

Uruguay: Seventh Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion—Staff Report and Supplement; Press Release; and Statement by the Executive Director for Uruguay

In the context of the seventh review under the Stand-By Arrangement and request for a waiver of nonobservance of a performance criterion with Uruguay, the following documents have been released and are included in this package:

- the staff report for the seventh review under the Stand-By Arrangement and request for waiver of nonobservance of performance criterion, prepared by a staff team of the IMF, following discussions that ended on December 15, 2004, with the officials of Uruguay on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 9, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement of February 18, 2005 updating information on recent developments.
- a press release summarizing the views of the Executive Board as expressed during its February 23, 2005 discussion of the staff report that completed the review and request.
- a statement by the Executive Director for Uruguay.

The document listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Uruguay*

*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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Washington, D.C.**

INTERNATIONAL MONETARY FUND

URUGUAY

Seventh Review Under the Stand-By Arrangement, and Request for Waiver of Nonobservance of Performance Criterion

Prepared by the Western Hemisphere Department
(In collaboration with other Departments)

Approved by Markus Rodlauer and Liam P. Ebrill

February 9, 2005

SBA. The current arrangement (SDR 1,988.5 million, 648.8 percent of quota) was approved on April 1, 2002 and runs through March 31, 2005. SDR 139.8 million remain to be disbursed and are to become available upon completion of this (the last) review. On November 29, 2004, the Executive Board concluded the sixth review, and at that time approved the authorities' request to make repurchases in 2005 on an expectations basis through May, and on an obligations basis for the rest of the year. In December 2004 and January 2005, Uruguay made advanced repurchases of SDR 179 million and SDR 15.3 million, respectively, from the recoveries made on assistance by the bank stabilization fund (FSBS).

Economic developments. The economic recovery in 2004 was much stronger than expected, with growth reaching about 12 percent. Inflation ended the year at 7.6 percent, within the central bank's 7–9 percent target range. Exports and imports grew strongly, and the external current account recorded a modest deficit. Gross international reserves increased by US\$425 million, to above US\$2.5 billion by year's end. Progress was made in bank restructuring, although continued efforts are needed; less progress was made in fiscal reforms.

Review issues. Discussions focused on consolidating recent gains and fostering a stable environment through the political transition. Staff emphasized the benefits of achieving a stronger-than-programmed fiscal outturn, taking advantage of the growth dividend for revenues, and the need for continued progress with bank restructuring and fiscal reforms.

Program status. End-December quantitative performance criteria (PCs) on NDA, NIR, and general government noninterest expenditure were observed, and preliminary data for end-December suggest that the primary surplus and debt PCs were met as well. The provision of final data on these PCs is a prior action for completion of this review. All end-December and end-January structural performance criteria were observed, except the PC on the incorporation of loan information in the liquidation funds into the credit registry. Completion of this measure is a prior action for this review.

Ex-post assessment. Board discussion of the ex-post assessment is envisaged to take place in mid-March 2005.

Mission. Discussions were held in Montevideo during December 8–15. The mission met with Finance Minister Alfie, Central Bank President de Brun, other senior officials, and representatives of the private sector. The staff team comprised A. Wolfe (Head), O. Adedeji, and S. Eble (all WHD), E. Ley (FAD) and H. Shah (PDR). M. Rodlauer (WHD) participated in some of the meetings. An MFD team (A. Aisen and S. Seelig) overlapped with the mission, which was also assisted by A. Bauer (Resident Representative). H. Torres (Executive Director) and D. Vogel (OED) participated in the final discussions.

Publication. The authorities have consented to publication of the staff report.

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EXECUTIVE SUMMARY

Background

Uruguay's program has been successful in fostering a strong recovery from the deep recession of 1999—2002. Growth began to recover in 2003 and reached about 12 percent in 2004; inflation—after rising to 26 percent in 2002, reflecting the impact of the sharp peso depreciation—fell to around 7½ percent by end-2004; and the external position has strengthened significantly. Financial sector indicators have also seen a major improvement. The program was kept on track through the October 2004 national elections and subsequent political transition. As a result, the new government (that takes office March 1, 2005) inherits an economy with improved fundamentals and lower vulnerabilities—still, a large outstanding reform agenda remains to ensure sustained rapid growth and financial stability.

The favorable program results reflect prudent macroeconomic policies and important banking reforms, although progress with other structural reforms was less satisfactory. The primary balance moved from a deficit in 2001 to a surplus of around 3½ percent of GDP in 2004, owing to strict control over expenditure and timely adjustments of public tariffs. Monetary policy was managed prudently in the context of the new floating exchange rate regime adopted in July 2002. After some delays, banking reforms have progressed well, especially at the large public commercial bank (BROU) and with asset disposals of liquidated banks. However, progress on fiscal reforms has been disappointing—proposals for tax and pension reform were not acted upon by congress, and an action plan to strengthen tax administration has been only partially completed.

Nevertheless, significant vulnerabilities remain. The public debt is still high, key fiscal reforms are outstanding, and the banking sector needs to strengthen further, including by reducing the high level of dollarization. Also, Uruguay must find new sources of growth to ensure sustained social progress and financial stability.

Policy discussions and staff appraisal

The outlook for 2005 is favorable. Growth will likely exceed 5 percent, and inflation is expected to fall to 5½–6½ percent. The external current account deficit is projected to post a modest deficit, with exports and imports continuing to grow rapidly.

A strong foundation has been laid for continued fiscal consolidation. On present policies, the primary fiscal surplus is projected at about 3½ percent of GDP in the first half of 2005. The incoming government has announced that it will aim at a substantial primary surplus to set the public debt-to-GDP ratio firmly on a downward path. At the same time, it intends to implement a social emergency plan to address dislocations from the recent crisis.

The pending reforms under the current program will need to be taken up by the new government. Tax reform, strengthening tax administration, and reform of the specialized pension funds are essential to medium-term fiscal sustainability. The restructuring of the public banks needs to continue moving forward, especially at the housing bank which remains a key fiscal risk.

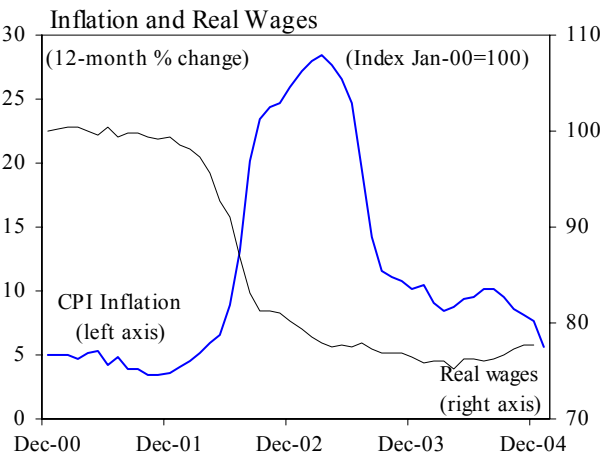
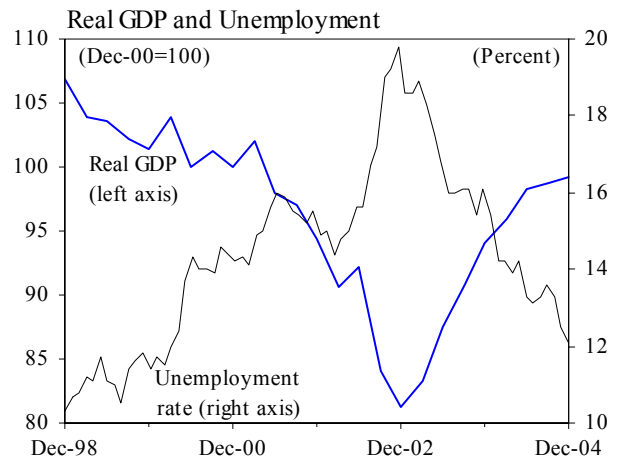
I. BACKGROUND

A. Performance Under the 2002–04 SBA

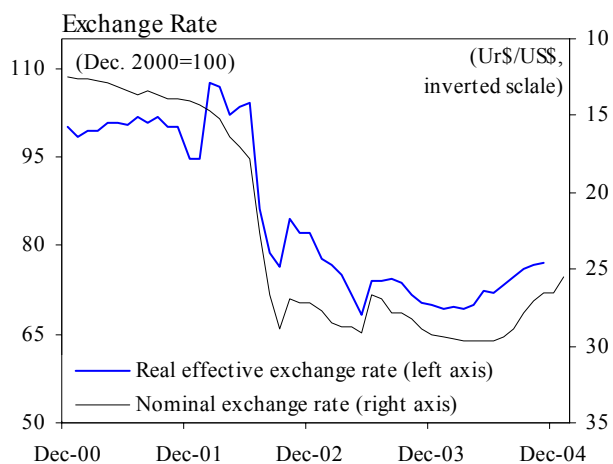
1. **The program supported by the SBA has been successful in stabilizing the banking system, strengthening the fiscal position, and thereby restoring strong economic growth.** The program was designed against the background of a protracted recession, a rapidly deteriorating fiscal situation that raised doubts about fiscal and debt sustainability, an accelerating run on bank deposits, and a balance-of-payments crisis. The program, thus, focused on policies to return confidence to the financial system, contain capital flight, strengthen the fiscal and external positions, and achieve debt sustainability.

2. **Important program achievements include:**

- ***Economic activity rebounded sharply beginning in 2003***, and real GDP grew by an estimated 12 percent in 2004. Real GDP is now only about 6 percent below its pre-recession peak of 1998, and the unemployment rate is almost half of its highest level during the crisis.
- ***Inflation was quickly brought under control*** after the float of the currency in 2002. By end-2004, inflation was down to 7.6 percent (y/y), and the outlook is for a further reduction in 2005. Real wages fell sharply during the crisis, but began to recover somewhat in the second half of 2004.
- ***The peso stabilized and then appreciated*** since the sharp depreciation that followed its float in mid-2002. After stabilizing at around US\$29 per U.S. dollar in 2003 and the first half of 2004, the peso began to strengthen and stood at around US\$26 per U.S. dollar by year's end. Notwithstanding, the peso remains some 25 percent more depreciated in real effective terms than its pre-crisis level.



- The external position has improved considerably.** The external current account posted surpluses in 2002–03, and despite a steep rise in imports reflecting the recovery, it ended 2004 with only a modest deficit reflecting buoyant export growth. International reserves have recovered, with gross reserves up by US\$2 billion from the mid-2002 low (net international reserves—NIR—have increased by over US\$400 million).¹ Nevertheless, official and banking system reserves as a ratio of short-term debt and dollar deposits are still relatively low compared with other dollarized economies in the region.



Uruguay: Selected Macroeconomic Indicators (12-month percentage change, unless otherwise indicated)									
	2001	2002	2003	2004					Proj. 2005
				Actual			Preliminary		
				Q1	Q2	Q3	Q4	Year	
Real GDP	-3.4	-11.0	2.5	14.6	12.2	11.3	9.6	12.0	5.0
(q/q, s.a.)	...	...	...	2.0	2.4	2.8	0.2	...	...
Unemployment (eop, percent)	14.9	18.6	15.4	13.9	13.3	13.3	12.1	12.1	...
CPI (eop)	3.6	25.9	10.2	8.4	9.6	9.6	7.6	7.6	6.5
Merchandise exports	-9.9	-9.8	17.6	34.3	27.2	36.1	26.3	30.7	10.0
Merchandise imports	-12.1	-35.7	11.7	40.4	42.9	40.5	34.4	39.3	13.7
External current account (percent of annual GDP)	-2.8	1.6	0.7	0.3	0.1	0.3	0.1	-0.3	-0.2
REER (eop)	-5.4	-13.2	-15.0	-7.9	-2.6	-0.7	...	...	...
CERES leading indicator (q/q, s.a.)	...	...	...	6.1	5.5	4.8			

Sources: BCU, and Fund staff estimates.

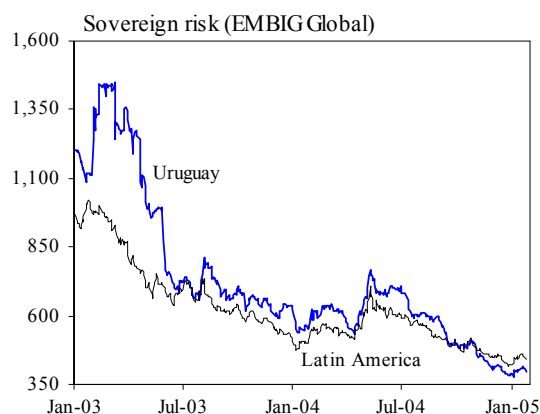
¹ However, NIR are still negative in the program definition, which considers banking system dollar deposits as a reserve liability.

