

**FOR  
AGENDA**

SM/11/312  
Correction 1

November 30, 2011

To: Members of the Executive Board

From: The Acting Secretary

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

The attached corrections to SM/11/312 (11/21/11) have been provided by the staff:

**Factual Errors Not Affecting the Presentation of Staff's Analysis or Views**

**Page 1, para. 3, fourth sentence:** moved to the end of the paragraph

**Page 8, para. 9, line 9:**  
for “not suggest a large overvaluation.”  
read “not suggest overvaluation.”

**Page 10, para. 12, column 2, lines 3 and 4:**  
for “(about 2 million metric tons)”  
read “(about 2 billion metric tons)”

**Page 11, para. 15, bullet 2, line 13:**  
for “in part because the planned gradual”  
read “in part because of the planned gradual”

**Page 19, para. 27, line 9:**  
for “risks are tilted heavily to the downside”  
read “risks are tilted considerably to the downside”

**Page 39, Table A2.1, Uruguay: Public Sector Debt Sustainability Framework, 2006-16:**  
replaced original table, which was erroneously deleted with a duplicate of Table A2.2. Uruguay: External Debt Sustainability Framework 2006-16

### **Typographical Errors**

**Page 7, Box 2, line 9:**

for “(VAR) All”  
read “(VAR). All”

**Page 20, para. 33, line 4:**

for “strengthen banks’ and improve”  
read “strengthen banks’ capital and improve”

Questions may be referred to Mr. Erickson von Allmen, WHD (ext. 34764).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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## 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. 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. While it would be important to accommodate a real exchange rate depreciation, if needed, part of the ample reserves could be used to contain overshooting.

**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.

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- **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).

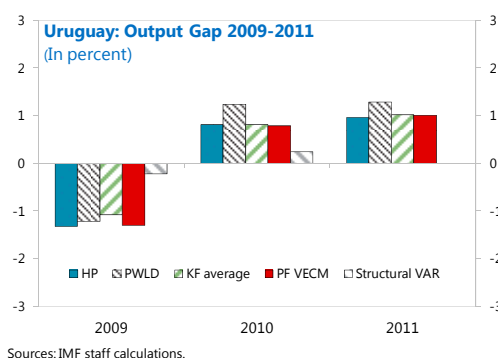
## Four Questions about the Current Conjuncture

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<sup>1</sup>

**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.



<sup>1</sup> 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 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 to 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 REER 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)

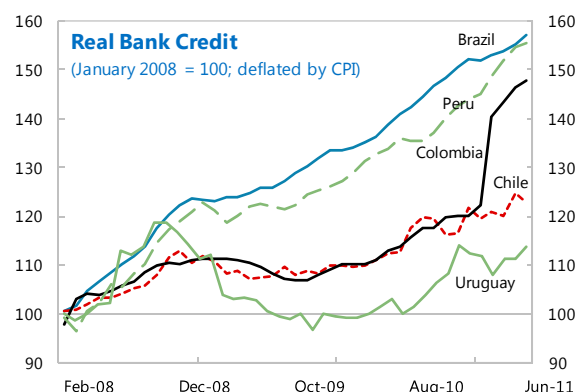
	1999	2003	2007	2010
Assets	53	118	85	68
Of which:				
Portfolio investment	4	15	10	10
Currency and deposits	29	66	50	33
Reserve assets	13	17	17	19
Liabilities	61	128	94	84
Of which:				
FDI	7	15	27	37
Portfolio investment	10	23	33	21
Loans	20	57	15	11
General government	8	24	10	8
BCU	1	23	1	0
Other	11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



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
Implicit 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.

<sup>1</sup> 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 billion 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/ (Yield)	Aug-2007 4.2	Oct-2011 4.6
GDP Growth (ln percent)	2007 7.3	2011 6.0
Government Debt (ln percent of GDP) (Dollarization)	2007 63 69	Jun-2011 55 53
Reserves (ln US\$ billion) (ln % of ST debt)	2007 4 472	Latest 10 683
NPLs (ln % of total Loans)	7-Dec 1.0	Latest 1.0
Nominal GDP (ln US\$ billion)	2007 24	2011 48
Gross Public Financing Need (ln percent of GDP)	2009 3.0	2012 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 of 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.

