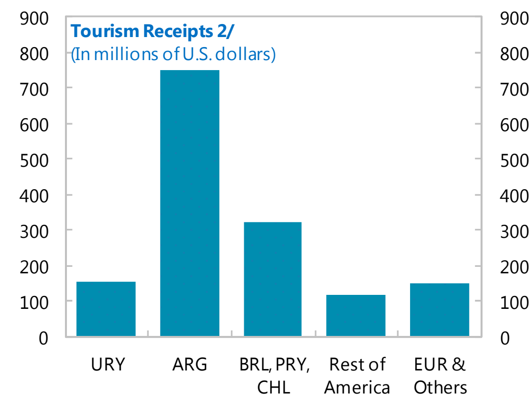

*Sources: World Economic Outlook and IMF staff calculations.*

## Figure 7. Uruguay: External Linkages

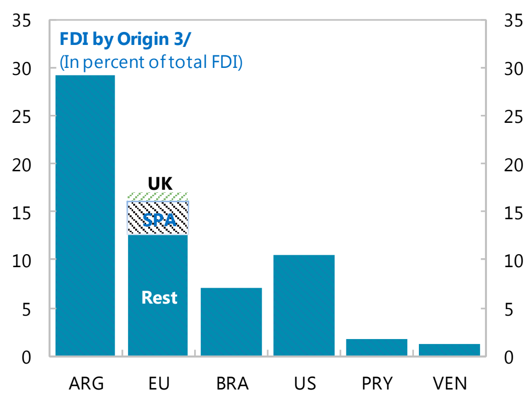
*Europe and Brazil are top export markets…*



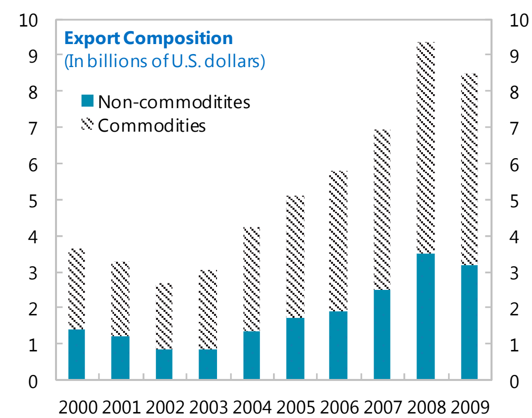

*…while Argentina dominates tourism…*



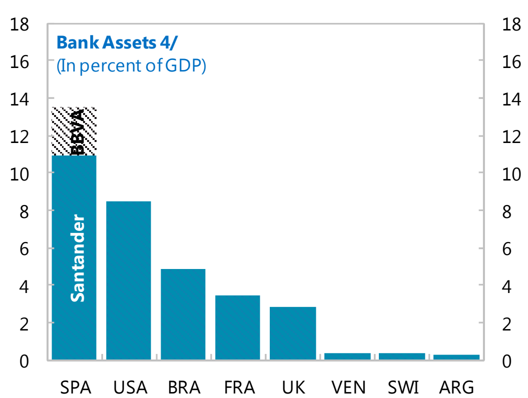

*… and also FDI, but Europe is also an important source of FDI.*



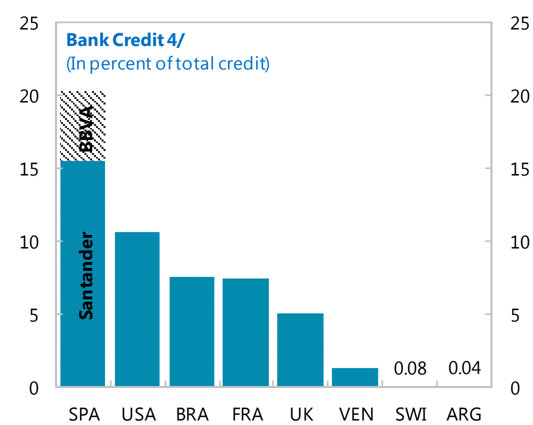

*Exports remain dominated by commodities.*




*Spanish banks play a significant role in Uruguay's banking system as measured by their share in total assets…*




*…and by their share in total credit.*




*Sources: JP Morgan, Haver Analytics, and IMF staff calculations.*
*1/ BCU Report on exports as September 2010.*
*2/ URY corresponds to Uruguayans living abroad.*
*3/ BCU Report on FDI as 2008.*
*4/ BCU Financial Stability Report, second quarter of 2010.*

## Table 1. Uruguay: Selected Economic and Social Indicators

Latest information available

| | | | |
|---|---|---|---|
| Population (Estimate for 2010) | 3.4 | Physicians per 1,000 (2009) | 3.736 |
| | | Hospital beds per 1,000 | 4.4 |
| Life expectancy at birth (years) | 76.7 | | |
| Crude birth rate (per thousand) | 14.5 | Access to safe water | |
| Infant mortality rate (per thousand live births) | 9.2 | (percent of population) | 98.2 |
| Income share held by highest 10 percent of households | 32.9 | Adult literacy rate (2009) | 98.3 |
| Income share held by lowest 20 percent of households | 5.6 | Gross enrollment rate | |
| Gini coefficient | 42.1 | Primary education | 113.1 |
| Unemployment rate (average) | 6.7 | Secondary education | 106.9 |
| Poverty rate (2010) | 18.6 | Tertiary education | 42.0 |
| GDP per capita in 2010 (in US$) | 11,998 | | |
| Human Development Index Rank (2010) | 52 (out of 182) | | |

| | | | | | Prel. | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| (Percent change, unless otherwise specified) | | | | | | | | | | | |
| **I. Output, prices, and employment** | | | | | | | | | | | |
| Real GDP | 4.3 | 7.3 | 8.6 | 2.6 | 8.5 | 6.0 | 4.2 | 4.0 | 4.0 | 4.0 | 4.0 |
| GDP (US$ billions) | 19.8 | 23.9 | 31.2 | 31.3 | 40.3 | 47.6 | 50.6 | 53.8 | 57.2 | 60.9 | 65.1 |
| GDP deflator | 7.5 | 9.5 | 7.3 | 5.5 | 5.3 | 7.1 | 6.8 | 6.0 | 6.0 | 6.0 | 6.0 |
| CPI inflation (average) | 6.4 | 8.1 | 7.9 | 7.1 | 6.7 | 8.0 | 6.9 | 6.1 | 6.0 | 6.0 | 6.0 |
| CPI inflation (eop) | 6.4 | 8.5 | 9.2 | 5.9 | 6.9 | 8.0 | 6.4 | 6.0 | 6.0 | 6.0 | 6.0 |
| Unemployment (in percent, eop) | 9.1 | 7.7 | 6.8 | 6.3 | 6.0 | 6.0 | ... | ... | ... | ... | ... |
| **II. Monetary indicators 6/** | | | | | | | | | | | |
| Base Money (eop) | 10.3 | 16.4 | 29.3 | 6.5 | 16.2 | 11.4 | ... | ... | ... | ... | ... |
| M-1 | 20.1 | 29.4 | 18.6 | 12.2 | 33.5 | 17.9 | ... | ... | ... | ... | ... |
| M-2 | 21.7 | 30.6 | 17.1 | 15.0 | 30.3 | 24.6 | ... | ... | ... | ... | ... |
| M-3 | 11.6 | 3.8 | 28.6 | -2.6 | 22.1 | 10.0 | ... | ... | ... | ... | ... |
| Credit to the private sector (constant exch. rate) | 17.3 | 22.1 | 28.0 | -7.5 | 21.3 | 23.8 | ... | ... | ... | ... | ... |
| (Percent of GDP, unless otherwise specified) | | | | | | | | | | | |
| **III. Public sector operations** | | | | | | | | | | | |
| Revenue 1/ | 28.0 | 28.0 | 26.2 | 27.9 | 28.8 | 28.3 | 28.9 | 29.3 | 29.6 | 29.6 | 29.7 |
| Non-interest expenditure 1/ | 24.6 | 24.8 | 25.1 | 27.2 | 27.2 | 27.0 | 27.3 | 27.6 | 27.7 | 27.7 | 27.8 |
| Primary balance 2/ | 3.6 | 3.5 | 1.3 | 1.1 | 1.7 | 1.5 | 1.8 | 1.9 | 2.0 | 2.0 | 2.1 |
| Interest 2/ | 4.2 | 3.5 | 2.9 | 2.8 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 | 2.8 | 2.8 |
| Overall balance 2/ | -0.5 | 0.0 | -1.5 | -1.7 | -1.2 | -1.4 | -1.1 | -1.0 | -0.9 | -0.8 | -0.7 |
| Gross public sector debt | 70.3 | 63.2 | 61.7 | 61.0 | 57.1 | 51.8 | 49.4 | 47.5 | 45.5 | 43.1 | 40.7 |
| Net public sector debt 3/ | 47.0 | 37.4 | 30.8 | 31.2 | 30.9 | 29.3 | 28.4 | 27.8 | 27.0 | 25.8 | 24.4 |
| **IV. External indicators** | | | | | | | | | | | |
| Merchandise exports, fob (US$ millions) | 4,400 | 5,100 | 7,095 | 6,408 | 8,059 | 9,773 | 10,379 | 10,955 | 11,619 | 12,378 | 13,260 |
| Merchandise imports, fob (US$ millions) | 4,898 | 5,645 | 8,810 | 6,677 | 8,320 | 10,826 | 12,113 | 12,697 | 13,200 | 13,949 | 14,916 |
| Terms of trade (percentage change) | 1.6 | 2.3 | -1.2 | 6.7 | 0.4 | 3.9 | -0.3 | 0.7 | 0.8 | 1.6 | 1.9 |
| Current account balance | -2.0 | -0.9 | -5.5 | -0.4 | -1.2 | -2.0 | -3.0 | -2.6 | -2.3 | -2.0 | -1.9 |
| Foreign direct investment | 7.5 | 5.6 | 6.8 | 5.1 | 5.9 | 5.0 | 7.2 | 6.0 | 5.3 | 5.2 | 5.1 |
| Overall balance of payments (US$ millions) | -15 | 1,005 | 2,232 | 1,588 | -361 | 2,217 | 195 | 201 | 190 | 194 | 192 |
| External debt 4/ | 54.3 | 47.4 | 44.9 | 39.3 | 35.1 | 32.9 | 33.5 | 33.5 | 32.6 | 31.4 | 29.8 |
| Of which: external public debt | 47.9 | 42.9 | 40.1 | 35.6 | 32.1 | 29.9 | 28.9 | 28.2 | 27.4 | 26.2 | 24.6 |
| External debt service (percent of exports of goods and services) | 83.6 | 26.1 | 21.7 | 22.9 | 28.5 | 27.2 | 18.2 | 16.5 | 16.6 | 17.0 | 21.4 |
| Gross official reserves (US$ millions) 5/ | 3,085 | 4,124 | 6,362 | 8,040 | 7,655 | 9,872 | 10,068 | 10,269 | 10,459 | 10,653 | 10,846 |
| In months of imports of goods and services | 5.5 | 4.8 | 9.6 | 9.8 | 7.2 | 8.3 | 8.0 | 7.8 | 7.5 | 7.5 | 7.5 |
| In percent of short-term debt | 491.2 | 471.8 | 797.2 | 772.3 | 318.8 | 683.3 | 448.4 | 378.3 | 365.8 | 335.1 | 254.4 |
| In percent of short-term debt plus bank non-resident deposits | 101.3 | 117.2 | 151.4 | 162.6 | 112.1 | 163.2 | 140.1 | 129.1 | 124.2 | 117.2 | 102.7 |

Sources: Banco Central del Uruguay, Ministerio de Economia y Finanzas, Instituto Nacional de Estadistica, and IMF staff calculations.
1/ Non-financial public sector excluding local governments.
2/ Total public sector.
3/ Public sector debt net of Banco Central del Uruguay' assets.
4/ Excludes nonresident deposits.
5/ Includes reserve buildup through reserve requirements of resident financial institutions.
6/ August/September data for 2011.