- Capital flight was stopped and partially reversed, and bank credit to the private sector has begun to recover.** Resident bank deposits of the nonfinancial private sector have recovered to about 80 percent of their pre-crisis level, although nonresident deposits have recovered only modestly. The level of dollarization remains very high, however, with over 90 percent of deposits in dollars. The growth of bank credit to the private sector turned positive in 2004.²

Uruguay: Nonfinancial Private Sector Deposits								
(Flows in millions of each currency)								
	2002	2003	2004					Cumulative
			Q1	Q2	Q3 3/	Q4 4/ 5/	2004 3/ 4/ 5/	2002-04 3/4/5/
Foreign currency deposits (US\$, millions)								
Public Banks	-1,359	226	186	3	2	-70	122	-1,011
Private Banks 1/	-4,536	565	209	84	-15	-65	213	-3,758
Total Banks	-5,895	791	395	88	-13	-135	335	-4,769
Residents	-2,478	733	327	29	17	-178	194	-1,550
Nonresidents	-3,417	58	68	59	-30	43	141	-3,218
Sight and savings deposits	-1,371	1,127	350	256	269	136	1,011	767
Time deposits 2/	-4,524	-336	45	-169	-282	-270	-676	-5,535
Local currency deposits (peso, millions)								
Public Banks	-723	2,159	509	657	430	366	1,963	3,399
Private Banks 1/	-2,549	1,069	-233	-14	-478	958	233	-1,247
Total Banks	-3,271	3,228	276	643	-48	1,325	2,196	2,152
Sight and savings deposits	-948	3,632	43	675	-503	1,347	1,562	4,246
Time deposits	-2,323	-404	233	-32	455	-22	633	-2,093

1/ Excludes Banco Galicia Uruguay.
2/ The decline in time deposits during 2003 and 2004 is influenced by the return of reprogrammed deposits at BROU and the amortization of CDs at Nuevo Banco Comercial (NBC).
3/ During September Nuevo Banco Comercial booked the exercise of its option to put back NPLs to the bank liquidation funds. This operation led to a decline in foreign currency time deposits to residents of US\$ 102 million.
4/ NBC booked the exercise of its option to put back NPLs to the bank liquidation funds, leading to a further decline of US\$ 27 million in foreign currency time deposits. In addition NBC canceled US\$24 million of its debt with the liquidation fund with a corresponding decline in foreign currency time deposits.
5/ Does not reflect information on BHU for the December 2004.

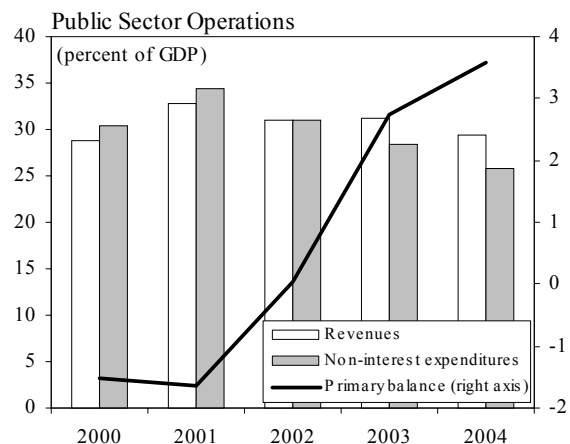
- The public debt has been set on a track toward sustainability.** The debt structure and its net present value improved as a result of the debt exchange of May 2003, and Uruguay regained market access later that same year. Strong growth, the improved fiscal position, and currency appreciation have lowered the public debt-to-GDP ratio from 105 percent at end-2003 to 88 percent at end-2004, and sovereign spreads fell below 400 bps by end-2004.³



² Based on bank balance sheets, excluding write-offs of nonperforming loans.

³ Data is for debt of the nonfinancial public sector and obligations to the Fund.

- **Substantial fiscal adjustment has taken place under the program.** The primary balance moved from a deficit of 1.2 percent of GDP in 2001 to a surplus of around 3½ percent of GDP in 2004.⁴ The improvement reflected mainly strict control over spending and timely adjustments in public tariffs.



- **Monetary policy has been managed prudently.** The real risk of losing control over monetary aggregates amidst the banking crisis, large peso depreciation, and steep recession was avoided. Inflationary expectations were quickly contained, and by June 2004 inflation was back down to single digits, and by end-2004, domestic interest rates reached historically low levels. In December, the central bank (BCU) announced an inflation target of 5½–7½ percent for December 2005 (½-percentage point lower than the September 2005 target).

3. **Progress on structural reforms was mixed, with major advances in bank restructuring but less progress with fiscal reforms.**

Bank restructuring

- **State commercial bank (BROU).** Restructuring of BROU has progressed well, and the bank is now making profits. Its asset management company (AMC) is making good progress in working out the nonperforming loan (NPL) portfolio, and it has continued to make repayments to BROU on its government-guaranteed note ahead of schedule. All remaining and new Category 4 and 5 loans were transferred to the AMC in December 2004 (an end-2004 structural performance criterion), leaving the bank with an NPL stock of about 4 percent of the total portfolio. The release of the third and final tranche of reprogrammed deposits (US\$773 million, initiated in October 2004) is proceeding smoothly and is scheduled to be completed by April 2005.⁵ Almost all (94 percent) of the released deposits as of end-December (US\$262 million) have been retained in BROU—with 64 percent remaining in time deposits. BROU continues to dominate the

⁴ Preliminary data indicate that the end-December PC on the primary surplus of the combined public sector was observed with some margin. Provision of final data is a prior action for completion of the review. The large overperformance through the third quarter was reduced by year's end, mainly owing to sharply lower-than-programmed collections at the social security bank (BPS).

⁵ The release of the third tranche was originally scheduled to begin in August 2005.

banking system, holding some 50 percent of total system deposits (fully guaranteed by the government), and the bank presents a continuing challenge for the reform strategy in this area.

- **Housing bank (BHU).** Some progress has been made in converting the bank into a mortgage company,⁶ and it remains with important underlying weaknesses including a still-large nonperforming loan portfolio. BHU's government-guaranteed note to BROU has been fully serviced to date (a continuous PC under the program), but the bank remains a key fiscal risk over the medium term.⁷
- **Liquidated banks.** Insolvent banks were closed and put under liquidation, and while the process of asset recovery was significantly delayed, it is now well underway. The asset manager has exceeded the end-January 2005 target of having its creditor committee approve 700 payment agreements (structural benchmark). The bank created out of the good assets of the failed banks (NBC) is well capitalized and liquid, but its governance structure is weak and it has not adhered to its original business plan. An investment bank has been hired to seek a strategic investor.⁸
- **Financial system oversight.** Bank supervision and regulation are being strengthened, especially in the areas of on- and off-site supervision. Credit risk assessment has been improved to reflect limits on loans to single borrowers, and work is in progress to capture exposure faced by banks from lending in dollars to firms that generate peso incomes. Country risk has been incorporated into loan analysis procedures. Staffing of the banking superintendency (SIIF) has increased, and a new organizational structure has been put in place. However, the incorporation into the credit registry of information on nonperforming borrowers of the liquidation funds has not been completed (structural PC for end-December). The authorities explained that more time was needed to ensure that the creditor information was accurate; completion of the measure is a prior action for this review.

⁶ This reform has been supported by the World Bank under its SAL I, which has been fully disbursed.

⁷ As of end-2004, the outstanding balance on the note was US\$508.5 million. The precise debt service schedule through 2012 is in Appendix I, Table 2.

⁸ In late 2004, the former owners of one of the liquidated banks won an arbitration decision in New York requiring the government to compensate them for losses of some US\$100 million. Final resolution of the case, however, could take several years, owing to pending lawsuits in Montevideo against these same owners by creditors of the bank.

- **Fiscal reforms**
 - **Tax reform.** No progress was made in this area, as a tax reform submitted by the government in June 2003 (mainly to eliminate exemptions and loopholes) was not acted upon by congress. Uruguay's tax burden remains unevenly distributed, with an excessive number of taxes (close to 30), high marginal rates, and widespread exemptions and loopholes.
 - **Tax administration.** Some steps were taken to strengthen tax administration, including upgrading the tax office's (DGI) infrastructure, instituting electronic filing for large taxpayers, and increased inspections. However, creation of a large taxpayer's unit (LTU, originally a structural benchmark for end-September 2004, rescheduled for end-December) and an internal audit unit at the DGI remain to be established; and key regulations to define working conditions and incentives for professional full-time staff of the DGI are still pending (to make operative the decision to end double employment). Revenue administration at customs remains weak, and there has been an unexpected weakening of collections by the social security bank (BPS) in the second half of 2004.
 - **Specialized pension funds.** Government reform proposals for the specialized pension funds of the police, military and bank workers were not acted upon by congress (all three reforms structural benchmarks under the program). The police and military pension systems cost the Treasury close to 2 percent of GDP a year in transfers to cover their deficits; the fund of bank employees is also running deficits and, on current trends, will become insolvent within a few years.
- 4. **Economic vulnerabilities have been reduced, although risks remain.**
 - **The public debt is still very high** (near 90 percent of GDP) and mostly denominated in foreign currency. Long-term fiscal discipline will be needed to bring it down to safer levels, even under favorable economic conditions, and the debt situation remains exposed to exchange rate and interest rate shocks.
 - **Large amortization payments** to the Fund, World Bank, and IDB are coming due over the next three years, at least part of which will likely need to be financed from new disbursements—requiring strong implementation of associated IFI-supported programs.
 - **Dollarization remains widespread** and currency mismatches persist in the balance sheets of households, corporations and the public sector. While gross international reserves of the BCU have recovered, reserves of the banking system cover only some 60 percent of short-term debt and dollar deposits, a lower rate of coverage than in most dollarized economies in the region.

Comparisons of Banking System Reserve Adequacy Indicators					
	2000	2001	2002	2003	Prel. 2004
Argentina					
Gross official reserves (US\$ million)	26,900	14,900	10,476	14,073	19,646
Banking system gross foreign assets	16,077	6,185	3,171	2,729	2,416
As % of ST debt + FX deposits	44.2	24.9	46.8	47.9	57.8
Paraguay					
Gross official reserves (US\$ million)	772	723	642	984	1,168
Banking system gross foreign assets	496	446	288	389	383
As % of ST debt + FX deposits	64.9	60.1	60.9	84.9	93.6
Peru					
Gross official reserves (US\$ million)	8,562	8,838	9,690	10,206	12,631
Banking system gross foreign assets	901	851	822	644	487
As % of ST debt + FX deposits	63.9	62.2	74.1	77.2	89.2
Uruguay					
Gross official reserves (US\$ million)	2,779	3,099	776	2,087	2,512
Banking system gross foreign assets	6,252	7,271	4,138	3,725	4,041
As % of ST debt + FX deposits	59.2	60.3	48.5	59.6	58.8

- **The social situation remains difficult and there are public spending pressures.** Some measures of poverty put the rate at over 30 percent, and unemployment is still in double digits. The recent improvement in the fiscal position was achieved partly by compressing real wages and pensions (which are some 20 percent lower in real terms compared with pre-crisis levels), and additional structural fiscal reforms are needed to underpin the needed fiscal consolidation over the medium term.

B. Political Transition

5. **President-elect Dr. Tabaré Vázquez has assembled a strong economic team.** Senator Danilo Astori, a well-respected economist, has been designated Minister of Finance and head of the economic team that includes other well-known economists, including Mr. Walter Cancela, the designated central bank president. The new government takes office on March 1, 2005. In congress, Dr. Vázquez' left-leaning coalition (FA-EP) will hold 52 seats (out of 99) in the lower house and 17 seats (out of 31) in the senate.
6. **The overarching goal of the new government is to improve social conditions through sustained rapid growth, led by higher private investment.** To achieve this, the incoming authorities have announced that macroeconomic stability will be a prime policy focus, along with policies to improve the investment climate. At the same time, they are committed to addressing the still tangible social dislocations from the recent crisis through a social emergency program (with an annual cost of around 0.7 percent of GDP). The incoming authorities are confident that they would be able to find budgetary space for the emergency program while maintaining a strong overall fiscal position.

7. **Market reaction to the unfolding political transition has been generally favorable.** Since the elections at end-October, the peso has appreciated by about 10 percent; sovereign spreads have fallen below 400 bps (in line with regional trends); and interest rates on Treasury—and central bank—securities have declined significantly (e.g., rates on five-year inflation-indexed notes now stand at 6 percent, some 180 bps lower than at the beginning of 2004).