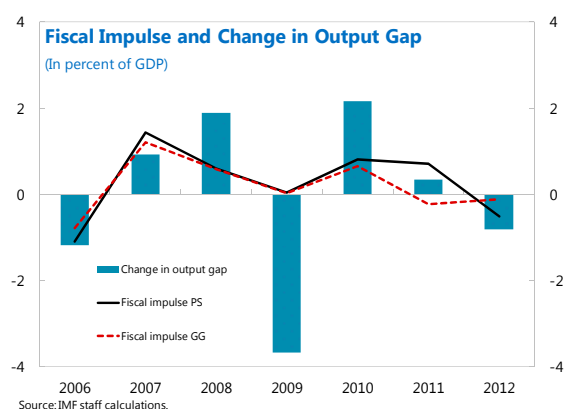
Public Sector Operations, 2009–11  
(In percent of annual GDP, unless otherwise noted)

	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 Economía 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.



- 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).

## IV. STAFF APPRAISAL

26. **Uruguay's impressive economic growth in recent years has produced significant welfare gains.** This is the result of steady 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 considerably 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' capital 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.**

**Table A2.1. Uruguay: Public Sector Debt Sustainability Framework, 2006-16**  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/ -0.5
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<b>Baseline: Public sector debt 1/</b>	70.3	63.2	61.7	61.0	57.1	<b>51.8</b>	<b>49.4</b>	<b>47.5</b>	<b>45.5</b>	<b>43.1</b>	<b>40.7</b>	
o/w foreign-currency denominated	57.4	43.8	43.0	39.9	32.3	29.0	27.5	26.0	24.6	22.4	20.6	
Change in public sector debt	-7.3	-7.2	-1.5	-0.6	-3.9	-5.3	-2.5	-1.9	-2.0	-2.4	-2.4	
Identified debt-creating flows (4+7+12)	-5.7	-16.3	-2.6	-11.0	-5.9	-5.4	-4.1	-3.6	-3.5	-3.4	-3.3	
Primary deficit	-3.6	-3.5	-1.3	-1.1	-1.7	-1.5	-1.8	-1.9	-2.0	-2.0	-2.1	
Revenue and grants	31.0	30.8	28.9	30.5	31.5	31.1	31.7	32.1	32.4	32.4	32.5	
Primary (noninterest) expenditure	27.4	27.3	27.6	29.5	29.7	29.6	30.0	30.3	30.4	30.4	30.4	
Automatic debt dynamics 2/	-2.1	-12.8	-1.2	-9.9	-4.1	-3.9	-2.4	-1.7	-1.5	-1.4	-1.2	
Contribution from interest rate/growth differential 3/	-4.2	-7.0	-6.1	-1.9	-4.7	-3.9	-2.4	-1.7	-1.5	-1.4	-1.2	
Of which contribution from real interest rate	-1.2	-2.6	-1.5	-0.4	-0.1	-0.9	-0.4	0.1	0.2	0.2	0.3	
Of which contribution from real GDP growth	-3.0	-4.4	-4.7	-1.5	-4.5	-3.0	-2.0	-1.8	-1.7	-1.6	-1.6	
Contribution from exchange rate depreciation 4/	2.2	-5.8	4.9	-8.0	0.5	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-1.5	9.1	1.1	10.3	2.0	0.1	1.6	1.7	1.5	1.1	0.8	
Public sector debt-to-revenue ratio 1/	226.7	204.8	213.1	199.7	181.4	166.8	155.5	147.8	140.5	133.2	125.3	
<b>Gross financing need 6/</b>	18.3	1.0	2.6	3.0	5.0	5.1	2.4	2.0	1.8	1.9	3.1	
in billions of U.S. dollars	3.6	0.2	0.8	0.9	2.0	2.4	1.2	1.1	1.0	1.1	2.0	
<b>Scenario with key variables at their historical averages 7/</b>						<b>51.8</b>	<b>48.7</b>	<b>45.8</b>	<b>42.9</b>	<b>39.6</b>	<b>36.2</b>	<b>-1.3</b>
<b>Scenario with no policy change (constant primary balance) in 2011-2016</b>						<b>51.8</b>	<b>49.6</b>	<b>48.1</b>	<b>46.6</b>	<b>44.8</b>	<b>42.9</b>	<b>-0.6</b>
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>												
Real GDP growth (in percent)	4.3	7.3	8.6	2.6	8.5	6.0	4.2	4.0	4.0	4.0	4.0	
Average nominal interest rate on public debt (in percent) 8/	6.0	5.9	5.3	4.9	5.5	5.8	6.2	6.4	6.7	6.8	7.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-1.5	-3.7	-2.1	-0.6	0.2	-1.4	-0.6	0.4	0.7	0.8	1.1	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-3.3	12.7	-10.9	23.6	-1.4	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	7.5	9.5	7.3	5.5	5.3	7.1	6.8	6.0	6.0	6.0	6.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	6.9	7.1	9.7	9.6	9.5	5.4	5.5	5.0	4.4	4.0	4.1	
Primary deficit	-3.6	-3.5	-1.3	-1.1	-1.7	-1.5	-1.8	-1.9	-2.0	-2.0	-2.1	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as  $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$  times previous period debt ratio, with  $r$  = interest rate;  $p$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $a$  = share of foreign-currency denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $ae(1+r)$ .