## Table 2. Main Fiscal Aggregates 2006-2016 1/

(In million of pesos and percentages of GDP, unless otherwise indicated, based on the 1986 GFS Manual)

| | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | | | | | (In millions of Pesos, unless otherwise indicated) | | | | | | |
| **Public Sector** | | | | | | | | | | | |
| **Non Financial Public Sector** | | | | | | | | | | | |
| **Revenues** | **133,714** | **157,132** | **170,943** | **197,234** | **232,293** | **259,197** | **295,159** | **329,764** | **366,391** | **404,312** | **447,029** |
| *Taxes* | 92,955 | 105,054 | 120,560 | 134,334 | 152,175 | 174,362 | 194,171 | 214,609 | 236,923 | 261,198 | 287,800 |
| *Non Tax* | 9,028 | 10,234 | 10,190 | 10,541 | 12,396 | 14,069 | 15,653 | 17,259 | 19,026 | 20,978 | 23,128 |
| *Social Security* | 25,155 | 28,473 | 34,778 | 42,922 | 49,742 | 58,116 | 67,338 | 77,299 | 87,685 | 97,041 | 108,448 |
| *SOE Operating balance* | 6,577 | 13,370 | 5,414 | 9,438 | 17,981 | 12,650 | 17,997 | 20,596 | 22,757 | 25,094 | 27,653 |
| **Primary expenditures** | **117,229** | **138,955** | **163,784** | **192,167** | **219,736** | **247,164** | **278,197** | **310,291** | **343,325** | **378,763** | **418,175** |
| *Current* | 105,009 | 122,836 | 142,593 | 168,187 | 191,163 | 218,288 | 246,070 | 274,642 | 304,648 | 337,073 | 373,721 |
| *Capital* | 12,220 | 16,119 | 21,191 | 23,980 | 28,574 | 28,876 | 32,127 | 35,649 | 38,678 | 41,690 | 44,455 |
| Primary balance (Local governments) | 1,726 | 1,053 | 925 | 2,132 | 872 | 863 | 707 | 1,104 | 1,212 | 1,336 | 1,473 |
| Primary balance (NFPS) | 18,211 | 19,230 | 8,084 | 7,200 | 13,429 | 12,896 | 17,669 | 20,577 | 24,277 | 26,885 | 30,326 |
| Primary balance (BSE and BCU) | -839 | 509 | 686 | 450 | 664 | 806 | 422 | 448 | 474 | 523 | 577 |
| **Primary balance (Public Sector)** | **17,373** | **19,740** | **8,770** | **7,649** | **14,093** | **13,703** | **18,091** | **21,025** | **24,751** | **27,408** | **30,903** |
| *Interest* | 19,928 | 19,681 | 18,630 | 19,850 | 23,861 | 26,599 | 29,360 | 32,309 | 35,625 | 38,372 | 41,762 |
| **Overall balance** | **-2,555** | **58** | **-9,860** | **-12,200** | **-9,768** | **-12,897** | **-11,269** | **-11,284** | **-10,874** | **-10,964** | **-10,859** |
| **Public Gross Debt, million US dollars** | **13,717** | **16,319** | **16,534** | **21,891** | **23,085** | **24,374** | **24,978** | **25,536** | **26,021** | **26,282** | **26,478** |
| External | 9,330 | 11,081 | 10,748 | 12,775 | 12,981 | 14,068 | 14,638 | 15,194 | 15,678 | 15,939 | 16,027 |
| Domestic | 4,386 | 5,238 | 5,786 | 9,116 | 10,105 | 10,307 | 10,341 | 10,343 | 10,343 | 10,343 | 10,451 |
| **Foreign-currency debt , million US dollars** | **11,187** | **11,323** | **11,543** | **14,304** | **13,060** | **13,624** | **13,923** | **13,980** | **14,054** | **13,678** | **13,387** |
| **Short term debt (remaining maturity), million of US dollars** | **835** | **1,135** | **992** | **2,445** | **3,575** | **3,648** | **3,678** | **3,728** | **3,769** | **3,833** | **3,980** |
| | | | | | (In percent of GDP, unless otherwise indicated) | | | | | | |
| **Public Sector** | | | | | | | | | | | |
| **Non Financial Public Sector** | | | | | | | | | | | |
| **Revenues** | **28.0** | **28.0** | **26.2** | **27.9** | **28.8** | **28.3** | **28.9** | **29.3** | **29.6** | **29.6** | **29.7** |
| *Taxes* | 19.5 | 18.7 | 18.5 | 19.0 | 18.8 | 19.0 | 19.0 | 19.1 | 19.1 | 19.1 | 19.1 |
| *Non Tax* | 1.9 | 1.8 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| *Social Security* | 5.3 | 5.1 | 5.3 | 6.1 | 6.2 | 6.3 | 6.6 | 6.9 | 7.1 | 7.1 | 7.2 |
| *SOE Operating balance* | 1.4 | 2.4 | 0.8 | 1.3 | 2.2 | 1.4 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| **Primary expenditures** | **24.6** | **24.8** | **25.1** | **27.2** | **27.2** | **27.0** | **27.3** | **27.6** | **27.7** | **27.7** | **27.8** |
| *Current* | 22.0 | 21.9 | 21.8 | 23.8 | 23.7 | 23.8 | 24.1 | 24.4 | 24.6 | 24.7 | 24.8 |
| *Capital* | 2.6 | 2.9 | 3.2 | 3.4 | 3.5 | 3.2 | 3.2 | 3.2 | 3.1 | 3.1 | 3.0 |
| Primary balance (Local governments) | 0.4 | 0.2 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Primary balance (NFPS) | 3.8 | 3.4 | 1.2 | 1.0 | 1.7 | 1.4 | 1.7 | 1.8 | 2.0 | 2.0 | 2.0 |
| Primary balance (BSE and BCU) | -0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Primary balance (Public Sector)** | **3.6** | **3.5** | **1.3** | **1.1** | **1.7** | **1.5** | **1.8** | **1.9** | **2.0** | **2.0** | **2.1** |
| *Interest* | 4.2 | 3.5 | 2.9 | 2.8 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 | 2.8 | 2.8 |
| **Overall balance** | **-0.5** | **0.0** | **-1.5** | **-1.7** | **-1.2** | **-1.4** | **-1.1** | **-1.0** | **-0.9** | **-0.8** | **-0.7** |
| **Public Gross Debt** | **70.3** | **63.2** | **61.7** | **61.0** | **57.1** | **51.8** | **49.4** | **47.5** | **45.5** | **43.1** | **40.7** |
| External | 47.9 | 42.9 | 40.1 | 35.6 | 32.1 | 29.9 | 28.9 | 28.2 | 27.4 | 26.2 | 24.6 |
| Domestic | 22.5 | 20.3 | 21.6 | 25.4 | 25.0 | 21.9 | 20.4 | 19.2 | 18.1 | 17.0 | 16.1 |
| **Foreign-currency denominated debt** | **57.4** | **43.8** | **43.0** | **39.9** | **32.3** | **29.0** | **27.5** | **26.0** | **24.6** | **22.4** | **20.6** |
| **Short term debt (remaining maturity)** | **4.3** | **4.4** | **3.7** | **6.8** | **8.8** | **7.8** | **7.3** | **6.9** | **6.6** | **6.3** | **6.1** |
| *Memorandum items* | | | | | | | | | | | |
| Real revenues growth, in percent | 5.7 | 8.7 | 0.8 | 7.8 | 10.4 | 3.3 | 6.5 | 5.4 | 4.8 | 4.1 | 4.3 |
| Real primary spending growth, in percent | 7.0 | 9.6 | 9.3 | 9.6 | 7.2 | 4.2 | 5.3 | 5.2 | 4.4 | 4.1 | 4.1 |
| GDP, billions of Pesos | 476,707 | 560,412 | 653,136 | 706,883 | 807,685 | 916,695 | 1,019,908 | 1,124,572 | 1,239,665 | 1,366,881 | 1,506,939 |

Sources: Ministerio de Economia y Finanzas, Banco Central del Uruguay, and IMF staff calculations.

1/ Authorities are working on preparing fiscal accounts under the 2001 GFS Manual, but coverage includes central government only at this stage. The mission will continue monitoring and publishing consolidated data for the public sector under the 1986 GFS Manual to avoid a loss of information until the full accounting can be provided with the new manual.