II. MEDIUM-TERM OUTLOOK AND CAPACITY TO REPAY THE FUND

8. **The medium-term outlook depends importantly on Uruguay’s ability to generate higher growth rates and sustained primary surpluses.** Historically, capital accumulation (including human capital) has been the main engine of growth in Uruguay, but total factor productivity needs to recover from the sharp decline in the recent recession. Several large-scale investment projects are planned for the next few years, but sustained growth will require further improvements in the investment climate.⁹ This should be bolstered by structural reforms aimed at reducing the role of the public sector in the economy and improving its efficiency; gradually opening to private sector competition sectors where public enterprises operate; broadening sources of financing for investment, which historically have relied almost exclusively on bank credit; and simplifying the regulatory environment to make it more investment friendly and competitive in the region. Downside risks to the growth outlook include weaker external demand conditions, higher oil prices, and a sharp rise in interest rates. Staff’s baseline scenario is based on relatively conservative growth assumptions, as it assumes growth converging to 2 percent over the medium term (after the current recovery from the recession and the impact of the large investment projects noted above). To be sure, successful implementation of an ambitious structural reform agenda should be able to boost growth beyond this level.

Uruguay: Selected Macroeconomic Indicators (percent of GDP, unless otherwise indicated)									
	Actual			Prel.	Projections				
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP (percentage change)	-3.4	-11.0	2.5	12.0	5.0	3.5	3.5	2.5	2.0
Gross investment	13.8	11.5	13.1	14.5	14.4	14.7	14.8	15.2	15.2
CPI (percentage change)	3.6	25.9	10.2	7.6	6.5	6.0	5.5	5.0	4.5
Primary balance	-1.2	0.0	2.7	3.6	3.7	4.0	4.0	4.0	4.0
Overall fiscal balance	-4.1	-4.6	-3.2	-2.3	-1.9	-0.1	0.2	-0.1	-0.2
Public sector debt 1/	43.0	85.0	105.0	88.4	75.2	65.7	59.2	56.0	53.9
External current account	-2.8	1.6	0.7	-0.3	-0.2	-0.6	-0.7	-0.9	-1.1

Sources: BCU; and Fund staff estimates.

1/ Includes debt of the nonfinancial public sector and outstanding obligations to the IMF.

⁹ Two large projects to build wood pulp mills with a combined investment of US\$1.5 billion (12 percent of GDP) are well-advanced. Other sectors where significant investment is underway include agroindustry and tourism.

9. **The debt outlook has improved markedly since the height of the crisis, although it remains vulnerable given the large financing requirements over the medium term.** Staff's updated DSA (using cautious economic assumptions) suggests that primary surpluses of around 4 percent of GDP are needed to bring the public debt down below 50 percent of GDP by 2012. The key challenges for the incoming government will thus be to implement structural fiscal reforms to facilitate sustained fiscal discipline, and to create an environment conducive to investment and durable high growth. Contingent liabilities from bank restructuring, pressures for rapid recovery of public wages and pensions to pre-crisis levels, and potentially adverse interest rate and demand shocks pose important risks to the outlook.

Uruguay: Sensitivity of Nonfinancial Public Sector Debt 1/									
(In percent of GDP)									
	Projections								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Assumptions									
Primary fiscal balance	3.6	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Growth rate (percent)	12.0	5.0	3.5	3.5	2.5	2.0	2.0	2.0	2.0
Interest spread	600	550	500	450	450	450	400	400	400
Average real exchange rate (of the 2000 level)	66	71	77	81	82	82	82	82	82
Debt-to-GDP ratio (excluding costs of bank restructuring)	88	75	66	59	56	54	52	50	48
Sensitivity to bank restructuring									
Covering all government-guaranteed notes and legal judgements	88	77	69	63	60	58	56	54	53
Covering BHU note and legal judgements	88	76	67	60	57	55	54	52	50
Sensitivity to GDP growth									
GDP growth higher by 1 percent a year (2005-2012)	89	75	65	58	54	51	49	46	44
GDP growth lower by 1 percent a year (2005-2012)	89	76	67	61	59	58	56	55	63
Sensitivity to the real exchange rate									
Real exchange rate remains constant (2005-2012)	89	87	87	83	80	78	76	74	72
Real exchange rate reaches 75 percent of 2000 level	89	75	66	59	56	54	52	50	49
Real exchange rate reaches 65 percent of 2000 level	89	79	72	68	66	65	63	62	60
Sensitivity to primary surplus									
Primary surplus 0.5 percent higher a year (2005-2012)	89	75	65	58	54	52	49	47	44
Primary surplus 0.5 percent lower a year (2005-2012)	89	76	67	61	58	57	56	54	53
Sensitivity to growth and primary surplus									
GDP lower by 1 percent a year (2005-2012) and primary surplus 0.5 percent lower a year	89	77	68	63	61	60	60	59	59
Sensitivity to real interest rate									
Real interest rate higher by 200 basis points	89	75	66	60	57	55	54	52	51
Sources: Ministry of Finance; Banco Central del Uruguay; and Fund staff estimates.									
1/ Framework covers the nonfinancial public sector (including obligations to the Fund) and debt is measured in gross terms.									

10. **Fund exposure to Uruguay is likely to remain high for some time.** Fund credit outstanding would reach 605 percent of quota (over 20 percent of 2004 GDP) with the final disbursement under the current program. Although the external position has strengthened in recent years, gross reserves remain well below their pre-crisis level. Also, large amortization payments fall due over the medium term,¹⁰ implying projected financing needs averaging 8 percent of GDP a year.¹¹ Meeting these financing needs will require a sustained fiscal effort, growing access to domestic and international financial markets, and continued IFI support.

¹⁰ Including annual payments to the Fund averaging about SDR 440 million during 2005-07 (4 percent of GDP), and private debt amortizations (after the 2003 debt exchange) coming due beginning in 2008.

¹¹ Amortizations to the Fund assume repayment on an expectations basis through May 2005 and on an obligations basis thereafter (as set out at the time of the sixth program review).

Uruguay: Payments to the Fund, 2005–10 (In millions of SDRs)						
	2005	2006	2007	2008	2009	2010
Expectations basis	317	1,009	321	204	17	0
(outstanding stock as % of quota)	506	177	72	6	0	0
Obligations basis 1/	317	434	574	321	204	17
(outstanding stock as % of quota)	506	364	177	72	6	0

1/ Expectation basis through May 05 (Country Report No. 05/14).

III. POLICY DISCUSSIONS

With the current program winding down, the review focused on: (i) recent macroeconomic performance; (ii) progress in key structural reforms in the banking and fiscal areas; and (iii) how best to preserve the stabilization and reform gains through the political transition.

11. **The authorities were satisfied that they are leaving behind a strong economy and a solid policy framework for the next administration.** While they recognized that significant challenges remain, and some important reforms were not implemented as planned, they pointed to the strong ongoing recovery, fiscal adjustment, the successful debt exchange, and stability in the banking system as major achievements on which the new government can build. They expected real GDP growth to exceed 5 percent in 2005, and are aiming at a further reduction of inflation to between 5½–6½ percent (the lower half of the central bank’s target range for December 2005).

A. Fiscal Policy and Debt Management

12. **Fiscal performance in 2004 was stronger than programmed, but the margin of overperformance eroded in the second half of the year.** Staff encouraged the authorities to aim at as strong a fiscal position as possible before leaving office, taking advantage of the growth dividend for revenues and laying the basis for sustained fiscal discipline in 2005 and beyond. Staff also urged the authorities to press ahead with fiscal reforms, especially on tax administration, which can be done without congressional involvement. The authorities explained that the decline in the fiscal margin in the second half of the year reflected mainly an unexpected shortfall in collections at the social security institute (BPS)—a priority issue to be addressed by the new government. They also noted that work was continuing to establish a large taxpayers unit and other administrative improvements at the DGI. While the primary balance fell short of expectations a few months ago, it was still higher than programmed, and the overall fiscal deficit in 2004 was significantly smaller than programmed (2.3 percent of GDP, compared with 3.1 percent in the program)—mainly reflecting a lower interest bill.

13. **Further fiscal consolidation in 2005 will require efforts to improve revenue collections and continued expenditure control.** The authorities' spending authorization for the first quarter of 2005 caps real spending growth at 1.5 percent (y/y), including limited wage and pension increases in January of 3.5 and 5 percent, respectively. The authorities reaffirmed their intention to refrain from any further tax cuts or tax exemptions, and to adjust public tariffs in a timely manner in line with cost developments. Based on current trends and policies, the primary surplus for the first half of 2005 is projected to remain at about its 2004 level of 3½ percent of GDP. Given the incoming authorities' plan for a social emergency spending program, further fiscal consolidation in 2005 will depend, in large part, on their ability to quickly implement pending tax administration measures and tighten collections at the social security bank.

14. **Looking ahead, structural fiscal reforms will be crucial to underpin the needed sustained fiscal consolidation.** The mission expressed disappointment that tax reform and reform of the specialized pension funds of the police, military, and bank workers were not approved by congress. The authorities agreed that these reforms were important, noting that reaching a consensus on these reforms will continue to be a challenge. The authorities also agreed with staff that Uruguay's institutional budgetary framework needs to be strengthened, including by incorporating a medium-term macroeconomic framework and tax expenditure analysis in the 5-year budget plan as well as annual budget revisions. In addition, the authorities underscored the need to shift the collection of social security contributions to the DGI, as the BPS presently has little incentive to collect in light of the constitutional requirement for the government to close any financing gap in the social security system.¹²

15. **While the debt profile has improved further in 2004, Uruguay has not taken advantage of the recent favorable conditions in international capital markets.** The mission welcomed the authorities' stepped up efforts to implement policies linked to World Bank and IDB disbursements, and their successful efforts in securing new lending commitments (about US\$250 million for 2005). The mission also welcomed the gradual extension of the maturity of dollar-denominated T-bills from 125 days at end-2003 to 242 days by end-2004, and the issuance of inflation-indexed T-notes that took place during 2004. Short-term debt rollover needs are covered through June 2005. The mission encouraged the authorities to work closely with the incoming government to explore the possibility of an early placement in international capital markets (to prefinance part of the remaining financing needs for 2005, which totals about US\$500 million). The authorities saw merit in this recommendation, but noted that an international placement would require a fairly detailed economic plan of the incoming government that was not yet available.

¹² Until such time that the DGI is ready to undertake social security contribution collections, coordination between the DGI and BPS needs to be strengthened and inspections by the BPS and DGI stepped up.

Uruguay: Scheduled Disbursements from Multilateral Development Banks, 2004–06				
Loan	Amount (US\$ million)	Original Timing 1/	Conditionality	Disbursement Status
World Bank SAL I	50	Q1/2004	BHU restructuring.	Disbursed, October 2004.
World Bank SSAL I	50	Q3/2004	Unemployment insurance scheme.	Disbursed, October 2004.
IDB Fin. Sector Loan	60	Q1/2004	Strengthening of financial regulation.	Delayed. Likely in Q1/2005.
IDB Fin. Sector Loan	60	...	Strengthening of financial regulation.	Q4/2005
World Bank SSAL II	75	...	Improvements in regulation and efficiency of public utilities, health, and education.	2005
World Bank SAL II	100	...	Montevideo port concession; reforms in health and education sectors.	2006
Total World Bank	275			
Total IDB	120			

1/ Country Report No. 04/172.

B. Monetary and Exchange Rate Policies

16. **Monetary policy was eased in December in light of the sharp decline in inflationary expectations toward the bottom of the 2005-target range.** Staff supported the inflation target range of 5.5–7.5 percent for end-2005, and commended the cooperation between the incoming and outgoing economic teams evidenced by the participation of the incoming central bank president at the December monetary policy meeting.

17. **The strong external environment has allowed the BCU to exceed the program target for NIR, but a further build-up of reserves is needed given the system’s high short-term dollar liabilities.** The mission underscored that a further reserve build-up is desirable in light of the still relatively low level of coverage of deposits and short-term debt compared with other dollarized economies in the region. The authorities agreed, but noted that a significant buildup would require the issuance of additional central bank debt, raising further its quasi-fiscal deficit.¹³ The authorities reiterated their commitment to reducing financial dollarization, noting that the required strengthening of confidence in the peso would take time. The mission supported the recent strategy of the government to step up its purchases of foreign exchange, in light of the large debt service payments coming due. Importantly, the mission welcomed that this policy is being done in a transparent manner through announcements of the government’s purchasing plans and while still allowing appropriate exchange rate flexibility.

¹³ The quasi-fiscal deficit is expected to stabilize over the next few years at around 0.4 percent of GDP. These deficits reflect the fact that the BCU’s assets are mostly non-interest bearing claims on the government and public enterprises (about 12 percent of GDP), while its liabilities are mostly interest-bearing bank deposits, IMF lending, and BCU securities.

C. Banking Reforms

18. **Progress in bank restructuring needs to continue to restore sound new credit flows and minimize contingent fiscal costs.** The mission welcomed the progress made in outsourcing the management of the liquidation funds' assets, examining the financial history of the funds' operations, restructuring the public banks, and strengthening bank supervision, but highlighted the need to improve governance at NBC, accelerate BHU restructuring, and ensure that the reform of BROU remains on track.

