SU/20/25

February 19, 2020

The Acting Chair's Summing Up
Uruguay—2019 Article IV Consultation
Executive Board Meeting 20/18
February 19, 2020

Executive Directors agreed with the thrust of the staff appraisal. They commended Uruguay's favorable political economy, strong governance and institutions, a high degree of social cohesion, low levels of poverty, inequality, and informality, and the resilience of the financial sector. At the same time, they noted that domestic imbalances have emerged and debt has risen, while economic growth, investment, and employment have declined, and inflation has remained outside the target range. In this context, they stressed that the political and domestic economic landscape over the next few years presents an opportunity to decisively address these challenges.

Directors noted that, while gross financing needs are manageable due to the authorities' pre-financing policy and robust buffers, a continuation of current fiscal trends could undermine debt sustainability. They agreed that there is a need to introduce a credible adjustment plan to put debt on a firm downward path and welcomed the authorities' commitment in this regard. This would require limiting the increase in current expenditure and reducing tax expenditure, while maintaining adequate provision of key public services and safety nets and preserving capital spending. Pension reforms would also be needed to ensure sustainability and adequate retirement income for future generations. Directors noted that a credible fiscal anchor could be introduced by revamping the medium-term fiscal framework with a binding fiscal rule.

Directors agreed that in the absence of negative shocks, monetary policy should continue to be focused on getting inflation and inflation expectations firmly at the mid-point of the target range. They highlighted the need for further enhancements to the inflation targeting framework and welcomed continued efforts to reduce dollarization and indexation. Improving financial intermediation will also be important. Directors noted that the exchange rate should continue to be used as a shock absorber and that reserve buffers should be kept above prudential norms.

Directors emphasized the importance of structural reforms to raise potential growth and maintain social progress. Closing infrastructure gaps is critical but needs to be complemented by actions to increase productivity growth to raise private investment. They underscored the need to improve education outcomes to help boost youth employment. Further wage flexibility could provide incentives for firms to create more, stable jobs and

invest in on-the-job training to reduce the high unemployment. Continued efforts to integrate migrants and women into the labor market will also be important. Directors stressed that corporate governance reform is needed to improve the management and efficiency of state-owned enterprises.

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