## Table 3. Statement of Operations of the Central Government 1/ 2/

(Percentages of GDP, based on the 2001 GFS Manual)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Revenue** | **27.1** | **26.0** | **25.8** | **29.5** | **29.9** |
| Taxes | 18.8 | 18.1 | 17.8 | 18.9 | 18.9 |
| Social Contributions | 5.6 | 5.4 | 5.7 | 8.8 | 8.9 |
| Grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other revenue | 2.7 | 2.5 | 2.4 | 1.9 | 2.1 |
| **Expense** | **26.6** | **26.0** | **24.9** | **29.4** | **29.4** |
| Compensation of employees | 6.0 | 5.9 | 5.9 | 7.2 | 6.8 |
| Use of goods and services | 4.1 | 4.0 | 3.7 | 3.7 | 3.7 |
| Consumption of fixed capital 3/ | .... | .... | .... | .... | .... |
| Interest | 4.2 | 3.7 | 2.8 | 2.8 | 2.4 |
| Subsidies | 2.1 | 2.6 | 2.5 | 0.3 | 0.2 |
| Grants | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 |
| Social benefits | 10.2 | 9.7 | 10.0 | 12.9 | 13.4 |
| Other expenses | 0.0 | 0.0 | 0.0 | 1.9 | 2.9 |
| **Net acquisition of nonfinancial assets** | **1.4** | **1.5** | **1.8** | **1.6** | **1.4** |
| Acquistions of nonfinancial assets 3/ | .... | .... | .... | .... | .... |
| Disposals of nonfinancial assets 3/ | .... | .... | .... | .... | .... |
| Consumption of fixed capital 3/ | .... | .... | .... | .... | .... |
| Gross Operating Balance | 0.5 | 0.0 | 0.9 | 0.1 | 0.5 |
| Net Operating Balance 4/ | .... | .... | .... | .... | .... |
| **Net lending (+) borrowing (-)** | **-0.9** | **-1.5** | **-0.9** | **-1.5** | **-0.9** |
| **Net acquistion of financial assets** | **-2.2** | **2.3** | **-0.9** | **4.6** | **-2.3** |
| *By instrument* | | | | | |
| Monetary gold and SDRs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency and deposits | -1.7 | 2.6 | -1.1 | 1.9 | -2.1 |
| Debt securities | 0.0 | 0.0 | 0.0 | 1.9 | 0.1 |
| Loans | -0.5 | -0.3 | 0.3 | 0.1 | -0.3 |
| Equity and shares | 0.0 | 0.0 | 0.0 | 0.7 | 0.0 |
| Insurance technical reserves | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Derivatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other accounts receivable | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *By residency* | | | | | |
| Domestic | -2.2 | 2.3 | -0.9 | 4.6 | -2.3 |
| External | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net incurrence of liabilities** | -1.4 | 3.9 | 0.2 | 6.2 | -1.2 |
| *By instrument* | | | | | |
| SDRs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency and deposits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt securities | 10.2 | 3.9 | -0.8 | 1.4 | 0.0 |
| Loans | -11.6 | 0.0 | 1.0 | 4.8 | -1.1 |
| Equity and shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Insurance technical reserves | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Derivatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other accounts payable | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *By residency* | | | | | |
| Domestic | 0.5 | -0.4 | 1.5 | 3.8 | -0.8 |
| External | -1.9 | 4.3 | -1.3 | 2.4 | -0.4 |
| *Memorandum items* | | | | | |
| Public Sector Net lending (+) borrowing (-) | -0.5 | 0.0 | -1.5 | -1.7 | -1.2 |
| Public Sector Primary Balance | 3.6 | 3.5 | 1.3 | 1.1 | 1.7 |

Sources: Banco Central del Uruguay, and IMF staff calculations.
1/ Central government and Social Security Bank. Collection of above the line data for municipalities is not feasible at this moment.
2/ Preliminary data. Authorities are in the process of revising historical data in the context of their work to improve reporting under the 2001 GFS framework.
3/ Not compiled by the authorities.
4/ Not available.

**Table 4. Central Government Stock Positions**

(Percentages of GDP, based on the 2001 GFS Manual)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Stock positions:** | | | | | |
| Net worth | .... | .... | .... | .... | .... |
| Nonfinancial assets | .... | .... | .... | .... | .... |
| **Net financial worth** | **-56.9** | **-46.3** | **-46.7** | **-38.7** | **-35.6** |
| | | | | | |
| **Financial assets** | **11.4** | **11.1** | **9.1** | **11.1** | **8.7** |
| *By instrument* | | | | | |
| Monetary gold and SDRs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency and deposits | 7.2 | 8.2 | 6.6 | 7.0 | 4.4 |
| Debt securities | 0.0 | 0.0 | 0.0 | 1.5 | 2.0 |
| Loans | 4.2 | 2.9 | 2.4 | 1.9 | 1.6 |
| Equity and shares | 0.0 | 0.0 | 0.0 | 0.7 | 0.6 |
| Insurance technical reserves | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Derivatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other accounts recivable | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *By residency* | | | | | |
| Domestic | 11.3 | 11.0 | 9.0 | 11.1 | 8.6 |
| External | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | |
| **Liabilities** | **68.3** | **57.4** | **55.8** | **49.8** | **44.2** |
| *By instrument* | | | | | |
| SDRs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency and deposits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt securities | 50.6 | 44.1 | 41.7 | 35.7 | 32.5 |
| Loans | 17.7 | 13.3 | 14.0 | 14.2 | 11.7 |
| Equity and shares | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Insurance technical reserves | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Derivatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other accounts payable | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *By residency* | | | | | |
| Domestic | 24.2 | 19.2 | 20.2 | 20.3 | 17.9 |
| External | 44.1 | 38.2 | 35.6 | 29.5 | 26.4 |
| | | | | | |
| *Memorandum items* | | | | | |
| Central Government Gross Debt | 68.3 | 57.4 | 55.8 | 49.8 | 44.2 |
| General Government Gross Debt | 69.4 | 58.2 | 56.5 | 50.3 | 44.6 |
| Public Sector Gross Debt | 70.3 | 63.2 | 61.7 | 61.0 | 57.1 |
| Public Sector External Debt | 47.9 | 42.9 | 40.1 | 35.6 | 32.1 |

Sources: Banco Central del Uruguay, and IMF staff calculations.

## Table 5. Uruguay: Summary Accounts of the Banking System

(In millions of U.S. dollars)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 4/ |
|---|---|---|---|---|---|---|
| | | | **1. Banco Central del Uruguay** | | | |
| Net foreign assets | 3,282 | 5,208 | 7,034 | 8,255 | 7,659 | 9,973 |
| Net international reserves 1/ | 3,085 | 4,124 | 6,362 | 8,040 | 7,655 | 10,232 |
| Gross international reserves | 3,085 | 4,124 | 6,362 | 8,040 | 7,655 | 10,232 |
| Reserve liabilities 1/ | 0 | 0 | 0 | 0 | 0 | 0 |
| Other net foreign assets | 198 | 1,086 | 674 | 217 | 4 | -258 |
| Net domestic assets | -1,769 | -3,263 | -4,858 | -5,473 | -4,307 | -6,301 |
| Net credit to the public sector | 931 | -55 | 1,512 | 991 | 2,540 | 1,136 |
| Net credit to the financial system | -1,735 | -1,799 | -3,314 | -2,695 | -1,776 | -2,576 |
| Credit to the private sector | 15 | 15 | 14 | 15 | 14 | 15 |
| Securities issued by the BCU | -1,443 | -2,564 | -2,545 | -4,431 | -6,134 | -6,328 |
| Other | 464 | 1,140 | -526 | 647 | 1,049 | 1,452 |
| Peso monetary liabilities | 1,513 | 1,945 | 2,176 | 2,782 | 3,353 | 3,673 |
| | | | **2. Public and Private Banks 2/** | | | |
| Net foreign assets | 2,162 | 2,345 | 1,722 | 2,790 | 4,906 | 5,143 |
| Net domestic assets | 6,522 | 7,706 | 9,856 | 10,922 | 11,161 | 13,435 |
| Net credit to the public sector | 317 | 142 | -1 | 1,222 | 551 | 1,287 |
| Net credit to the financial system | 2,907 | 3,352 | 4,858 | 5,129 | 4,678 | 5,441 |
| Credit to the private sector | 4,612 | 5,968 | 7,260 | 7,456 | 8,949 | 10,011 |
| Other | -1,313 | -1,756 | -2,261 | -2,885 | -3,018 | -3,304 |
| Liabilities to the private sector (residents) | 8,684 | 10,051 | 11,578 | 13,712 | 16,067 | 18,578 |
| Public banks | 4,643 | 5,367 | 5,978 | 6,981 | 8,004 | 9,385 |
| Local currency | 1,140 | 1,618 | 1,751 | 2,352 | 2,804 | 3,532 |
| Foreign currency | 3,503 | 3,749 | 4,227 | 4,629 | 5,200 | 5,853 |
| Private banks | 4,041 | 4,684 | 5,599 | 6,731 | 8,063 | 9,193 |
| Local currency | 702 | 1,122 | 1,226 | 1,808 | 2,335 | 2,593 |
| Foreign currency | 3,338 | 3,562 | 4,373 | 4,923 | 5,729 | 6,600 |
| | | | **3. Banking System** | | | |
| Net foreign assets | 5,444 | 7,552 | 8,756 | 11,044 | 12,566 | 15,117 |
| Net domestic assets | 3,362 | 2,822 | 2,501 | 3,179 | 4,405 | 523 |
| Credit to the public sector | 1,248 | 87 | 1,511 | 2,213 | 3,091 | 2,423 |
| Credit to the rest of financial system | -220 | -67 | -953 | 164 | 453 | -3,746 |
| Credit to the private sector | 4,626 | 5,983 | 7,274 | 7,471 | 8,964 | 10,025 |
| Other | -2,293 | -3,180 | -5,331 | -6,669 | -8,103 | -8,180 |
| Broad money (M3) | 8,806 | 10,375 | 11,257 | 14,224 | 16,971 | 15,639 |
| | | | (Percentage change, otherwise indicated) | | | |
| **Memorandum items (in pesos):** | | | | | | |
| Base money (end-of-period) | 10.3 | 16.4 | 29.3 | 6.5 | 16.2 | 11.4 |
| Currency issued | 27.7 | 11.6 | 14.8 | 13.2 | 19.3 | 19.1 |
| M-1 | 20.1 | 29.4 | 18.6 | 12.2 | 33.5 | 17.9 |
| M-2 | 21.7 | 30.6 | 17.1 | 15.0 | 30.3 | 24.6 |
| M-3 | 11.6 | 3.8 | 28.6 | -2.6 | 22.1 | 10.0 |
| Credit to private sector (constant exchange rate) | 17.3 | 22.1 | 28.0 | -7.5 | 21.3 | 23.8 |
| "Free" international reserves (in millions of US$) 3/ | 899 | 1,847 | 2,615 | 4,882 | 5,808 | 7,272 |

Source: Banco Central del Uruguay.

1/ Includes all outstanding liabilities to the IMF, but excludes liabilities to resident financial institutions.