5/ For projections, this line includes exchange rate changes.

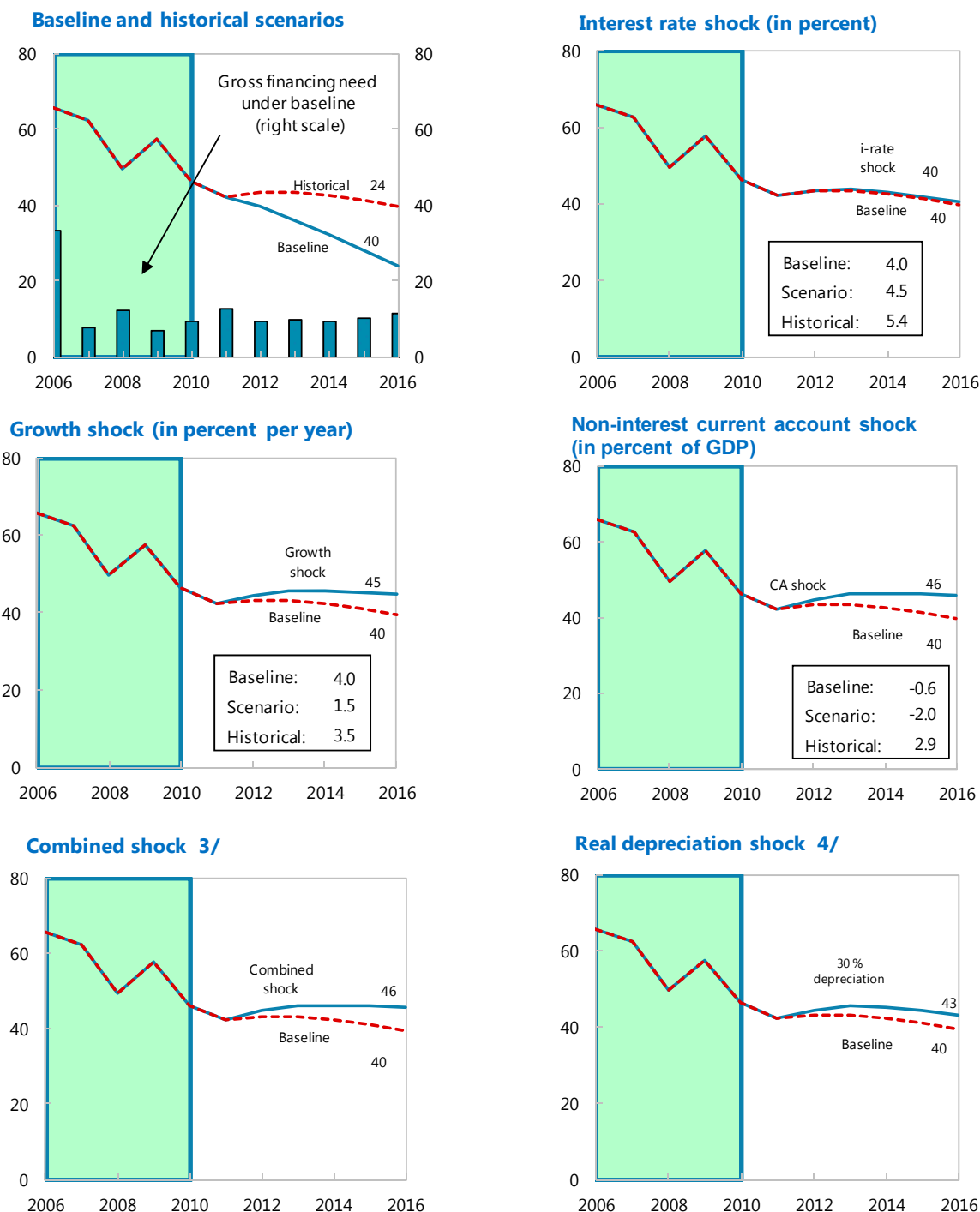
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level 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.