- **BROU.** The authorities were satisfied about the imminent completion of the (advanced) release of reprogrammed deposits, noting that most of the released deposits have stayed at the bank. Looking forward, the authorities agreed with staff that the reform of the large government-owned bank was crucial to the future of the economy. In particular, the bank's risk management and credit policies and practices need further strengthening to prevent a resurgence of NPLs, and the AMC's asset recovery process needs to be carried through expeditiously and transparently, with appropriate oversight to ensure managers resist pressures to soften the terms of loan workouts. Staff also noted that the long-term future and governance structure of the bank is an important issue to be addressed, given the large risks inherent in having a government-owned bank control half of the banking system.
- **BHU.** There was broad agreement between staff and the authorities that continued progress in converting BHU to a nonbank mortgage lender is essential to minimize contingent fiscal costs. While its loan with BROU has been fully serviced this year, the bank remains in a weak financial position and its own projections suggest that it could have problems meeting its debt service obligations (which are government guaranteed) starting next year.
- **Liquidation funds.** Staff noted the progress made in the asset recovery process and in increasing the transparency of their operations. The authorities shared the mission's view on the importance of following up on the missing cash and credit files that the recent audits had revealed, and reaffirmed their commitment to begin publishing semi-annual audited financial statements of the funds, starting with the end-December 2004 statements.
- **NBC.** The authorities agreed with the mission's assessment that weak governance at the bank needed to be addressed expeditiously, including by appointing a CEO and board members with necessary qualifications and by expanding the size of the Board. The authorities reaffirmed their intention to sell the bank, noting that this would require a reduction in staffing that could complicate the privatization process; given the little time left, they said that the sale would probably need to be taken up by the next government.
- **Superintendency of Banks (SIIF).** Staff pointed to the hiring of additional staff this year, but noted that further increases were needed to ensure that the SIIF can carry out

its responsibilities in line with international standards. The authorities remain fully committed to the transfer of creditor information from the liquidated banks to the credit registry, but stressed that it was equally important to make sure the transferred information is accurate. Staff noted, and the authorities agreed, that the very high reserve requirements for the public banks and NBC should be gradually phased out once strengthened internal procedures for credit evaluation are in place.¹⁴

IV. STAFF APPRAISAL

19. **The authorities' Fund-supported program has been successful in overcoming the 2002 financial crisis, bringing about a strong recovery of growth, and significantly strengthening the outlook for debt sustainability.** This was achieved through sound macroeconomic policies, difficult reforms in the banking sector, and the debt exchange in early 2003, while a supportive external environment also contributed. The new authorities taking office next month can build on these achievements, although the challenges it still faces are by no means small. The key will be to sustain the virtuous cycle of strong policies, growth and social progress, and domestic consensus on reforms. The new government's emerging policy framework is reassuring in its emphasis on macro stability, growth, and social equity as the main anchors of its economic strategy.

20. **The outgoing government is leaving a solid foundation for fiscal policy in 2005.** Staff commends the decision to limit real spending growth in the first quarter of 2005 to 1.5 percent (y/y), and recommends that the incoming authorities maintain this stance for the rest of the year to provide for further fiscal consolidation in 2005. This will be challenging given their plans for increasing (temporarily) social spending by some 0.4 percent of GDP in 2005, and will likely require additional effort on the revenue side.

21. **While fiscal performance under the program was strong, a further increase in the primary surplus is needed in 2005 and beyond to ensure medium-term fiscal sustainability.** To achieve this goal, the sizable revenue shortfall at the social security bank must be addressed urgently, as part of a comprehensive effort to strengthen tax administration. The new government will also need to build domestic consensus on important structural fiscal reforms that unfortunately could not be implemented as planned under the current program. In particular, tax and specialized pension reform will be crucial to strengthen further the fiscal accounts, in a lasting way, in order to bring down the public debt to sustainable levels.

22. **Monetary policy has been managed prudently, and the recent easing is well-placed in view of the benign inflation outlook.** Staff supports the 5.5—7.5 percent target range for inflation in 2005, and welcomes the collaborative spirit between outgoing and

¹⁴ Reserve requirements on sight and savings deposits are 65 percent at BROU and 100 percent at NBC.

incoming monetary authorities with which it was set. While the international reserve position of the central bank has improved, staff encourages the incoming authorities to take advantage of the favorable external situation to bolster Uruguay's reserves further, given the large short-term dollar liabilities in the banking system and substantial medium-term debt service obligations. The incoming government will need to address the financial weakness of the central bank to bolster its ability to pursue appropriate monetary policies.

23. **Maintaining the momentum in bank restructuring is essential to provide for a resumption of sound credit flows and limit quasi-fiscal costs.** Staff welcomes the smooth release of the final tranche of reprogrammed deposits, and the efforts made in the restructuring of BROU, BHU and NBC. The framework and reform priorities are well set: resolve the bad asset overhang from the crisis transparently and rigorously; further strengthen the BROU; accelerate the BHU's transformation; and strengthen governance at the NBC. Staff welcomes the intention to publish semi-annual audited financial statements of the liquidation funds, beginning with the end-December statements. Continued close monitoring of the liquidation funds' activities is necessary to ensure that the asset disposal proceeds steadfast and in line with the terms under the contract with the asset manager. Also, ongoing efforts to strengthen banking supervision are well placed, and staff encourages the authorities to bring financial system regulations in line with international standards.

24. **While the economy has recovered well from the 2002 crisis, important vulnerabilities remain, leaving important challenges for the incoming government and no room for policy slippages.** Risks remain from the still high public debt, the high degree of financial dollarization, remaining (albeit reduced) weaknesses in the banking system, large medium-term financing needs, and potential domestic spending pressures. Public debt should be brought down at a rapid pace, and structural fiscal reforms are needed to bolster the public finances' resilience to adverse shocks. Continued efforts will be needed to strengthen the banking system to ensure its role of channeling financial resources to support economic growth. To help manage these risks, the incoming authorities' emphasis on reforming the state (including tax and pension reforms) and strengthening the institutional foundations of sound macro policies are well placed.

25. **In summary, Uruguay has performed well under the SBA-supported program, and staff supports the authorities' request for a waiver and completion of the seventh review.** All quantitative and structural PCs for this review were observed, except for that on the transfer of loan information in the liquidation funds to the credit registry of the banking superintendency; completion of this measure is expected before completion of this review.

Table 1. Uruguay: Selected Economic and Social Indicators

Population (estimate)	3.4				Physicians per 1,000		3.7
					Hospital beds per 1,000		4.4
Life expectancy at birth (years)	74.6						
Crude birth rate (per thousand)	9.7				Access to safe water (percent of population)		98.0
Infant mortality rate (per thousand live births)	14.0						
Income share held by highest 10 percent of households	33.5				Adult literacy rate		97.7
Income share held by lowest 20 percent of households	4.8				Gross enrollment rate		
Gini coefficient	44.6				Primary education		108.3
Unemployment rate	12.1				Secondary education		101.5
					Tertiary education		37.7
GDP per capita in 2004 (in US\$)	4,000						
Human Development Index Rank	46 (out of 177 countries)						
	2004						
	2000	2001	2002	2003	1/	Rev. Proj.	Proj. 2005 2/
	(Percent change)						
Output, prices, and wages							
Real GDP	-1.4	-3.4	-11.0	2.5	11.0	12.0	5.0
Contributions to growth (percent)							
Consumption	-1.3	-2.2	-15.2	-1.0	10.0	9.8	4.6
Investment	-2.2	-1.4	-5.0	2.7	2.9	2.6	1.2
Net exports	2.2	0.3	9.1	0.9	-1.9	-1.7	-1.0
GDP deflator	4.0	5.3	18.7	17.9	8.7	9.2	4.7
CPI inflation							
Average	4.8	4.4	14.0	19.4	9.3	9.2	7.0
End of period	5.1	3.6	25.9	10.2	8.7	7.6	6.5
Exchange rate change (Ur\$/US\$)							
Average	6.7	10.1	62.1	30.4	...	1.5	...
End of period	7.7	18.0	84.2	7.3	...	-9.9	...
Average public sector wage (end of period)	2.9	5.1	0.5	10.2	9.7	9.7	7.3
GDP							
In Ur\$ billions	243.0	247.2	261.0	315.4	380.6	385.8	424.1
In US\$ billions	20.1	18.6	12.1	11.2	13.0	13.5	15.5
Monetary indicators 3/							
BCU monetary liabilities	-0.1	4.1	-7.4	25.3	22.2	29.8	7.7
Currency issued	-3.9	-0.2	5.8	22.4	5.1	15.7	9.9
M-2	3.5	0.6	-5.1	17.4	2.6	11.3	9.9
M-3	10.2	19.6	15.8	21.7	14.2	-0.2	6.3
Credit to the private sector (constant exch. rate) 4/	0.3	-3.8	-17.6	-23.9	-1.1	-5.0	2.5
	(Percent of GDP, unless otherwise indicated)						
Public sector operations							
Revenue	31.2	32.7	31.1	31.1	29.7	29.3	28.8
Noninterest expenditure (incl. discrepancy)	32.8	34.0	31.1	28.4	26.1	25.7	25.2
Primary balance	-1.5	-1.2	0.0	2.7	3.6	3.6	3.7
Interest	2.6	2.9	4.7	6.0	6.0	5.9	5.6
Overall balance	-4.1	-4.2	-4.6	-3.2	-2.4	-2.3	-1.9
Savings and investment							
Gross domestic investment	14.0	13.8	11.5	13.1	13.8	14.5	14.4
Gross national savings	11.1	10.9	13.1	13.7	13.2	14.2	14.2
Foreign savings	2.8	2.8	-1.6	-0.7	0.6	0.3	0.2
External indicators							
Merchandise exports, fob (US\$ millions)	2,384	2,144	1,934	2,273	2,938	2,971	3,268
Merchandise imports, fob (US\$ millions)	3,311	2,914	1,872	2,092	2,930	2,914	3,313
Merchandise terms of trade (percentage change)	-6.6	-0.7	4.8	3.3	-2.4	-3.8	-1.2
Current account balance	-2.8	-2.8	1.6	0.7	-0.6	-0.3	-0.2
Overall balance of payments (US\$ millions) 5/	167	302	-2,323	1,311	474	425	-73
Public debt 6/	45.5	54.3	94.2	108.6	100.7	99.5	85.6
Non-financial public sector debt (incl. IMF lending)	37.5	43.2	85.1	105.3	91.7	88.4	75.2
External debt 7/	1.5	3.0	3.4	-4.8	85.3	-1.4	1.9
Of which: External public debt	30.3	31.4	68.9	85.3	75.5	71.9	61.8
Gross official reserves (US\$ millions)	2,779	3,099	776	2,087	2,561	2,512	2,643
In months of imports of goods and services	8.0	10.0	3.8	9.2	8.4	8.3	7.4
As percent of short-term debt 7/	108.9	114.7	31.8	105.8	127.4	100.2	99.0
As percent of short-term debt plus all FX deposits	27.9	29.3	10.2	26.6	25.3	28.24	28.52
Banking system foreign reserves as percent of short-term debt plus all FX deposits	90.5	98.0	64.6	74.0	62.1	499.0	-426.7
REER (percentage depreciation -, e.o.p.) 8/	-0.9	-5.4	-13.2	-15.0	...	9.6	...

Sources: Data provided by the Uruguayan authorities; and Fund staff estimates.

1/ Country Report No. 05/14.

2/ Fiscal projections based on current policies.

3/ Evaluated at program exchange rates for 2004.

4/ Part of the sharp drop in 2003 is due to the removal of the three liquidated banks from the database in May 2003. Correcting for loan write-offs, private credit growth turned positive in 2004.

5/ Defined as changes in reserve assets.

6/ Defined for combined public sector.

7/ Excludes nonresident deposits.

8/ As of end-November.