2/ The Banco de la Republica Oriental de Uruguay (BROU), Banco Hipotecario de Uruguay (BHU; mortgage institution), private banks, casas financieras and cooperatives.

3/ Net of liabilities to resident financial institutions.

4/ August/September data.

## Table 6. Uruguay: Balance of Payments and External Sector Indicators

(In millions of U.S. dollars, unless otherwise stated)

| | | | | | Prel. | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | | | | | **1. Balance of Payments** | | | | | | |
| **Current account** | **-392** | **-220** | **-1,729** | **-115** | **-466** | **-973** | **-1,503** | **-1,372** | **-1,296** | **-1,236** | **-1,228** |
| Trade balance | -499 | -545 | -1,714 | -269 | -261 | -1,054 | -1,734 | -1,742 | -1,581 | -1,571 | -1,656 |
| Exports, f.o.b. | 4,400 | 5,100 | 7,095 | 6,408 | 8,059 | 9,773 | 10,379 | 10,955 | 11,619 | 12,378 | 13,260 |
| Imports, f.o.b. | 4,898 | 5,645 | 8,810 | 6,677 | 8,320 | 10,826 | 12,113 | 12,697 | 13,200 | 13,949 | 14,916 |
| *Of which:* Fuel products | 1,138 | 1,148 | 2,504 | 1,354 | 1,593 | 2,352 | 2,400 | 2,563 | 2,734 | 2,885 | 3,088 |
| Services | 409 | 703 | 753 | 950 | 1,029 | 1,452 | 1,648 | 1,763 | 1,828 | 1,942 | 2,102 |
| Exports, f.o.b. | 1,387 | 1,833 | 2,277 | 2,241 | 2,600 | 3,403 | 3,810 | 4,139 | 4,466 | 4,790 | 5,131 |
| Imports, f.o.b. | 979 | 1,130 | 1,523 | 1,291 | 1,571 | 1,951 | 2,162 | 2,377 | 2,638 | 2,848 | 3,029 |
| Income (net) | -428 | -516 | -917 | -934 | -1,352 | -1,496 | -1,546 | -1,525 | -1,679 | -1,747 | -1,819 |
| Transfers (net) | 126 | 137 | 148 | 138 | 118 | 124 | 129 | 132 | 137 | 141 | 145 |
| **Financial and capital account** | **528** | **1,505** | **3,098** | **1,353** | **1,539** | **3,190** | **1,699** | **1,573** | **1,486** | **1,430** | **1,421** |
| Foreign direct investment | 1,493 | 1,329 | 2,106 | 1,593 | 2,358 | 2,398 | 3,623 | 3,227 | 3,004 | 3,154 | 3,341 |
| Other capital flows (net) | -965 | 176 | 992 | -240 | -819 | 792 | -1,925 | -1,654 | -1,518 | -1,724 | -1,920 |
| Portfolio investment (net) | 1,686 | 1,151 | -558 | -716 | -548 | ... | ... | ... | ... | ... | ... |
| Loans (net) | -549 | 422 | 667 | 928 | -921 | ... | ... | ... | ... | ... | ... |
| Deposits (net) | 222 | -1,595 | 1,316 | -955 | 492 | ... | ... | ... | ... | ... | ... |
| Other flows, net | -2,339 | 281 | -445 | 520 | 113 | ... | ... | ... | ... | ... | ... |
| Unidentified Financing | 8 | -86 | 11 | -16 | 44 | ... | ... | ... | ... | ... | ... |
| Errors and omissions | -152 | -279 | 864 | 350 | -1,433 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Reserve assets (- increase)** | **15** | **-1,005** | **-2,232** | **-1,588** | **361** | **-2,217** | **-195** | **-201** | **-190** | **-194** | **-192** |
| | | | | | **2. Reserve Adequacy and External Indicators** | | | | | | |
| **Gross official reserves (stock)** | **3,085** | **4,124** | **6,362** | **8,040** | **7,655** | **9,872** | **10,068** | **10,269** | **10,459** | **10,653** | **10,846** |
| In months of next year's imports of goods and services | 5.5 | 4.8 | 9.6 | 9.8 | 7.2 | 8.3 | 8.0 | 7.8 | 7.5 | 7.5 | 7.5 |
| In percent of short-term debt | 491.2 | 471.8 | 797.2 | 772.3 | 318.8 | 683.3 | 448.4 | 378.3 | 365.8 | 335.1 | 254.4 |
| | | | | | **(As percent of GDP)** | | | | | | |
| Exports of goods | 22.2 | 21.4 | 22.8 | 20.5 | 20.0 | 20.5 | 20.5 | 20.4 | 20.3 | 20.3 | 20.4 |
| Imports of goods | 24.7 | 23.6 | 28.3 | 21.3 | 20.7 | 22.7 | 23.9 | 23.6 | 23.1 | 22.9 | 22.9 |
| Current account | -2.0 | -0.9 | -5.5 | -0.4 | -1.2 | -2.0 | -3.0 | -2.6 | -2.3 | -2.0 | -1.9 |
| Financial and capital account | 2.7 | 6.3 | 9.9 | 4.3 | 3.8 | 6.7 | 3.4 | 2.9 | 2.6 | 2.3 | 2.2 |
| *Of which:* Foreign direct investment (net) | 7.5 | 5.6 | 6.8 | 5.1 | 5.9 | 5.0 | 7.2 | 6.0 | 5.3 | 5.2 | 5.1 |
| Other capital flows (net) | -4.9 | 0.7 | 3.2 | -0.8 | -2.0 | 1.7 | -3.8 | -3.1 | -2.7 | -2.8 | -3.0 |
| Changes in GIR | 0.1 | -4.2 | -7.2 | -5.1 | 0.9 | -4.7 | -0.4 | -0.4 | -0.3 | -0.3 | -0.3 |
| Total external debt | 54.3 | 47.4 | 44.9 | 39.3 | 35.1 | 32.9 | 33.5 | 33.5 | 32.6 | 31.4 | 29.8 |
| Short-term debt (residual maturity) | 3.2 | 3.7 | 2.6 | 3.3 | 6.0 | 3.0 | 4.4 | 5.0 | 5.0 | 5.2 | 6.6 |
| External public debt | 47.9 | 42.9 | 40.1 | 35.6 | 32.1 | 29.9 | 28.9 | 28.2 | 27.4 | 26.2 | 24.6 |
| Total external debt + NR deposits | 66.7 | 57.6 | 57.6 | 50.2 | 46.0 | 42.7 | 43.3 | 43.2 | 42.3 | 41.1 | 39.5 |
| | | | | | **(As percent of annual exports of goods and services)** | | | | | | |
| Total external debt | 182.8 | 176.5 | 128.4 | 163.0 | 132.9 | 117.3 | 119.4 | 119.2 | 116.0 | 111.4 | 105.6 |
| Total external debt (including nonresidential deposits) | 224.6 | 214.6 | 164.7 | 208.1 | 174.5 | 152.2 | 154.3 | 154.0 | 150.6 | 145.8 | 139.8 |
| Debt service | 83.6 | 26.1 | 21.7 | 22.9 | 28.5 | 27.2 | 18.2 | 16.5 | 16.6 | 17.0 | 21.4 |
| *Of which:* Interest payments | 15.7 | 12.5 | 8.9 | 9.3 | 7.8 | 7.1 | 6.5 | 5.6 | 5.8 | 5.4 | 5.1 |
| | | | | | **(Annual percent changes)** | | | | | | |
| Exports of goods (merchandise) | 16.6 | 15.9 | 39.1 | -9.7 | 25.8 | 21.3 | 6.2 | 5.6 | 6.1 | 6.5 | 7.1 |
| Imports of goods (merchandise) | 30.5 | 15.2 | 56.1 | -24.2 | 24.6 | 30.1 | 11.9 | 4.8 | 4.0 | 5.7 | 6.9 |
| Export prices in US$ (year-on-year percent change) | 10.3 | 11.6 | 22.8 | -10.0 | 9.9 | 15.6 | -0.7 | 0.7 | 0.8 | 1.8 | 2.6 |
| Import prices in US$ (year-on-year percent change) | 8.6 | 9.0 | 24.3 | -15.6 | 9.5 | 11.3 | -0.3 | 0.0 | 0.0 | 0.2 | 0.7 |
| Terms of trade | 1.6 | 2.3 | -1.2 | 6.7 | 0.4 | 3.9 | -0.3 | 0.7 | 0.8 | 1.6 | 1.9 |
| Export volume | 3.2 | 7.4 | 10.1 | 2.5 | 12.1 | 3.3 | 8.3 | 5.5 | 5.6 | 4.8 | 4.4 |
| Import volume | 15.3 | 5.7 | 22.7 | -8.6 | 13.4 | 15.2 | 12.1 | 5.5 | 5.0 | 5.8 | 6.1 |

Sources: Banco Central del Uruguay and IMF staff calculations and projections.

# ANNEX I. URUGUAY: TRENDS IN REAL ESTATE PRICES[1]

*This annex reviews recent real estate price developments in Uruguay. The analysis is hampered by data availability but our preliminary finding, based on standard indicators, is that real estate prices (at least in Montevideo) do not seem overvalued.*

## A. Introduction

1. **Uruguay's real estate market has been very dynamic in the past five years.** Several intertwined factors have contributed: first, the economic boom since 2004 has lead to a strong increase in households' disposable income and a decline in unemployment—both of which have contributed to the demand for housing; second, an international environment of low global interest rates and high commodity prices has contributed to a substantial foreign demand (via FDI) for real estate and land for agriculture, meat, and paper/pulp production. These demand factors have lead to rising prices and increasing construction activity.

2. **The price developments are different depending on whether measured in U.S. dollars or in pesos because of the appreciation of the peso/dollar rate in recent years.**[2] Given the prevailing dollarization in Uruguay, many Uruguayans still save in U.S. dollars (foreign currency deposits are some 72 percent of total) and real estate prices are often quoted in foreign currency. At the same time, most workers' salaries are in pesos so looking at peso prices makes sense when considering affordability. Thus, there is no right or wrong measure and this note will look at prices in dollars, pesos, and "real pesos", i.e., adjusted for inflation to provide a comprehensive view.

3. **The analysis is hampered by important data constrains so it should be seen as preliminary**. Although there is significant information on the real estate market, most of it is limited to Montevideo, and there is no publicly available data for regions such as Punta del Este and other areas that have attracted much of the foreign capital inflows (e.g., agricultural and forestry areas). Furthermore, there is no disaggregation between new and old stock of houses and apartments sold and the available data for 2010 is incomplete.

