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The Acting Chair's Summing Up
Uruguay—2023 Article IV Consultation
Executive Board Meeting 23/37
May 15, 2023

Executive Directors broadly agreed with the thrust of the staff appraisal. They commended Uruguay's robust institutions and sound policies, which have supported the economy's resilience to shocks. Directors noted that the outlook, while positive, is subject to downside risks, including related to the current drought. They emphasized the need to consolidate progress made in upgrading the fiscal, monetary, and financial frameworks and continue with ambitious structural reforms to maintain Uruguay's strong resilience and support sustainable and inclusive growth.

Directors commended the authorities for meeting the fiscal rule targets for three consecutive years despite a challenging economic environment and concurred that the fiscal framework has strengthened policy credibility. They emphasized that continued strong compliance with the current fiscal rule is the priority in the current juncture. At the same time, many Directors considered that a more explicit debt objective could be a useful component of a medium-term fiscal strategy.

Directors agreed that a modest fiscal impulse is appropriate in 2023 and encouraged measures to put the debt on a downward path once the effect of the drought abates. They recommended measures to further rationalize tax expenditures, improve the targeting of subsidies, and reduce the wage bill, while continuing to take steps to preserve social cohesion. Directors also welcomed the recently approved pension reform, which should help to stabilize long-term pension spending.

Directors emphasized the need to maintain a tight monetary stance until price pressures and inflation expectations converge to the target band. They highlighted that this along with efforts to strengthen *de jure* central bank independence would help to further strengthen monetary policy credibility and support efforts to reduce dollarization. Directors agreed that the exchange rate should continue to act as a shock absorber and that FX interventions should be limited to responding to disorderly market conditions.

Directors welcomed that the financial sector remains resilient and healthy. They indicated that efforts to further enhance financial supervision are essential to bolster resilience to shocks and improve confidence in the financial system. Directors also encouraged steps to promote domestic capital market development and encouraged continued

progress in implementing the recent FSAP recommendations and toward creating a comprehensive AML/CFT national plan.

Directors noted that structural reforms remain critical to improve productivity and reinvigorate growth. They welcomed the recent reforms in the education system and indicated the need for further efforts to address long-standing human capital erosion and skill gaps. Directors also supported efforts to improve the efficiency and productivity of state-owned enterprises and enhance trade integration.

Directors commended Uruguay's leadership in climate change policy and recognized the authorities' efforts to integrate climate policies into their overall policy agenda, noting the successful issuance of a Sovereign Sustainability-Linked Bond. They recognized the significant progress in reducing greenhouse gas emissions intensity and encouraged the authorities to continue their efforts to transform Uruguay into a climate-resilient, green, and sustainable economy.

It is expected that the next Article IV Consultation with Uruguay will be held on the standard 12-month cycle.