Table 2. Uruguay: Summary Balance of Payments
(In millions of U.S. dollars)

	2001	2002	2003	2004				Year 1/ 2005	Proj. 2005
				Q1	Q2	Q3	Q4 1/ 2005		
Current account	-533	191	76	38	9	-99	7	-46	-27
Goods and services	-447	196	344	174	75	41	42	333	248
Goods	-771	61	182	-24	59	30	-8	57	-45
Exports	2,144	1,934	2,273	612	765	811	783	2,971	3,268
Imports	2,914	1,872	2,092	635	707	781	791	2,914	3,313
Services	324	135	162	198	16	11	50	276	293
Exports	1,132	727	778	349	182	192	250	973	1,045
Imports	808	592	616	151	166	180	200	697	753
Income	-114	-76	-344	-155	-87	-161	-55	-458	-355
Current transfers	28	70	76	19	21	20	20	80	80
Financial account	794	-2,337	897	22	-68	181	52	188	158
Direct investment, net	319	77	260	84	101	89	100	374	250
Portfolio investment, net	553	415	-541	30	-476	169	82	-195	288
Government securities	324	171	-5	66	-87	238	-8	209	288
Banks	229	244	-537	-36	-389	-69	90	-404	0
Other investment, net	-78	-2,828	1,179	-92	307	-76	-130	9	-381
Loans	-1,041	1,290	375	120	-38	259	-142	199	-331
Nonfinancial public sector	182	633	237	-31	-48	-18	-53	-150	-59
Other, net (fin. derivatives)	0	14	0	0	0	0	0	0	0
BCU/use of IMF resources	-58	883	671	122	86	198	-191	216	-271
<i>Of which:</i> FSBS resources	0	-716	0	0	0	0	0	0	0
Banks	-1,166	-240	-533	30	-77	79	102	133	0
Deposits	1,004	-1,693	267	-232	421	-335	13	-133	-50
Public banks	302	-110	-465	-26	-257	34	0	-249	0
Private banks	701	-1,582	732	-206	678	-369	13	116	-50
Other flows, net	-41	-2,426	537	19	-76	0	0	-57	0
Banks	-9	-121	-61	19	-76	0	0	-57	0
Nonfinancial private sector	-31	-818	-21	0	0	0	0	0	0
Foreign currency held outside banks	0	-1,487	619	0	0	0	0	0	0
Errors and omissions	41	-177	338	96	68	21	99	283	0
Overall balance	302	-2,323	1,311	157	9	103	157	425	131
Reserve assets (- increase)	-302	2,323	-1,311	-157	-9	-103	-157	-425	-131
Memorandum items:									
Current account balance (percent of GDP)	-2.8	1.6	0.7	...	...	...	...	-0.3	-0.2
Financial account balance (percent of GDP)	4.2	-19.3	8.0	...	...	...	...	1.4	-0.3
Gross international reserves	3,099	776	2,087	...	...	...	...	2,512	2,643
In months of imports of GNFS	10.0	3.8	9.2	...	...	...	...	8.3	7.8
In percent of ST debt 2/	31.8	16.3	49.7	...	...	...	...	51.6	50.9

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ Preliminary.

2/ Including nonresident deposits.

Table 3. Uruguay: Quantitative Performance Criteria, Indicative Targets, and Structural Conditionality Under the 2004–05 Economic Program 1/

	March 31, 2004				June 30, 2004			
	Target	Adj. Target	Actual	Margin (+)	Target	Adj. Target	Actual	Margin (+)
A. Quantitative performance criteria								
(In millions of Uruguayan pesos)								
1. Combined public sector primary balance (cumulative floor) 2/ 3/	1,897	1,722	4,200	2,478	3,605	3,379	7,536	4,157
2. General government noninterest expenditure (cumulative ceiling) 2/ 4/	10,016	10,254	9,581	673	19,757	19,757	19,603	154
3. Change in the net domestic assets of the BCU (ceiling) 2/ 5/	1,480	3,030	-5,045	8,075	-750	800	-7,440	8,240
(In millions of U.S. dollars)								
4. Net international reserves of the BCU (- decrease) (cumulative floor) 2/ 5/	-30	-80	140	220	50	0	201	201
5. Nonfinancial public sector gross debt (ceiling) 3/ 6/	8,853	8,810	8,780	30	8,864	8,797	8,788	9
B. Indicative targets								
(In millions of Uruguayan pesos)								
1. Combined public sector overall balance (cumulative floor) 2/ 3/ 7/	-5,171	-5,445	-2,967	2,478	-7,848	-8,010	-3,853	4,157
2. Change in the monetary base (ceiling) 8/	550	550	-705	1,255	800	800	-1,209	2,009
<hr/>								
	September 30, 2004				December 31, 2004			
	Target	Adj. Target	Actual	Margin (+)	Target	Adj. Target	Prel.	Margin (+)
A. Quantitative performance criteria								
(In millions of Uruguayan pesos)								
1. Combined public sector primary balance (cumulative floor) 2/ 3/	10,238	10,216	12,004	1,788	12,525	12,444	13,828	1,384
2. General government noninterest expenditure (cumulative ceiling) 2/ 4/	30,592	30,700	29,956	744	41,525	41,742	40,936	806
3. Change in the net domestic assets of the BCU (ceiling) 2/ 5/	-550	1,000	-7,552	8,552	-3,830	-2,280	-12,016	9,736
(In millions of U.S. dollars)								
4. Net international reserves of the BCU (- decrease) (cumulative floor) 2/ 5/	50	0	187	187	180	130	438	308
5. Nonfinancial public sector gross debt (ceiling) 3/ 6/	9,035	8,921	8,842	79	9,040	8,977	8,934	43
B. Indicative targets								
(In millions of Uruguayan pesos)								
1. Combined public sector overall balance (cumulative floor) 2/ 3/ 7/	-9,040	-8,280	-6,492	1,788	-11,384	-10,231	-8,846	1,385
2. Change in the monetary base (ceiling) 8/	1,000	1,000	-1,755	2,755	1,750	1,750	628	1,122

Table 3. Uruguay: Quantitative Performance Criteria, Indicative Targets and Structural Conditionality
Under the 2004–05 Economic Program (concluded)

Structural Conditionality	Date	Status
A. Structural performance criteria		
Completion of the transfer to the BROU fiduciary trust of all new and remaining Category 4 and 5 loans.	end-Dec.	Observed
Incorporate into the credit registry of the Banking Superintendency the information on nonperforming borrowers in the liquidation funds whose loans were held by the liquidation funds.	end-Dec.	Prior action for seventh review
Complete semiannual financial reports of the liquidation funds for end-December 2004 for auditing and publication.	end-Jan.	Observed
Government to ensure timely service of BHU note to BROU.	Continuous	Observed
B. Structural benchmarks		
Establishment of a Large Taxpayers Unit at the Tax Administration Department (DGI).	end-Dec.	Not observed.
Approval by Congress of the reform of the pension funds for the police and the military.	end-Dec.	Not observed.
Approval by Congress of the reform of the pension funds for bank employees.	end-Dec.	Not observed.
Asset manager to reach 700 payment agreements approved by its creditor committee.	end-Jan.	Observed

Sources: Ministry of Economy and Finance; and Central Bank of Uruguay.

1/ As defined in the Technical Memorandum of Understanding.

2/ Cumulative changes from end-December 2003.

3/ Adjusted upward/downward for changes in social security contributions, as defined in the TMU.

4/ Adjusted upward/downward for changes in collections of the Fondos de Libre Disponibilidad (FLD), as defined in the TMU.

5/ Adjusted upward/downward for changes in program disbursements from the World Bank and IDB, as defined in the TMU.

6/ All maturities. The 2003 base includes all loans guaranteed by the government. For December 2003, the debt ceiling has been adjusted upwards to reflect the transfer of Brady bonds from the central bank to the government.

7/ Adjusted upward/downward for changes in interest payments, as defined in the TMU.

8/ Cumulative change from December 2003 average.

Table 4. Uruguay: Public Sector Operations

	Revised										Proj. 2005
	Program 1/ 2004					2004					
	2001	2002	2003	2004	2004	Q1	Q2	Q3	Q4 2/	Year 2/	
	(In millions of Uruguayan pesos)										
Revenue	80,866	81,138	98,180	112,457	28,670	27,983	28,293	28,225	113,172	122,332	
Taxes	54,007	57,832	70,096	81,967	20,112	21,590	19,988	21,154	82,844	88,908	
VAT and excise taxes	29,437	29,708	37,667	43,858	11,493	11,226	11,541	12,940	47,200	52,511	
On income and profits	12,719	14,302	15,621	19,587	4,078	5,843	3,845	3,912	17,678	16,439	
On foreign trade	2,428	2,730	3,780	4,881	1,133	1,145	1,265	1,415	4,958	5,516	
On property and other	9,424	11,091	13,028	13,640	3,409	3,375	3,336	2,887	13,008	14,443	
Social security contributions 3/	14,381	12,836	11,794	13,389	3,147	3,263	3,687	2,795	12,892	13,747	
Nontax revenue 4/	5,250	5,274	6,200	6,828	1,654	2,334	1,739	1,833	7,560	7,526	
Current surplus of public enterprises 5/	7,227	5,196	10,090	10,273	3,758	796	2,879	2,443	9,876	12,150	
Noninterest expenditure	83,954	81,066	89,529	99,932	24,435	24,902	23,607	26,401 0	99,344	106,779	
Current 4/	74,871	74,653	81,721	90,007	20,573	22,781	22,642	24,044 0	90,041	95,029	
Wages	18,074	18,158	19,701	21,943	5,476	5,883	5,692	6,365	23,416	25,123	
Goods and services	12,833	12,057	15,031	17,556	3,960	3,871	4,220	4,246	16,297	16,220	
Social security benefits	41,907	42,818	44,218	47,366	11,721	11,601	12,047	12,024	47,395	50,538	
Other	2,057	1,619	2,771	3,142	-584	1,425	683	1,409	2,933	3,147	
Capital (Government and enterprises) 4/	9,083	6,413	7,808	9,925	3,861	2,121	964	2,357	9,303	11,751	
Primary balance	-3,088	72	8,651	12,525	4,236	3,082	4,686	1,824	13,828	15,552	
Interest	7,276	12,163	18,881	23,909	7,192	4,191	7,112	4,179	22,675	23,723	
Overall balance	-10,364	-12,091	-10,231	-11,384	-2,957	-1,110	-2,426	-2,355	-8,847	-8,171	

Table 5. Uruguay: Cash Flow of the Nonfinancial Public Sector
(In millions of U.S. dollars)

	2001	2002	2003	2004				Proj. 2005	
				Q1	Q2	Q3	Q4 1/		2004 1/
Gross outflows	1,217	3,364	1,036	177	392	182	509	1,261	1,310
Augmented deficit, NFPS	707	2,524	324	80	14	41	51	187	209
Primary deficit	170	-14	-323	-147	-109	-174	-81	-511	-605
Interest Payments	537	540	647	228	123	215	132	698	815
Bank assistance	0	1,998	171	0	0	0	0	0	0
Bank asset recovery	0	0	-171	0	0	0	0	0	0
Amortizations	510	840	712	97	378	141	458	1,074	1,101
Long-term bonds	403	349	221	15	2	11	1	29	169
Loans	107	491	491	82	376	130	457	1,046	931
Commercial bank loans	0	214	217	0	191	12	104	307	83
Official loans (IDB, WB, others)	97	205	234	81	90	79	89	339	364
IMF	10	72	40	0	96	40	264	400	485
Gross inflows	1,216	3,364	1,036	178	392	182	509	1,261	1,310
Short-term bills (net)	-32	383	393	-12	-43	-277	252	-80	-257
Long-term bonds	1,292	143	405	88	12	256	15	371	604
Loans	238	1,438	464	101	304	84	67	555	676
Commercial banks	33	-16	-475	77	292	-13	9	365	262
Use of deposits	26	-21	-543	-6	126	-13	0	107	181
Loans	7	5	68	83	166	0	9	258	81
Central bank credit (net) (excluding IMF funds)	7	665	478	-5	-39	44	-175	-175	108
Official loans (IDB, WB, Others)	198	789	461	29	51	53	233	366	306
IMF	0	1,603	484	138	0	207	207	552	207
Other inflows	-299	13	-236	1	23	120	175	319	80
Residual financing needs	0	0	0	0	0	0	0	0	0

Sources: Ministry of Finance, Central Bank of Uruguay; and Fund staff estimates.

1/ Preliminary.