---

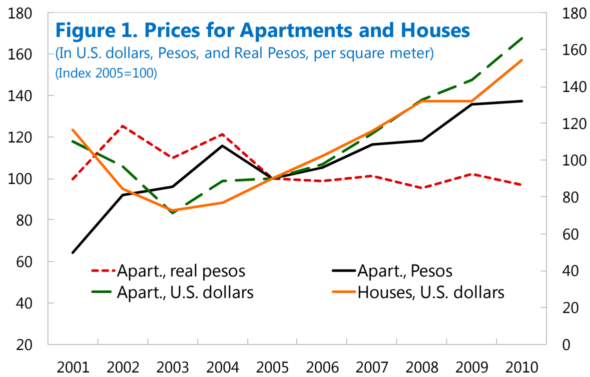
[1] Prepared by M. Rosales.

[2] The Peso has appreciated by 30 percent since 2004.

## B. Price Developments

4. **Prices for houses and apartments have increased by about 11 and 13 percent a year, respectively, in dollar terms over the last five years**. For apartments, this translates into an increase of about 7 percent a year in peso terms, and in real peso terms there has been no increase (Figure 1 and Table 1). There is, however, anecdotal evidence from private analysts, real estate developers and intermediaries of sharper price increases in certain markets, such as in Punta del Este.

**Figure 1. Prices for Apartments and Houses**
(In U.S. dollars, Pesos, and Real Pesos, per square meter)
(Index 2005=100)




Sources: Instituto Nacional de Estadistica del Uruguay and IMF staff calculations.

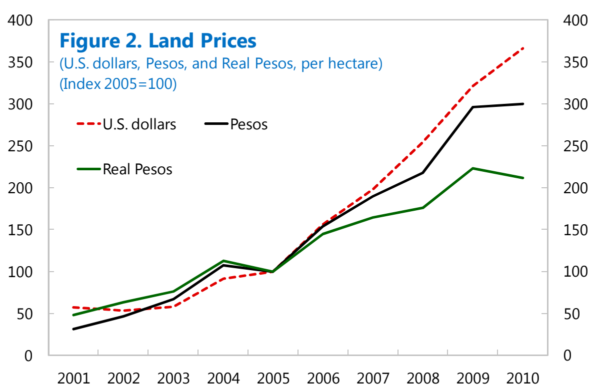
Table 1. Uruguay: Trends in Housing Prices, (Annual Change)

| | Apartments | | | Houses | | |
|---|---|---|---|---|---|---|
| | In U.S. dollars | In Pesos | In Real Pesos | In U.S. dollars | In Pesos | In Real Pesos |
| 2002 | -11.3 | 30.3 | 20.6 | -29.9 | 18.6 | 7.3 |
| 2003 | -27.0 | 4.3 | -9.9 | -12.3 | 15.4 | 2.8 |
| 2004 | 15.6 | 17.1 | 9.3 | 4.0 | 5.7 | -3.2 |
| 2005 | 1.2 | -15.8 | -22.3 | 11.8 | -3.4 | -9.2 |
| 2006 | 6.5 | 4.9 | -0.6 | 9.7 | 8.2 | 2.9 |
| 2007 | 12.0 | 9.8 | 2.8 | 9.9 | 7.6 | 0.5 |
| 2008 | 12.0 | 1.4 | -6.3 | 10.4 | -0.4 | -8.4 |
| 2009 | 6.3 | 13.0 | 6.5 | 0.2 | 7.4 | 0.5 |
| 2010 | 12.0 | 1.0 | -5.6 | 12.4 | 1.5 | -5.0 |
| 2005-2010 | 67.5 | 37.2 | -2.5 | 57.0 | 28.6 | -8.6 |

Sources: Instituto Nacional de Estadistica del Uruguay and IMF staff calculations.

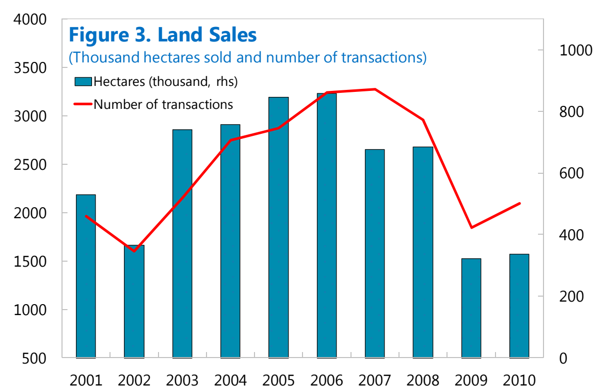
5. **Land prices have increased at a much faster pace, at close to 53 percent a year in dollar terms (Figure 2).** The strong demand for land in Uruguay reflects the expansion in agriculture production and global prices. For example, soy prices rose by nearly 125 percent in dollar terms over the five year period between 2005 and 2010. International producers have moved to Uruguay, and the country's soy production has tripled since 2005, while the cultivated area has increased from around 300,000 hectares in 2005 to around 1 million hectares in 2010. The greater demand for land is also evident in the number of land sale transactions. Measured in terms of number of transactions and areas sold, the sale of land peaked in 2006 and has since been on a declining trend (Figure 3).

**Figure 2. Land Prices**
(U.S. dollars, Pesos, and Real Pesos, per hectare)
(Index 2005=100)




Sources: Instituto Nacional de Estadistica del Uruguay and IMF staff calculations.

**Figure 3. Land Sales**
(Thousand hectares sold and number of transactions)

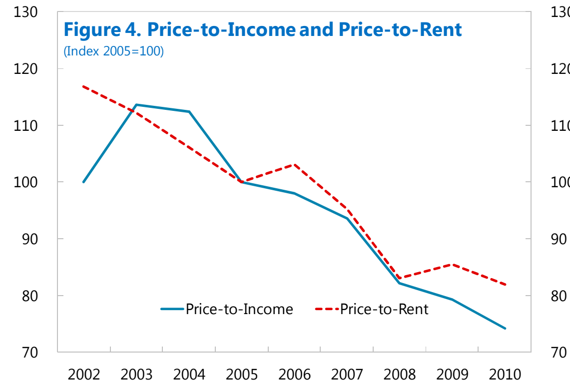



Sources: Instituto Nacional de Estadistica del Uruguay and IMF staff calculations.

## C. Price Comparisons

6. **Neither the price-to-rent nor the price-to-income ratio suggests overvaluation.** House prices that rise persistently faster than rent or income are typically seen as indications of overvaluation.[3] In Uruguay, the price-to-rent ratio—calculated based on renting costs from the consumer price index—has actually declined steadily in recent years (Figure 4). The price-to-income ratio has also declined in recent years suggesting that real estate (at least in Montevideo) has become more affordable.

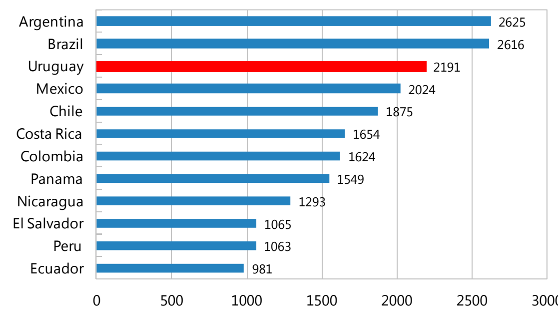
Figure 4. Price-to-Income and Price-to-Rent
(Index 2005=100)




Sources: Instituto Nacional de Estadistica del Uruguay and IMF staff calculations.

7. **The prices for apartments in Uruguay are among the highest in the region.** The Global Property Guide ranks Uruguay as having the third most expensive apartments in Latin America (Figure 5).

Figure 5. Apartment Prices in Latin America
(Per square meter)

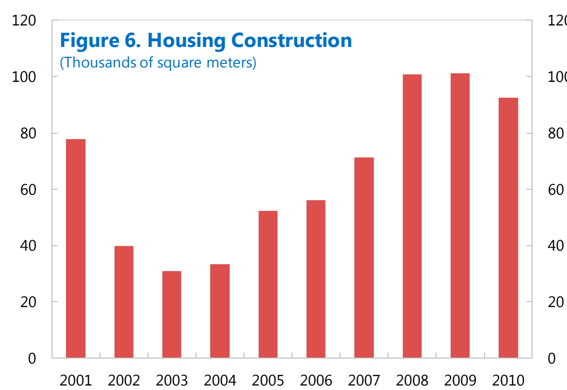



Source: Global Property Guide.

## D. Supply Response

8. **The strong real estate demand has led to an important response in construction.** The sector expanded rapidly during 2005-08, as measured by housing construction in square meters, but has been stable since then (Figure 6). Looking at construction activity as measured in the national accounts gives a relatively similar picture: construction sector GDP growth averaged 7 percent a year in 2005–10.

Figure 6. Housing Construction
(Thousands of square meters)

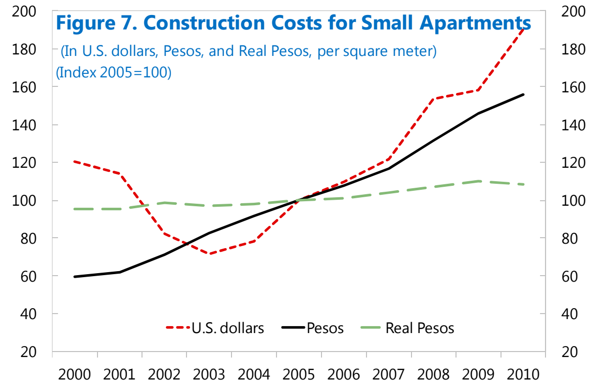



Sources: Instituto Nacional de Estadistica del Uruguay and IMF staff calculations.

[3] The international evidence is that the long-run elasticity of house prices with respect to disposable income is about one, abstracting from quality improvements. See e.g., Andrews, D., A. Caldera Sanchez and Å. Johansson (2011), "Housing Markets and Structural Policies in OECD Countries", OECD Working Paper No. 836.