Table 6. Uruguay: Summary Accounts of the Banking System 1/
(In millions of Uruguayan pesos, unless otherwise indicated)

	December			2004				2005
	2001	2002	2003	Mar.	Jun.	Sept.	Proj. Dec.	Proj. Dec.
1. Banco Central del Uruguay								
Net foreign assets	40,358	-18,747	-1,516	-654	-2,488	-5,192	-1,214	8,905
(in US\$ million)	2,733	-689	-52	-22	-84	-190	-46	351
Net international reserves	43,652	-5,374	16,763	17,522	20,806	17,504	17,221	26,675
(in US\$ million)	2,956	-198	572	591	702	640	654	1,050
Other net foreign assets	-3,294	-13,373	-18,279	-18,175	-23,294	-22,696	-18,434	-17,770
(in US\$ million)	-223	-492	-624	-613	-786	-830	-700	-700
Net domestic assets	-27,707	30,464	16,195	16,099	18,646	20,880	20,271	11,624
Credit to the public sector	-3,454	41,919	72,205	73,930	72,250	71,959	64,920	59,020
Credit to the financial system	-27,179	-9,340	-61,261	-61,077	-54,115	-47,506	-42,915	-41,646
Credit to the private sector	284	2,163	2,067	2,847	1,697	1,657	1,643	1,632
Other	2,642	-4,279	3,185	399	-1,186	-5,229	-3,376	-7,382
Monetary liabilities	12,651	11,717	14,679	15,445	16,158	15,689	19,057	20,529
Currency issued	9,449	10,001	12,244	11,666	11,623	11,211	14,170	15,578
Currency in circulation	7,095	7,673	9,440	8,326	8,767	8,215	10,383	11,414
Vault cash	2,354	2,328	2,804	3,340	2,856	2,997	3,788	4,164
Private sector deposits	3,203	1,716	2,435	3,780	4,535	4,477	4,886	4,951
2. Public and Private Banks 2/ 3/								
Net foreign assets	-10,313	14,995	35,548	42,054	44,786	51,294	56,685	66,126
(in US\$ million)	-698	551	1,213	1,418	1,510	1,875	2,151	2,603
Net domestic assets	144,429	142,908	156,190	164,156	162,509	142,594	131,187	133,479
Credit to the public sector	10,082	10,854	6,426	9,869	14,581	10,837	9,551	14,148
Credit to the financial system	25,880	4,601	58,662	60,936	53,281	46,442	39,866	39,342
Credit to the private sector	133,636	171,869	138,471	139,245	135,846	123,817	121,550	121,335
Other	-25,169	-44,416	-47,370	-45,894	-41,200	-38,503	-39,780	-41,346
Liabilities to the private sector (residents)	134,116	157,903	191,738	206,209	207,294	193,888	187,872	199,605
Public banks	65,978	85,398	99,891	108,427	108,774	102,168	98,258	96,561
Local currency	9,863	9,212	11,534	13,050	12,737	13,245	13,628	14,982
Foreign currency	56,116	76,186	88,356	95,377	96,038	88,923	84,630	81,579
Private banks	68,138	72,505	91,847	97,782	98,520	91,720	89,614	103,044
Local currency	11,070	9,699	10,240	9,914	9,858	9,558	10,724	11,789
Foreign currency	57,067	62,805	81,607	87,869	88,662	82,162	78,890	91,255
3. Banking System 3/								
Net foreign assets	30,045	-3,752	34,032	41,400	42,298	46,102	55,471	75,031
(in US\$ million)	2,034	-138	1,161	1,396	1,427	1,686	2,105	2,954
Net domestic assets	114,369	171,044	169,581	176,915	178,299	160,477	147,670	140,939
Credit to the public sector	6,628	52,774	78,631	83,799	86,832	82,796	74,471	73,168
Credit to the rest of financial system	-3,651	-7,067	-5,403	-3,481	-3,690	-4,061	739	1,859
Credit to the private sector	133,920	174,032	140,538	142,091	137,543	125,473	123,192	122,967
Local currency	42,037	36,325	32,648	33,668	32,576	33,622	32,590	33,500
Foreign currency	91,883	137,707	107,890	108,424	104,968	91,851	90,603	89,467
Other	-22,528	-48,695	-44,185	-45,495	-42,387	-43,732	-43,156	-48,728
Broad money (M3)	144,414	167,292	203,613	218,315	220,597	206,579	203,141	215,970
Currency outside banks	7,095	7,673	9,440	8,326	8,767	8,215	10,383	11,414
Residents' deposits	137,319	159,619	194,172	209,989	211,830	198,365	192,759	204,556
Local currency	20,969	18,960	21,827	23,002	22,625	22,833	24,413	26,838
Foreign currency	116,350	140,659	172,345	186,987	189,204	175,532	168,346	177,718
(12-month percent change)								
BCU monetary liabilities	4.1	-7.4	25.3	41.6	36.8	43.7	29.8	7.7
Currency issued	-0.2	5.8	22.4	25.0	24.2	19.0	15.7	9.9
Broad money								
M2 = currency + peso deposits	0.6	-5.1	17.4	16.7	9.9	11.3	11.3	9.9
M3 = M2 + residents' foreign currency deposits	19.6	15.8	21.7	22.4	19.3	10.5	-0.2	6.3
Credit to the private sector (const. exchange rate)	-3.8	-17.6	-23.9	-9.5	-10.0	-10.0	-5.0	2.5
Total deposits held by residents	21.0	16.2	21.6	22.6	19.1	10.3	-0.7	6.1
Local currency	1.8	-9.6	15.1	16.4	5.3	9.9	11.8	9.9
Foreign currency and indexed	25.3	20.9	22.5	23.4	21.0	10.4	-2.3	5.6
Memorandum item:								
Exchange rate of presentation	14.8	27.2	29.3	29.7	29.7	27.4	26.4	25.4

Sources: Banco Central del Uruguay; and Fund staff estimates.

1/ Presentation used for program monitoring. May differ from presentation and definitions used in IFS.

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

3/ Excludes nonresident deposits.

Table 7. Uruguay: Medium-Term Outlook

	2002	2003	Prel.		Projections			
			2004	2005	2006	2007	2008	2009
1. Output and prices (In percent change)								
Real GDP	-11.0	2.5	12.0	5.0	3.5	3.5	2.5	2.0
Real domestic demand	-18.1	1.6	13.7	5.8	4.3	4.0	3.1	2.6
<i>Of which</i> : consumption	-15.7	-1.1	12.4	5.4	3.2	3.2	2.2	2.1
Consumer prices (end-of-period)	25.9	10.2	7.6	6.5	6.0	5.5	5.0	4.5
Merchandise export prices	-7.9	9.0	7.0	0.0	0.0	0.0	0.0	0.0
Merchandise export volume	-3.3	7.1	21.6	6.0	6.0	5.0	5.0	5.0
Merchandise import prices	-12.1	4.0	9.8	1.5	1.0	0.0	0.0	0.0
Merchandise import volume	-26.4	2.5	28.1	8.0	8.0	6.0	6.0	6.0
Merchandise terms of trade	4.8	3.3	-3.8	-1.2	-0.8	0.0	0.0	0.0
2. Savings and investment (In percent of GDP)								
Gross domestic investment	11.5	13.1	14.5	14.4	14.7	14.8	15.2	15.2
Gross national savings	13.1	13.7	14.2	14.1	13.9	13.8	14.2	14.1
Foreign savings	-1.6	-0.7	0.3	0.2	0.6	0.7	0.9	1.1
3. Combined public sector operations (In percent of GDP)								
Overall balance	-4.6	-3.2	-2.3	-1.9	-0.1	0.2	-0.1	-0.2
Primary balance	0.0	2.7	3.6	3.7	4.0	4.0	4.0	4.0
Public sector debt 1/	94.2	108.6	99.5	85.6	76.4	69.2	65.8	63.2
4. Reserve adequacy								
Gross official reserves								
In months of imports of goods and services	11.5	13.1	8.3	7.8	6.1	4.6	4.4	4.3
In percent of short-term debt								
excluding nonresident deposits	31.8	105.8	100.2	116.4	79.2	64.6	76.2	83.3
including nonresident deposits	16.3	49.7	51.6	55.3	40.9	32.1	33.5	34.4
5. Balance of payments and other external indicators (In millions of U.S. dollars)								
Current account balance	191	76	-46	-27	-98	-127	-193	-241
Trade balance	61	182	57	-45	-151	-163	-173	-183
Exports, f.o.b.	1,934	2,273	2,971	3,268	3,529	3,812	4,040	4,283
Imports, f.o.b.	1,872	2,092	2,914	3,313	3,680	3,975	4,213	4,466
Nonfactor services	135	162	276	293	302	325	344	364
Exports, f.o.b.	727	778	973	1,045	1,115	1,187	1,257	1,332
Imports, f.o.b.	592	616	697	753	813	862	913	968
Factor services (net)	-76	-344	-458	-355	-329	-369	-444	-502
Transfers (net)	70	76	80	80	80	80	80	80
Financial account	-2,337	897	188	-46	-533	-550	-271	-122
Foreign direct investment, net	77	260	374	250	250	250	250	250
Portfolio investment, net	415	-541	-195	84	-47	73	-33	-45
Other investment, net	-2,828	1,179	9	-381	-736	-873	-487	-327
Errors and omissions	-177	338	283	0	0	0	0	0
Overall balance	-2,323	1,311	425	131	-356	-430	2	85
Reserve assets (- increase)	2,323	-1,311	-425	-131	356	430	-2	-85
(In percent of GDP)								
Current account balance	1.6	0.7	-0.3	-0.2	-0.6	-0.7	-0.9	-1.1
Financial account	-19.3	8.0	1.4	1.0	-1.5	-1.6	1.0	1.5
Total external debt (excl. nonres. deposits)	87.5	98.3	82.0	70.7	61.4	54.8	52.1	50.2
(In percent of exports of goods and nonfactor services)								
Total external debt (excl. nonres. deposits)	397.6	360.9	280.5	254.2	232.4	212.3	200.2	189.3
Total external debt (incl. nonres. deposits)	485.1	434.0	340.4	312.5	290.8	270.6	259.0	248.3
Debt service	55.6	53.7	42.2	45.1	39.3	36.2	25.9	22.3
<i>Of which</i> : interest	25.7	20.2	18.5	15.3	16.0	15.8	16.2	16.0

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ Combined public sector includes nonfinancial public sector and central bank.

Table 8. Uruguay: Projected Payments to the Fund
and Indicators of Capacity to Repay the Fund

	2003	2004	2005	2006	2007	2008	2009
Fund repurchases and charges (existing and prospective; in SDR million)							
Principal (repurchases) 1/	57.1	270.3	317.3	434.3	574.4	320.8	203.9
On Fund credit as of 12/04	...	...	317.3	434.3	574.4	268.4	134.0
On 7th disbursement	...	...	0.0	0.0	0.0	52.4	69.9
Charges and interest 2/	49.0	64.0	82.4	69.1	35.7	18.0	7.2
On Fund credit as of 12/04			74.7	59.9	26.4	10.5	3.8
On 7th disbursement			7.7	9.2	9.2	7.5	3.5
Total payments to Fund 1/	106.1	334.4	399.7	503.5	610.1	338.8	211.1
In millions of U.S. dollars	148.4	494.8	610.7	770.5	934.7	519.2	323.4
In percent of exports of goods and NFS	4.9	12.5	14.2	16.6	18.7	9.8	5.8
In percent of GDP	1.3	3.7	3.9	4.4	4.8	2.5	1.5
In percent of quota	34.6	109.1	130.4	164.3	199.0	110.5	68.9
In percent of overall external debt service	9.1	29.7	31.4	42.2	51.7	37.8	25.8
In percent of gross reserves	7.1	19.7	23.1	33.7	50.3	27.9	16.6
Fund credit outstanding (end of period) 1/							
In millions of SDRs	1,625.9	1,728.4	1,550.9	1,116.5	542.1	221.4	17.5
In millions of U.S. dollars	2,416.0	2,635.3	2,371.5	1,709.7	830.7	339.2	26.8
In percent of exports of goods and NFS	79.2	66.8	55.0	36.8	16.6	6.4	0.5
In percent of GDP	21.6	19.5	15.3	9.7	4.3	1.7	0.1
In percent of quota	530.5	563.9	506.0	364.3	176.9	72.2	5.7
In percent of public sector external debt	25.3	27.2	24.7	18.2	9.0	3.7	0.3
In percent of overall external debt	21.9	23.8	21.6	15.8	7.8	3.2	0.3
In percent of gross reserves	115.8	104.9	89.7	74.8	44.7	18.2	1.4
Memorandum items (in millions of U.S. dollars unless otherwise noted):							
Exports of goods and NFS	3,051	3,944	4,313	4,645	4,999	5,298	5,615
Quota (millions of SDRs)	306.5	306.5	306.5	306.5	306.5	306.5	306.5
GDP	11,202	13,494	15,516	17,574	19,372	20,378	21,153
U.S. dollar per SDR, e.o.p.	1.49	1.52	1.53	1.53	1.53	1.53	1.53
U.S. dollar per SDR, average	1.40	1.48	1.53	1.53	1.53	1.53	1.53
Public sector debt	12,163	13,428	13,284	13,426	13,411	13,404	13,363
Public sector external debt	9,557	9,701	9,585	9,400	9,232	9,243	9,278
Overall external debt service	1,637	1,665	1,945	1,827	1,807	1,373	1,254
Overall external debt	11,012	11,062	10,966	10,796	10,613	10,608	10,629
Gross foreign reserves	2,087	2,512	2,643	2,287	1,857	1,860	1,944

Sources: Finance Department; and Fund staff estimates and projections.

1/ Assuming (i) that last purchase of SDR 139.8 million is made following the Seventh Review in 02/05, and (ii) repurchases during Jan.-May 2005 on expectations basis and on obligations basis thereafter (Country Report No. 05/14).

2/ Projections are based on current rates of charge, including burden-sharing where applicable, for purchases in the GRA. The current SDR interest rate is assumed for net use of SDRs.

Table 9. Uruguay: Vulnerability Indicators

	2000	2001	2002	2003	Est. 2004	Proj. 2005
(Percent change, unless otherwise indicated)						
Financial sector indicators						
Broad money	10.2	19.6	15.8	21.7	-0.2	6.3
Credit to the private sector (const. exch. rate)	0.3	-3.8	-17.6	-23.9	-5.0	2.5
Share of nonperforming loans in total loans (in percent)	16.4	17.9	31.5	12.7	3.6	...
Interbank interest rates (percent, end of period)	17.5	42.7	45.0	2.5	1.3	...
Nonfinancial public debt (percent of GDP) 1/	35.8	43.2	85.1	105.3	88.4	75.2
External indicators						
Merchandise exports	4.1	-9.9	-9.8	17.6	30.7	10.0
Merchandise imports	3.9	-12.1	-35.8	11.7	39.3	13.7
Merchandise terms of trade	-6.6	-0.4	3.5	3.7	-2.1	-1.2
REER appreciation (+) 2/	59.2	60.3	48.5	59.6	9.6	...
(Percent of GDP, unless otherwise indicated)						
Current account balance	-2.8	-2.8	1.6	0.7	-0.3	-0.2
Capital and financial account balance	3.8	4.2	-19.3	8.0	1.4	1.0
<i>Of which</i> : Net foreign direct investment	1.4	1.7	0.6	2.3	2.8	1.6
Portfolio investment (securities, etc.)	1.5	3.0	3.4	-4.8	-1.4	1.9
Other net inflows (deposits, loans, trade credits, etc.)	1.0	-0.4	-23.3	10.5	0.1	-2.6
Total external debt including nonresident deposits	72.7	125.1	117.6	118.2	99.5	86.9
<i>Of which</i> : Public sector excl. nonresident deposits	30.3	48.1	87.5	98.3	82.0	70.7
Foreign currency deposits (nonresidents)	28.4	37.6	19.3	19.9	17.5	16.2
In percent of exports GNFS	394.4	487.4	485.1	434.0	340.4	312.5
Total external debt excluding nonresident deposits	44.3	87.5	98.3	98.3	82.0	70.7
In percent of exports GNFS	240.2	272.8	397.6	360.9	280.5	254.2
External interest payments to exports GNFS (in percent)	21.7	23.7	25.7	20.2	18.5	15.3
External amortization payments to exports GNFS (in percent)	14.4	19.7	29.9	33.5	23.8	29.8
(U.S. million, unless otherwise indicated)						
Central Bank reserve liabilities	150	144	970	1,515	1,859	1,588
Short term foreign assets of the financial sector 2/	7,367	7,695	3,140	4,989	6,073	...
Short term foreign liabilities of the financial sector 2/	6,504	7,547	4,101	3,723	3,514	...
Gross official reserves	2,779	3,099	776	2,087	2,512	2,643
In months of imports GNFS	8.0	10.0	3.8	9.2	8.3	7.4
In percent of total debt service	210.2	34.7	52.4	127.5	150.9	135.9
In percent of broad money	27.8	28.6	10.0	29.9	32.5	31.1
In percent of base money	91.9	89.4	36.0	81.6	108.7	...
In percent of short-term external debt incl. nonres FX deposits 2/	33.6	31.8	16.3	49.7	51.6	55.3
In percent of short-term external debt excl. nonres FX deposits 2/	108.9	114.7	31.8	105.8	100.2	116.4
In percent of short-term external debt plus all FX deposits 2/	18.2	18.0	7.7	21.4	23.8	24.1
Banking system foreign assets as percent of short-term external debt plus all FX deposits 2/ 3/	59.2	60.3	48.5	59.6	62.4	...
Financial market indicators						
Foreign currency debt rating (Moody's)	Baa3	Baa3	B3	B3	B3	...
Foreign currency debt rating (S&P)	BBB-	BBB-	B-	B-	B	...
EMBI secondary market spread (bps, end of period)	290	284	1,228	624	388	...
Exchange rate (per U.S. dollar, period average)	12.1	13.3	21.6	29.2	26.3	...

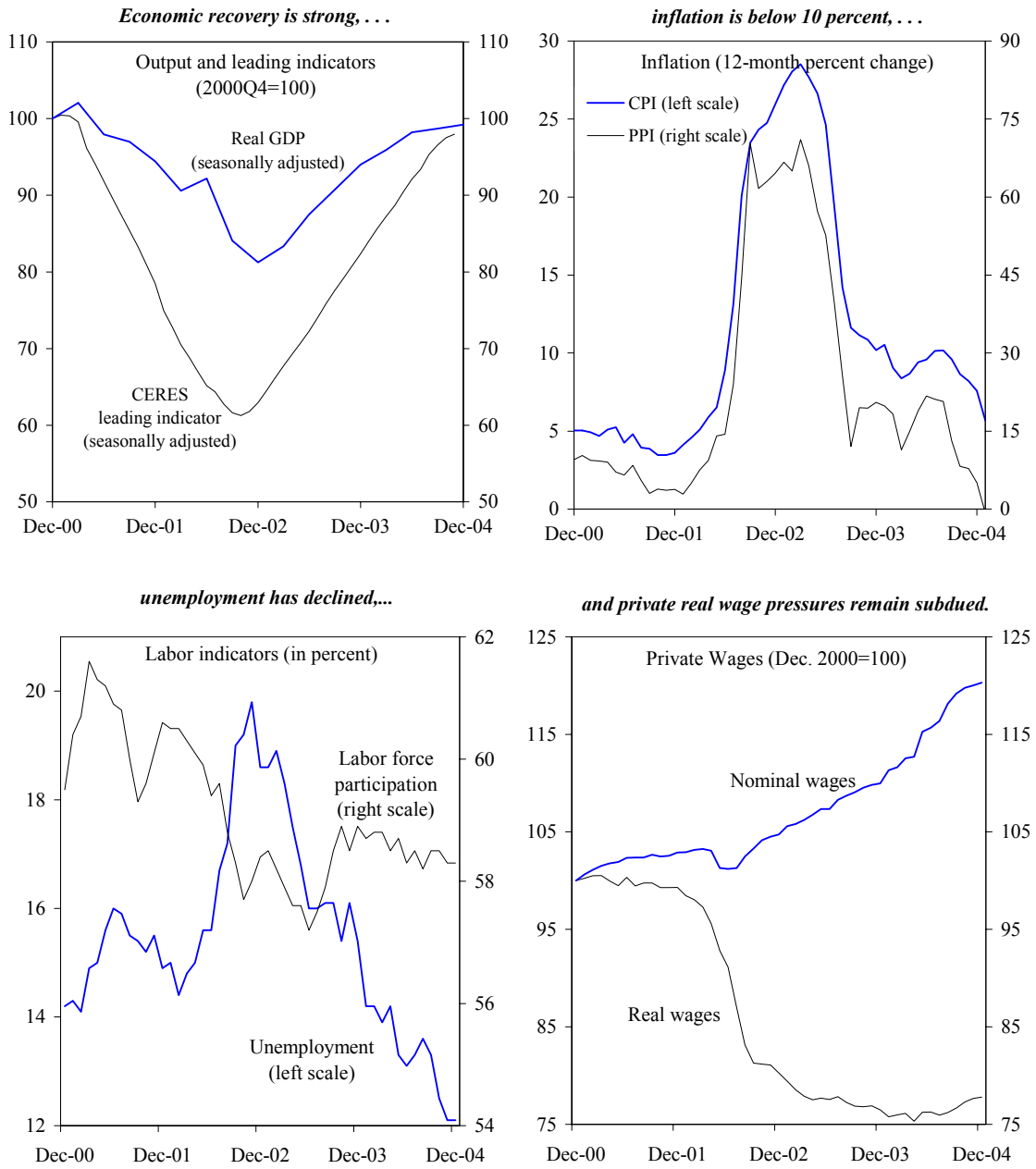
Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ Includes obligations to the IMF.

2/ For 2004, end-November.

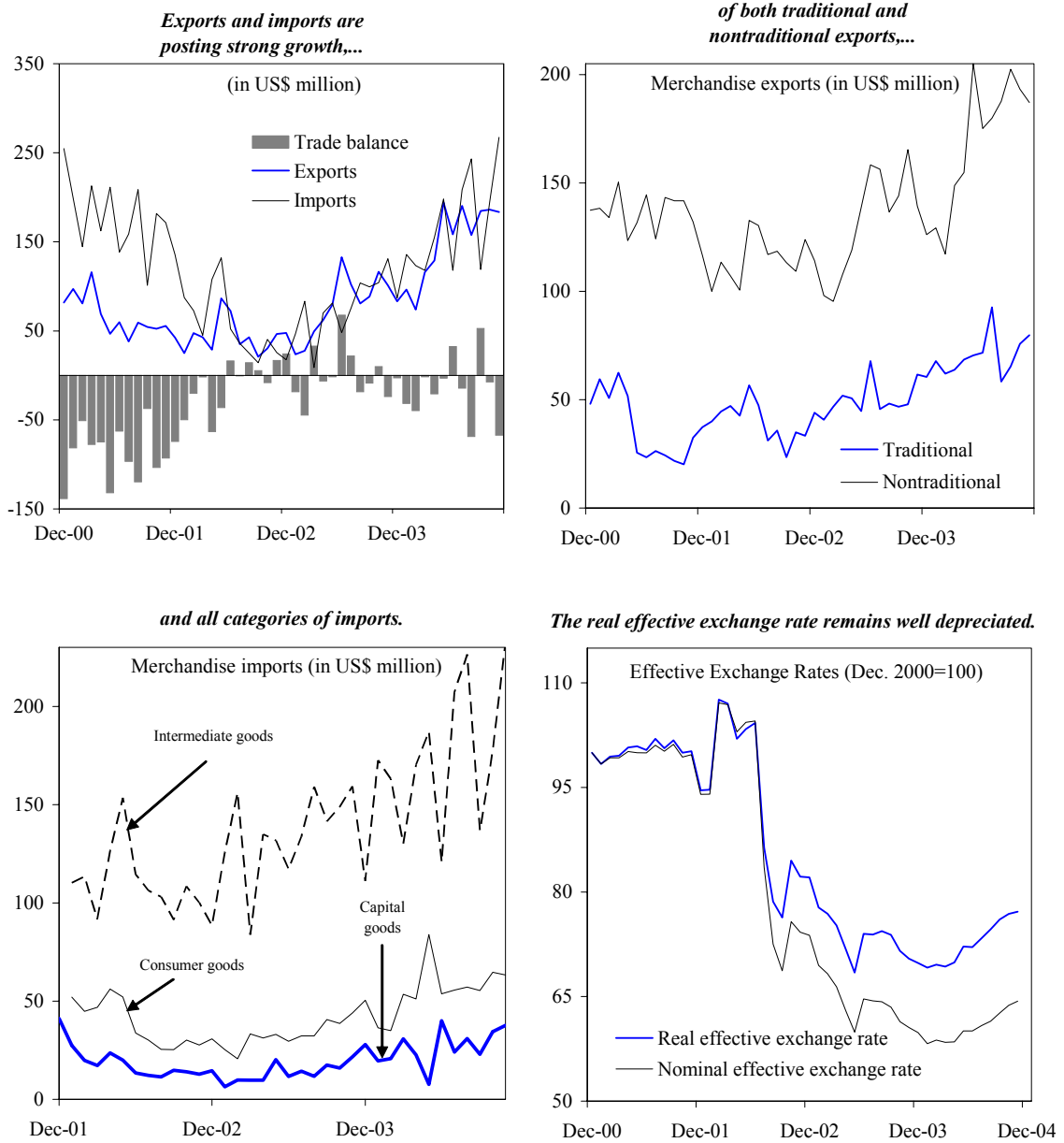
3/ By remaining maturity.