## E. Construction Costs

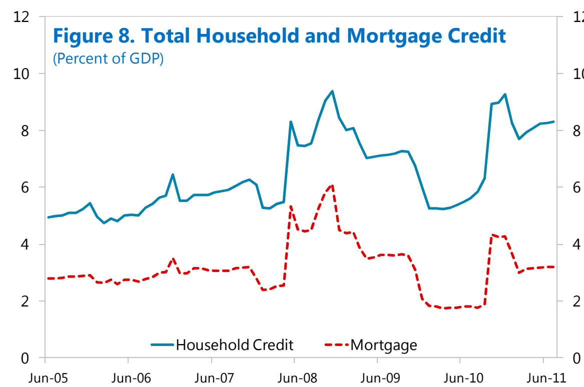
9. **Construction costs have increased rapidly and contributed to higher real estate prices.**[4] The construction costs for apartments increased by about 18 percent a year in dollar terms on average in 2005-10 (11 percent when measured in pesos). (Figure 7)




Sources: Instituto Nacional de Estadistica del Uruguay and IMF staff calculations.

## F. Financing

10. **Banking credit has not been a main source of financing for the housing activity.** Most of the financing has been in the form of FDI or cash, including through pooling in trust funds. Total mortgage credit is fairly low as a percentage of GDP, despite a jump in 2010 (the mortgage data is hard to interpret because it is affected by balance sheet changes in the state-owned Banco Hipotecario). Figure 8.



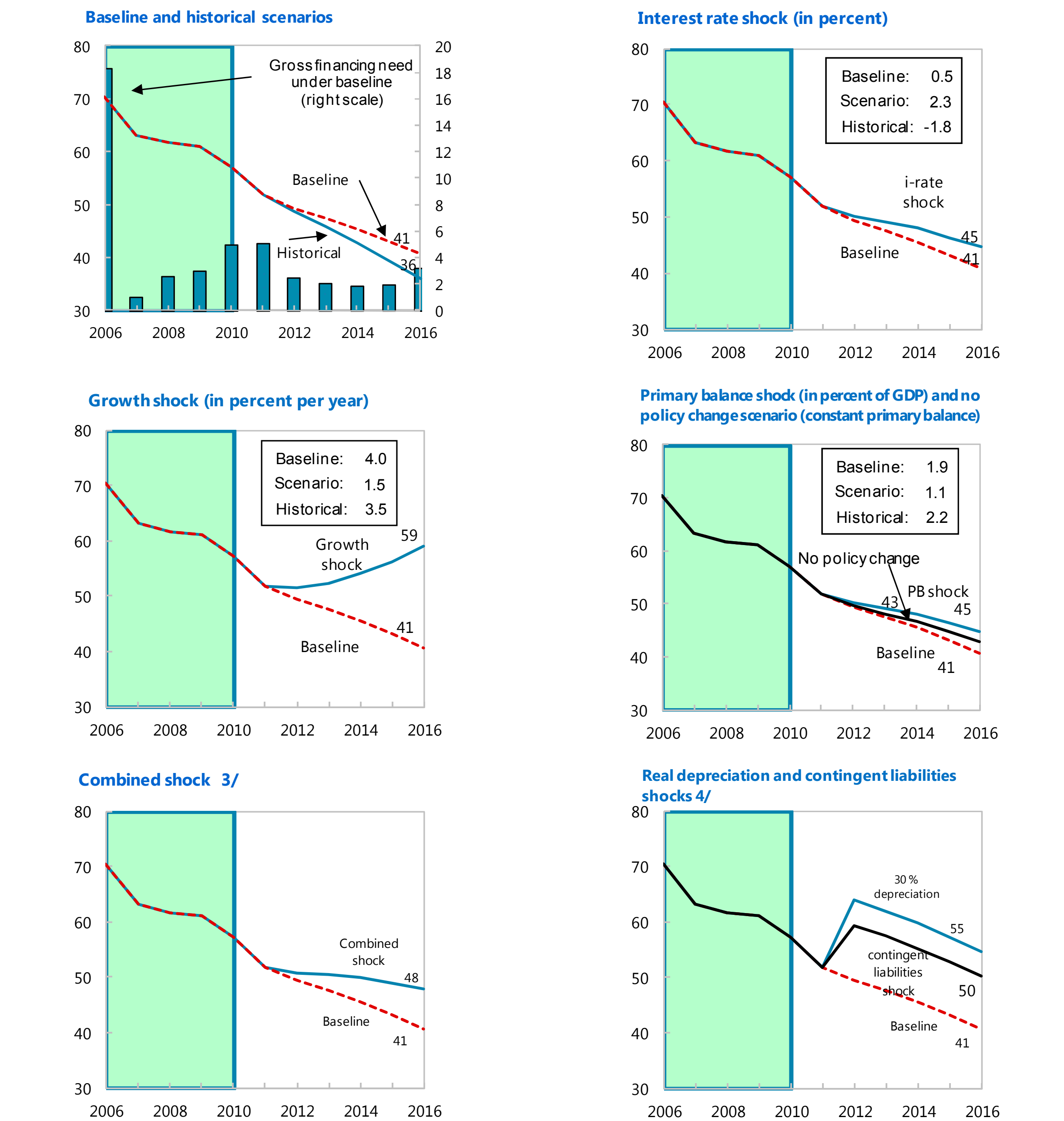

Sources: Banco Central del Uruguay and IMF staff calculations.

[4] In OECD countries, there are estimates that a 10 percent rise in constructions costs is associated with a 4 percent increase in real house prices. Andrews, D., (2010), "Real House Prices in OECD Countries: The Role of Demand Shocks and Structural and Policy Factors," *OECD Working Paper* No. 831.

# ANNEX II. URUGUAY: DEBT SUSTAINABILITY ANALYSIS

## Figure A2.1. Uruguay: Public Debt Sustainability: Bound Tests 1/ 2/

**(Public debt in percent of GDP)**




Sources: International Monetary Fund, country desk data, and IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2012, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

## Table A2.1. Uruguay: Public Sector Debt Sustainability Framework, 2006-16

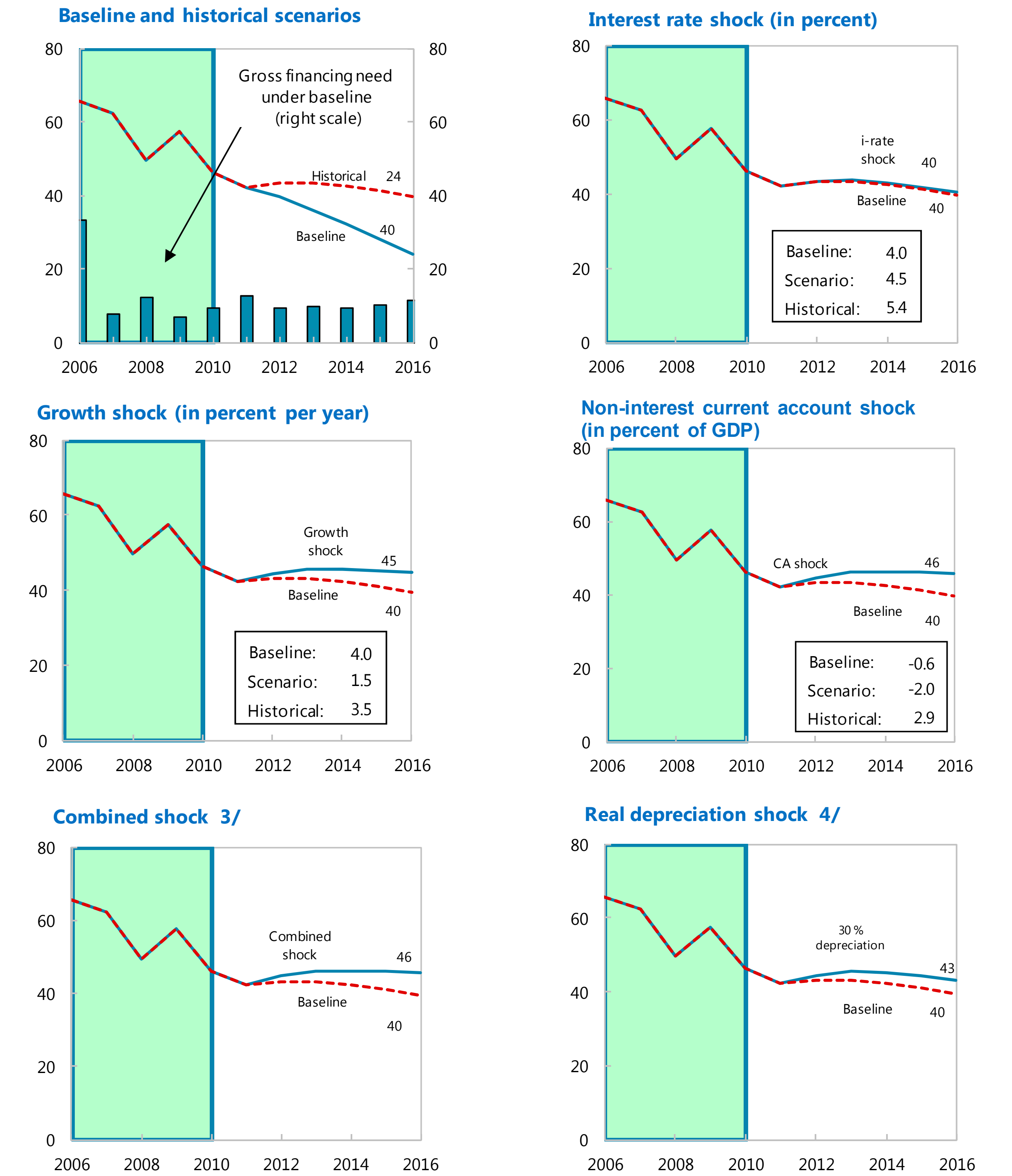
**(In percent of GDP, unless otherwise indicated)**

| | Actual | | | | | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | | |
| | | | | | | | | I. Baseline Projections | | | | | | | **Debt-stabilizing non-interest current account 6/** |
| **External debt** | 65.6 | 62.3 | 49.5 | 57.5 | 46.2 | | | **42.1** | **43.3** | **43.2** | **42.3** | **41.1** | **39.5** | | **-4.6** |
| Change in external debt | -13.5 | -3.3 | -12.8 | 8.0 | -11.3 | | | -4.1 | 1.1 | 0.0 | -0.9 | -1.3 | -1.6 | 0.0 | |
| Identified external debt-creating flows (4+8+9) | -12.1 | -13.1 | -9.5 | -3.8 | -10.6 | | | -5.6 | -4.2 | -4.1 | -4.7 | -4.2 | -4.3 | 0.0 | |
| Current account deficit, excluding interest payments | -2.6 | -2.7 | 2.9 | -2.2 | -0.9 | | | 0.1 | 1.1 | 1.0 | 0.0 | 0.5 | 0.4 | 4.6 | |
| Deficit in balance of goods and services | 0.5 | -0.7 | 3.1 | -2.2 | -1.9 | | | -0.8 | 0.2 | 0.0 | -0.4 | -0.6 | -0.7 | | |
| Exports | 29.2 | 29.0 | 30.1 | 27.6 | 26.5 | | | 27.7 | 28.0 | 28.1 | 28.1 | 28.2 | 28.3 | | |
| Imports | 29.7 | 28.4 | 33.1 | 25.4 | 24.6 | | | 26.8 | 28.2 | 28.0 | 27.7 | 27.6 | 27.6 | | |
| Net non-debt creating capital inflows (negative) | -4.5 | -3.3 | -3.5 | -1.7 | -2.5 | | | -2.1 | -2.8 | -2.5 | -2.1 | -2.1 | -2.1 | -2.1 | |
| Automatic debt dynamics 1/ | -5.0 | -7.1 | -8.9 | 0.1 | -7.2 | | | -3.5 | -2.6 | -2.5 | -2.5 | -2.6 | -2.6 | -2.5 | |
| Denominator: 1+g+r+gr | 1.1 | 1.2 | 1.3 | 1.0 | 1.3 | | | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | |
| Contribution from nominal interest rate | 4.6 | 3.6 | 2.7 | 2.6 | 2.1 | | | 2.0 | 1.8 | 1.6 | 1.6 | 1.5 | 1.4 | 1.4 | |
| Contribution from real GDP growth | -3.0 | -4.0 | -4.1 | -1.3 | -3.8 | | | -2.3 | -1.7 | -1.6 | -1.6 | -1.6 | -1.5 | -1.5 | |
| Contribution from price and exchange rate changes 2/ | -6.5 | -6.8 | -7.5 | -1.2 | -5.5 | | | -3.2 | -2.8 | -2.5 | -2.5 | -2.5 | -2.5 | -2.4 | |
| Residual, incl. change in gross foreign assets (2-3) | -1.4 | 9.8 | -3.3 | 11.7 | -0.6 | | | 1.5 | 5.4 | 4.0 | 3.8 | 2.9 | 2.7 | 0.0 | |
| External debt-to-exports ratio (in percent) | 224.6 | 214.6 | 164.7 | 208.1 | 174.5 | | | 152.2 | 154.3 | 154.0 | 150.6 | 145.8 | 139.8 | | |
| **Gross external financing need (in billions of US dollars) 3/** | 6.6 | 1.8 | 3.8 | 2.1 | 3.7 | | | 6.0 | 4.6 | 5.3 | 5.4 | 6.1 | 7.4 | | |
| in percent of GDP | 33.1 | 7.5 | 12.2 | 6.7 | 9.2 | | | 12.6 | 9.1 | 9.8 | 9.4 | 10.0 | 11.4 | | |
| **Key Macroeconomic Assumptions** | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | | | For debt stabilization | Projected Average |
| Nominal GDP (US dollars) | 19.8 | 23.9 | 31.2 | 31.3 | 40.3 | | | 47.6 | 50.6 | 53.8 | 57.2 | 60.9 | 65.1 | 69.5 | |
| Real GDP growth (in percent) | 4.3 | 7.3 | 8.6 | 2.6 | 8.5 | 3.5 | 5.2 | 6.0 | 4.2 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Exchange rate appreciation (US dollar value of local currency, change in p | 1.7 | 2.6 | 12.0 | -7.2 | 12.5 | -3.4 | 17.1 | 4.2 | -4.5 | -3.6 | -3.5 | -3.4 | -3.1 | -3.1 | -3.6 |
| GDP deflator (change in domestic currency) | 7.5 | 9.5 | 7.3 | 5.5 | 5.3 | 7.8 | 4.0 | 7.1 | 6.8 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.2 |
| GDP deflator in US dollars (change in percent) | 9.3 | 12.3 | 20.2 | -2.1 | 18.5 | 3.7 | 16.3 | 11.6 | 2.0 | 2.2 | 2.3 | 2.4 | 2.7 | 2.7 | 2.3 |
| Nominal external interest rate (in percent) | 6.6 | 6.7 | 5.6 | 5.2 | 4.6 | 5.4 | 0.9 | 5.0 | 4.6 | 3.9 | 4.0 | 3.9 | 3.7 | 3.7 | 4.0 |
| Growth of exports (US dollar terms, in percent) | 13.8 | 19.8 | 35.2 | -7.7 | 23.2 | 12.8 | 19.2 | 23.6 | 7.7 | 6.4 | 6.6 | 6.7 | 7.1 | | 6.9 |
| Growth of imports (US dollar terms, in percent) | 25.2 | 15.3 | 52.5 | -22.9 | 24.1 | 12.2 | 27.1 | 29.2 | 11.7 | 5.6 | 5.1 | 6.1 | 6.8 | | 7.1 |
| Current account balance, excluding interest payments | 2.6 | 2.7 | -2.9 | 2.2 | 0.9 | 2.9 | 2.8 | -0.1 | -1.1 | -1.0 | 0.0 | -0.5 | -0.4 | | -0.6 |
| Net non-debt creating capital inflows | 4.5 | 3.3 | 3.5 | 1.7 | 2.5 | 2.5 | 1.2 | 2.1 | 2.8 | 2.5 | 2.1 | 2.1 | 2.1 | | 2.3 |
| | | | | | | | | **II. Stress Tests for External Debt Ratio** | | | | | | | **non-interest current account 6/** |
| **A. Alternative Scenarios** | | | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2011-2016 4/ | | | | | | | | **42.1** | **39.4** | **35.9** | **32.3** | **28.0** | **23.8** | | **-3.7** |
| **B. Bound Tests** | | | | | | | | | | | | | | | |
| B1. Nominal interest rate is at baseline plus one-half standard deviation | | | | | | | | **42.1** | **43.4** | **43.5** | **42.8** | **41.7** | **40.3** | | **-4.5** |
| B2. Real GDP growth is at baseline minus one-half standard deviations | | | | | | | | **42.1** | **44.3** | **45.4** | **45.6** | **45.3** | **44.6** | | **-4.2** |
| B3. Non-interest current account is at baseline minus one-half standard deviations | | | | | | | | **42.1** | **44.7** | **45.9** | **46.3** | **46.2** | **45.7** | | **-5.0** |
| B4. Combination of B1-B3 using 1/4 standard deviation shocks | | | | | | | | **42.1** | **44.6** | **45.8** | **46.2** | **46.1** | **45.6** | | **-4.5** |
| B5. One time 30 percent real depreciation in 2012 | | | | | | | | **42.1** | **44.2** | **45.3** | **45.2** | **44.4** | **43.2** | | **-5.9** |

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
5/ The implied change in other key variables under this scenario is discussed in the text.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

**Figure A2.2. Uruguay: External Debt Sustainability: Bound Tests 1/ 2/**

**(External debt in percent of GDP)**




Sources: International Monetary Fund, Country desk data, and IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2012.

## Table A2.2. Uruguay: External Debt Sustainability Framework, 2006-16

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | | |
| | | | | | | | | **I. Baseline Projections** | | | | | | | **Debt-stabilizing non-interest current account 6/** |
| **External debt** | 65.6 | 62.3 | 49.5 | 57.5 | 46.2 | | | **42.1** | **43.3** | **43.2** | **42.3** | **41.1** | **39.5** | | **-4.6** |
| Change in external debt | -13.5 | -3.3 | -12.8 | 8.0 | -11.3 | | | -4.1 | 1.1 | 0.0 | -0.9 | -1.3 | -1.6 | 0.0 | |
| Identified external debt-creating flows (4+8+9) | -12.1 | -13.1 | -9.5 | -3.8 | -10.6 | | | -5.6 | -4.2 | -4.1 | -4.6 | -4.2 | -4.3 | 0.0 | |
| Current account deficit, excluding interest payments | -2.6 | -2.7 | 2.9 | -2.2 | -0.9 | | | 0.1 | 1.1 | 1.0 | 0.0 | 0.5 | 0.5 | 4.6 | |
| Deficit in balance of goods and services | 0.5 | -0.7 | 3.1 | -2.2 | -1.9 | | | -0.8 | 0.2 | 0.0 | -0.4 | -0.6 | -0.7 | | |
| Exports | 29.2 | 29.0 | 30.1 | 27.6 | 26.5 | | | 27.7 | 28.0 | 28.1 | 28.1 | 28.2 | 28.3 | | |
| Imports | 29.7 | 28.4 | 33.1 | 25.4 | 24.6 | | | 26.8 | 28.2 | 28.0 | 27.7 | 27.6 | 27.6 | | |
| Net non-debt creating capital inflows (negative) | -4.5 | -3.3 | -3.5 | -1.7 | -2.5 | | | -2.1 | -2.8 | -2.5 | -2.1 | -2.1 | -2.1 | -2.1 | |
| Automatic debt dynamics 1/ | -5.0 | -7.1 | -8.9 | 0.1 | -7.2 | | | -3.5 | -2.6 | -2.5 | -2.5 | -2.6 | -2.6 | -2.5 | |
| Denominator: 1+g+r+gr | 1.1 | 1.2 | 1.3 | 1.0 | 1.3 | | | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | |
| Contribution from nominal interest rate | 4.6 | 3.6 | 2.7 | 2.6 | 2.1 | | | 2.0 | 1.8 | 1.6 | 1.6 | 1.5 | 1.4 | 1.4 | |
| Contribution from real GDP growth | -3.0 | -4.0 | -4.1 | -1.3 | -3.8 | | | -2.3 | -1.7 | -1.6 | -1.6 | -1.6 | -1.5 | -1.5 | |
| Contribution from price and exchange rate changes 2/ | -6.5 | -6.8 | -7.5 | -1.2 | -5.5 | | | -3.2 | -2.8 | -2.5 | -2.5 | -2.5 | -2.5 | -2.4 | |
| Residual, incl. change in gross foreign assets (2-3) | -1.4 | 9.8 | -3.3 | 11.7 | -0.6 | | | 1.5 | 5.4 | 4.0 | 3.8 | 2.9 | 2.7 | 0.0 | |
| External debt-to-exports ratio (in percent) | 224.6 | 214.6 | 164.7 | 208.1 | 174.5 | | | 152.2 | 154.3 | 154.0 | 150.6 | 145.8 | 139.8 | | |
| **Gross external financing need (in billions of US dollars) 3/** | 6.6 | 1.8 | 3.8 | 2.1 | 3.7 | | | 6.0 | 4.6 | 5.3 | 5.4 | 6.1 | 7.4 | | |
| in percent of GDP | 33.1 | 7.5 | 12.2 | 6.7 | 9.2 | | | 12.6 | 9.1 | 9.8 | 9.4 | 10.0 | 11.4 | | |
| **Key Macroeconomic Assumptions** | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | | | For debt stabilization | Projected Average |
| Nominal GDP (US dollars) | 19.8 | 23.9 | 31.2 | 31.3 | 40.3 | | | 47.6 | 50.6 | 53.8 | 57.2 | 60.9 | 65.1 | 69.5 | |
| Real GDP growth (in percent) | 4.3 | 7.3 | 8.6 | 2.6 | 8.5 | 3.5 | 5.2 | 6.0 | 4.2 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Exchange rate appreciation (US dollar value of local currency, change in percent) | 1.7 | 2.6 | 12.0 | -7.2 | 12.5 | -3.4 | 17.1 | 4.2 | -4.5 | -3.6 | -3.5 | -3.4 | -3.1 | -3.1 | -3.6 |
| GDP deflator (change in domestic currency) | 7.5 | 9.5 | 7.3 | 5.5 | 5.3 | 7.8 | 4.0 | 7.1 | 6.8 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.2 |
| GDP deflator in US dollars (change in percent) | 9.3 | 12.3 | 20.2 | -2.1 | 18.5 | 3.7 | 16.3 | 11.6 | 2.0 | 2.2 | 2.3 | 2.4 | 2.7 | 2.7 | 2.3 |
| Nominal external interest rate (in percent) | 6.6 | 6.7 | 5.6 | 5.2 | 4.6 | 5.4 | 0.9 | 5.0 | 4.6 | 3.9 | 4.0 | 3.9 | 3.7 | 3.7 | 4.0 |
| Growth of exports (US dollar terms, in percent) | 13.8 | 19.8 | 35.2 | -7.7 | 23.2 | 12.8 | 19.2 | 23.6 | 7.7 | 6.4 | 6.6 | 6.7 | 7.1 | | 6.9 |
| Growth of imports (US dollar terms, in percent) | 25.2 | 15.3 | 52.5 | -22.9 | 24.1 | 12.2 | 27.1 | 29.2 | 11.7 | 5.6 | 5.1 | 6.1 | 6.8 | | 7.1 |
| Current account balance, excluding interest payments | 2.6 | 2.7 | -2.9 | 2.2 | 0.9 | 2.9 | 2.8 | -0.1 | -1.1 | -1.0 | 0.0 | -0.5 | -0.5 | | -0.6 |
| Net non-debt creating capital inflows | 4.5 | 3.3 | 3.5 | 1.7 | 2.5 | 2.5 | 1.2 | 2.1 | 2.8 | 2.5 | 2.1 | 2.1 | 2.1 | | 2.3 |
| | | | | | | | | **II. Stress Tests for External Debt Ratio** | | | | | | | **non-interest current account 6/** |
| **A. Alternative Scenarios** | | | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2011-2016 4/ | | | | | | | | **42.1** | **39.4** | **35.9** | **32.3** | **28.0** | **23.8** | | **-3.7** |
| **B. Bound Tests** | | | | | | | | | | | | | | | |
| B1. Nominal interest rate is at baseline plus one-half standard deviation | | | | | | | | **42.1** | **43.4** | **43.6** | **42.8** | **41.7** | **40.3** | | **-4.5** |
| B2. Real GDP growth is at baseline minus one-half standard deviations | | | | | | | | **42.1** | **44.3** | **45.4** | **45.6** | **45.3** | **44.6** | | **-4.2** |
| B3. Non-interest current account is at baseline minus one-half standard deviations | | | | | | | | **42.1** | **44.7** | **45.9** | **46.3** | **46.2** | **45.7** | | **-5.0** |
| B4. Combination of B1-B3 using 1/4 standard deviation shocks | | | | | | | | **42.1** | **44.6** | **45.8** | **46.2** | **46.1** | **45.6** | | **-4.5** |
| B5. One time 30 percent real depreciation in 2012 | | | | | | | | **42.1** | **44.2** | **45.3** | **45.2** | **44.4** | **43.2** | | **-5.9** |

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
5/ The implied change in other key variables under this scenario is discussed in the text.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL RELATIONS DEPARTMENT

**Annex III. Draft Public Information Notice**

Public Information Notice (PIN) No. 11/xxx
FOR IMMEDIATE RELEASE
[Month, dd, yyyy]

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

# IMF Executive Board Concludes 2011 Article IV Consultation with Uruguay

On December [5], 2011, the Executive Board of the International Monetary Fund (IMF) concluded the 2011 Article IV consultation with Uruguay.[1]

## Background

Uruguay's strong economic growth in recent years has produced significant welfare gains. Per capita income in purchasing power terms has doubled from its pre-2002 crisis levels, unemployment has fallen to record lows, and social indicators have improved further. The key factors behind this performance include important policy reforms, prudent macroeconomic policies, social policies and a favorable external environment.

The growth momentum has continued into 2011 but a slowdown is underway led by weaker exports and slower public investment. Real GDP growth is projected at 6 percent in 2011 and 4¼ percent in 2012. Inflation at 7.9 percent in October remains above the target range (4-6 percent). The central bank tightened monetary policy in the first half of 2011 but it has left the tightening cycle in pause since late September to allow the global outlook to become clearer. The fiscal deficit has narrowed, and the gross public debt has continued to fall (to 55 percent of GDP in June).

The baseline outlook is positive but with considerable downside risk stemming from the highly uncertain global outlook. Uruguay's economic and financial vulnerabilities are modest, and the government has reduced debt vulnerabilities significantly and built important financial buffers; still the spillovers of a deteriorating global outlook could be significant. A long-term policy challenge is to sustain strong and balanced growth with less volatility than in the past.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

## Executive Board Assessment

<          >

***Public Information Notices (PINs)*** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

## Uruguay: Basic Data

| | 2006 | 2007 | 2008 | 2009 | 2010 | Projections 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| (Annual percent change, unless otherwise specified) | | | | | | | |
| Real GDP | 4.3 | 7.3 | 8.6 | 2.6 | 8.5 | 6.0 | 4.2 |
| Real consumption | 5.9 | 6.3 | 8.2 | 2.3 | 10.1 | 8.3 | 3.5 |
| Real investment | 16.8 | 8.1 | 28.9 | -12.7 | 13.2 | 12.6 | 6.9 |
| Prices | | | | | | | |
| CPI inflation (average) | 6.4 | 8.1 | 7.9 | 7.1 | 6.7 | 8.0 | 6.9 |
| CPI inflation (eop) | 6.4 | 8.5 | 9.2 | 5.9 | 6.9 | 8.0 | 6.4 |
| Terms of trade | 1.6 | 2.3 | -1.2 | 6.7 | 0.4 | 3.9 | -0.3 |
| (In percent of GDP) | | | | | | | |
| Public sector finances | | | | | | | |
| Total revenues | 28.0 | 28.0 | 26.2 | 27.9 | 28.8 | 28.3 | 28.9 |
| Non-interest expenditure | 24.6 | 24.8 | 25.1 | 27.2 | 27.2 | 27.0 | 27.3 |
| Primary balance | 3.6 | 3.5 | 1.3 | 1.1 | 1.7 | 1.5 | 1.8 |
| Overall balance | -0.5 | 0.0 | -1.5 | -1.7 | -1.2 | -1.4 | -1.1 |
| Gross public sector debt | 70.3 | 63.2 | 61.7 | 61.0 | 57.1 | 51.8 | 49.4 |
| Outstanding external debt | 54.3 | 47.4 | 44.9 | 39.3 | 35.1 | 32.9 | 33.5 |
| *Of which:* Public external debt | 47.9 | 42.9 | 40.1 | 35.6 | 32.1 | 29.9 | 28.9 |
| (Annual percent change, unless otherwise specified) | | | | | | | |
| Money and credit 1/ | | | | | | | |
| Base Money (eop) | 10.3 | 16.4 | 29.3 | 6.5 | 16.2 | 11.4 | … |
| M-1 | 20.1 | 29.4 | 18.6 | 12.2 | 33.5 | 17.9 | … |
| M-2 | 21.7 | 30.6 | 17.1 | 15.0 | 30.3 | 24.6 | … |
| M-3 | 11.6 | 3.8 | 28.6 | -2.6 | 22.1 | 10.0 | … |
| Credit to the private sector (constant exchange rate) | 17.3 | 22.1 | 28.0 | -7.5 | 21.3 | 23.8 | … |
| (In percent of GDP, unless otherwise indicated) | | | | | | | |
| Balance of payments | | | | | | | |
| Current account balance | -2.0 | -.09 | -5.5 | -0.4 | -1.2 | -2.0 | -3.0 |
| Merchandise exports, fob | 22.2 | 21.4 | 22.8 | 20.5 | 20.0 | 20.020.5 | 20.5 |
| Merchandise imports, fob | 24.7 | 23.6 | 28.3 | 21.3 | 20.7 | 22.7 | 23.9 |
| Services, income, and transfers (net) | 2.1 | 2.9 | 2.4 | 3.0 | 2.6 | 3.0 | 3.3 |
| Capital and financial account | 2.7 | 6.3 | 9.9 | 4.3 | 3.8 | 6.7 | 3.4 |
| Foreign direct investment | 7.5 | 5.6 | 6.8 | 5.1 | 5.9 | 5.0 | 7.2 |
| Overall balance of payments (in millions of U.S. dollars) | -15.4 | 1,005.4 | 2,232.4 | 1,588.3 | -360.8 | 2,217.2 | 195.1 |
| Gross official reserves (in millions of U.S. dollars) 2/ | 3,085.0 | 4,124.0 | 6,362.0 | 8,040.0 | 7,655.0 | 9,872.0 | 10,068.0 |
| In percent of short-term debt | 491.2 | 471.8 | 797.2 | 772.3 | 318.8 | 683.3 | 448.4 |
| In percent of short-term debt and FX deposits | 101.3 | 117.2 | 151.4 | 162.6 | 112.1 | 163.2 | 140.1 |
| External debt service (percent of exports of goods and services) | 8.6 | 26.1 | 21.7 | 22.9 | 28.5 | 27.2 | 18.2 |

Sources: Banco Central del Uruguay, Ministerio de Economía y Finanzas, Instituto Nacional de Estadística, and IMF staff calculations.
1/ August/September data for 2011.
2/ Includes reserves buildup through reserve requirements of resident financial institutions.