Figure 1. Uruguay: Activity and Prices



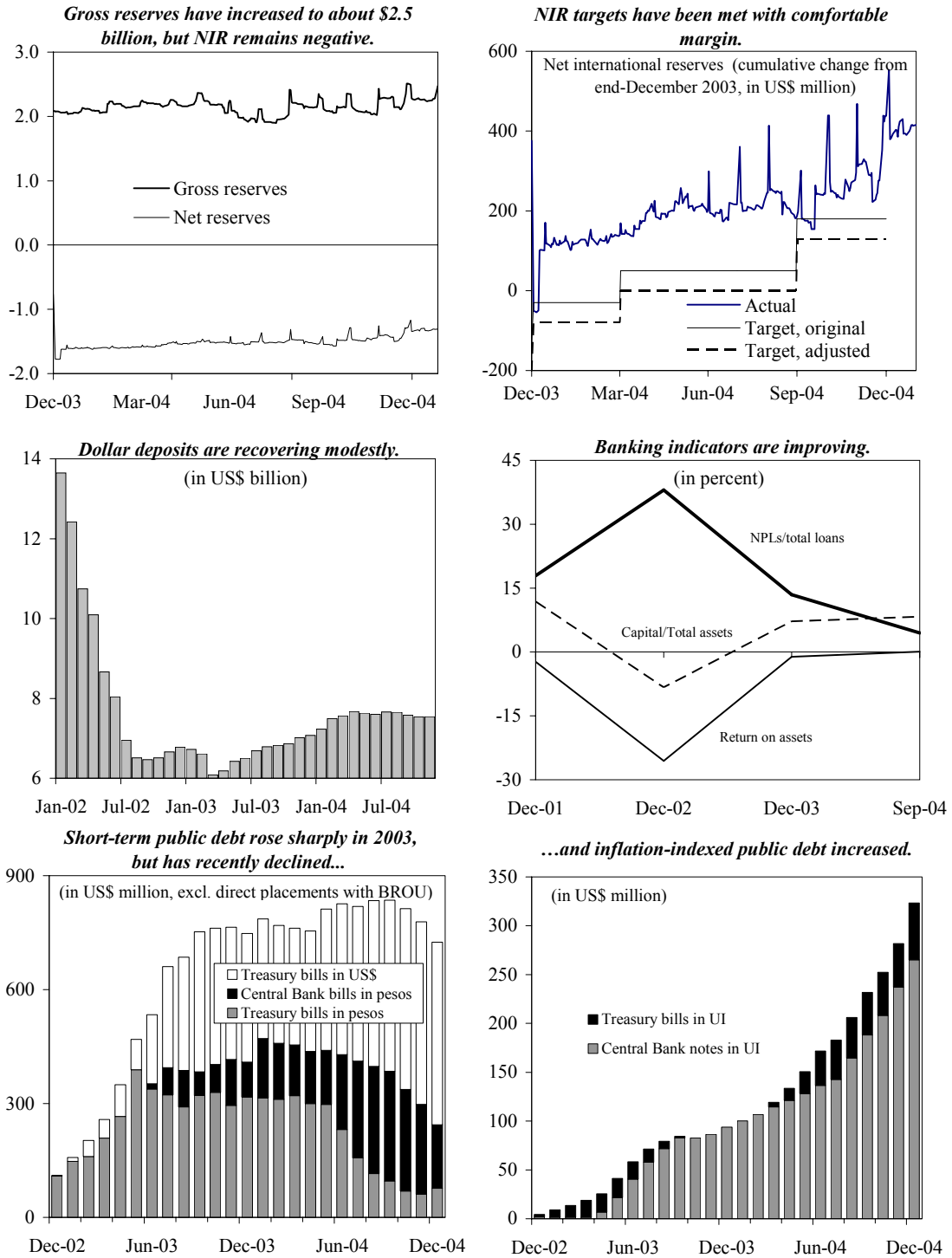
Sources: Central Bank of Uruguay; Ministry of Economy and Finance; CERES; and Fund staff estimates.

Figure 2. Uruguay: External Sector Indicators



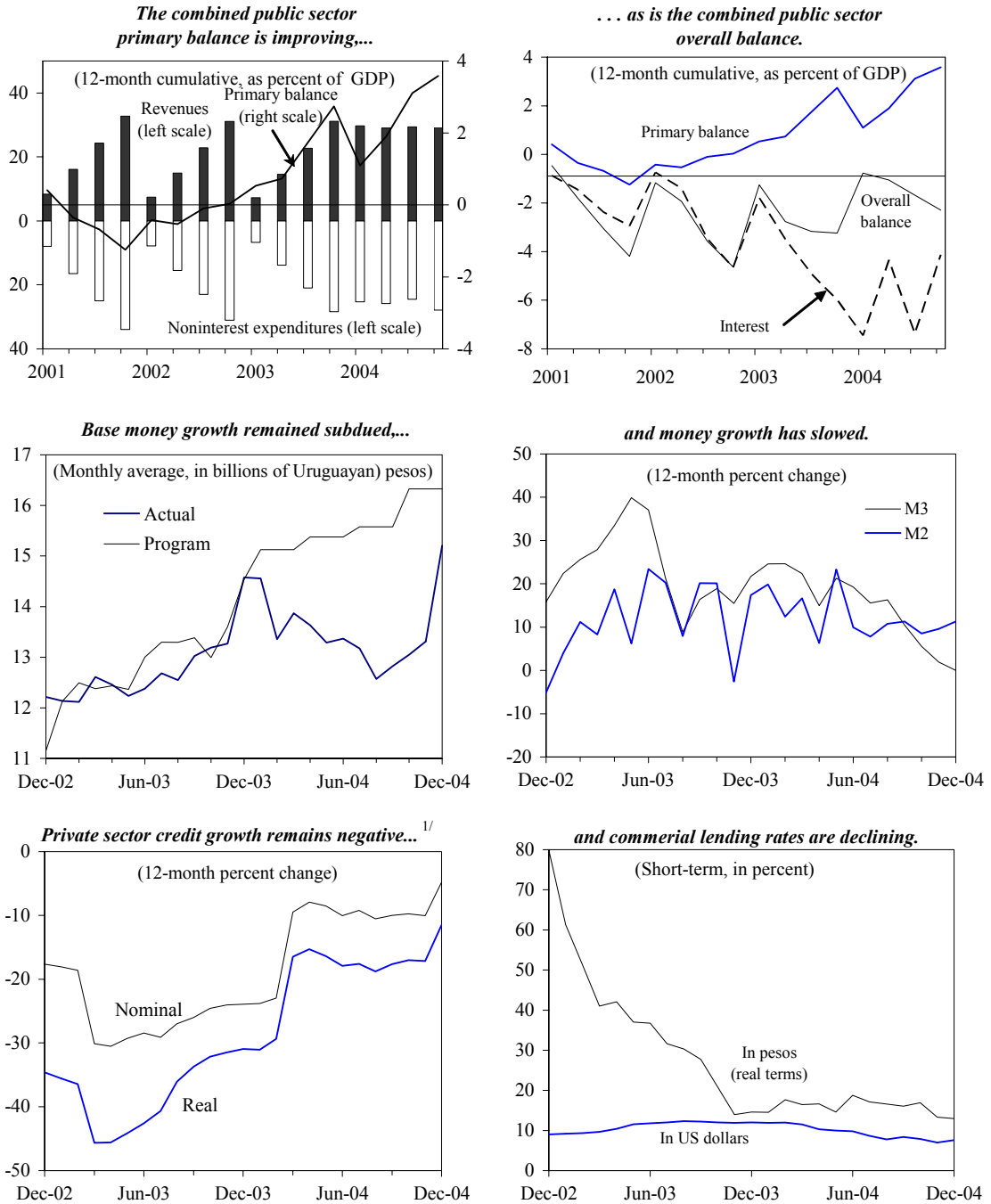
Sources: Central Bank of Uruguay; Ministry of Economy and Finance; CERES; and Fund staff estimates.

Figure 3. Uruguay: Financial and Vulnerability Indicators



Sources: Central Bank of Uruguay; Ministry of Economy and Finance; and Fund Staff estimates.

Figure 4. Uruguay: Fiscal and Monetary Indicators



Sources: Central Bank of Uruguay; Ministry of Economy and Finance; and Fund Staff estimates.

^{1/} Includes the write-offs of non-performing loans. Growth has turned positive in 2004, excluding these write-offs.

Table 1. Uruguay: Nonfinancial Public Sector Debt Sustainability 1/
(excludes costs of Bank restructuring)

	2001	2002	Projections									
			2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
A. Assumptions												
Real GDP growth (percent)	-3.4	-11.0	2.5	12.0	5.0	3.5	3.5	2.5	2.0	2.0	2.0	2.0
Interest rate spread (bps)	284	1400	900	600	550	500	450	450	450	400	400	400
Real U.S. dollar exchange rate (change in percent)	-13.8	-26.8	-14.9	6.0	8.0	8.0	5.0	1.0	0.0	0.0	0.0	0.0
Primary balance: Consolidated public sector	-1.2	0.0	2.7	3.6	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Non-financial public sector	-1.0	0.2	2.9	3.8	3.9	4.2	4.2	4.2	4.2	4.2	4.2	4.2
BCU	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Overall Balance: Consolidated public sector	-4.1	-4.6	-3.2	-2.3	-1.9	-0.1	0.2	-0.1	-0.2	-0.2	0.0	0.0
Non-financial public sector	-3.8	-4.3	-2.9	-1.4	-1.3	0.2	0.5	0.2	0.0	0.0	0.2	0.1
BCU	-0.3	-0.3	-0.4	-0.9	-0.5	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1
B. Debt Dynamics (in percent of GDP)												
Gross non-financial public sector debt 2/	43	85	105	88	75	66	59	56	54	52	50	48
C. Cash Flow (in millions of U.S. dollars)												
Gross borrowing needs	1,217	3,364	1,036	1,261	1,310	1,595	1,610	1,334	1,272	1,230	1,864	1,520
Augmented public sector deficit	707	2,524	324	187	209	-43	-91	-42	-10	0	-38	-35
Public sector deficit	707	526	324	187	209	-43	-91	-42	-10	0	-38	-35
Bank assistance	0	1,998	0	0	0	0	0	0	0	0	0	0
Amortization	510	840	712	1,074	1,101	1,637	1,701	1,375	1,282	1,230	1,903	1,555
Bonds, long-term	403	349	221	29	169	386	253	486	532	747	1,422	1,080
Commercial bank loans	0	214	217	307	83	127	144	164	198	195	195	191
IDB/WB and other official debt	97	205	234	339	364	459	424	234	240	261	286	284
IMF	10	72	40	400	485	665	880	492	312	27	0	0
Gross Financing	1,216	3,364	1,036	1,260	1,198	955	935	759	821	1,031	1,722	1,328
Short-term bonds (net)	-32	383	403	-80	-257	0	0	0	0	0	0	0
Long-term bonds	1,292	143	405	371	400	400	416	438	635	1,310	931	
Commercial bank	33	-16	-475	365	262	125	143	162	196	195	195	191
Use of deposits	26	-21	-543	200	181	80	0	0	0	0	0	0
Loans	7	5	68	165	81	45	143	162	196	195	195	191
IDB/WB and other official debt	198	789	461	366	306	430	392	181	187	201	217	206
IMF	0	1,603	484	552	207	0	0	0	0	0	0	0
Central bank credit (net) (excluding IMF funds)	7	665	478	-631	200	0	0	0	0	0	0	0
Other inflows (net)	-299	13	-236	319	80	0	0	0	0	0	0	0
FSBS	0	0	0	265	80	0	0	0	0	0	0	0
Revenue from concessions	0	0	0	54	0	0	0	0	0	0	0	0
Residual financing needs	0	0	0	0	112	640	675	575	451	199	142	192
D. Other Indicators												
Total debt service (in percent of GDP)	5.6	11.4	12.1	13.1	12.3	13.3	12.5	10.7	10.2	9.8	12.4	10.6
Residual financing needs (in percent of GDP)	0.0	0.0	0.0	0.0	0.7	3.6	3.5	2.8	2.1	0.9	0.6	0.8
Average interest rate (in percent)	6.7	5.2	5.5	5.9	7.0	6.0	6.3	7.1	7.7	8.1	8.1	8.5
Memorandum items:												
GDP (millions of dollars)	18,561	12,089	11,202	13,494	15,516	17,574	19,372	20,378	21,153	21,971	22,821	23,704
Nominal debt (millions of dollars)	8,012	10,286	11,801	11,924	11,673	11,550	11,459	11,417	11,407	11,407	11,369	11,334
Fund credit outstanding (millions of dollars)	145	1,754	2,390	2,558	2,369	1,709	831	339	27	0	0	0
Fund credit outstanding (in percent of GDP)	0.8	14.5	21.3	19.0	15.3	9.7	4.3	1.7	0.1	0.0	0.0	0.0

Sources: Ministry of Finance; Banco Central del Uruguay; and Fund staff estimates.

1/ Framework covers the nonfinancial public sector (including obligations to the Fund) and debt is measured in gross terms

2/ Assumes that Fund repayments in 2005-07 would be fully financed by commercial bonds; previous DSA versions assumed that a new Fund arrangement would cover half the amortizations.

Table 2. Uruguay: Nonfinancial Public Sector Debt Sustainability 1/
(includes costs of Bank restructuring)

	Projections											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
A. Assumptions												
Real GDP growth (percent)	-3.4	-11.0	2.5	12.0	5.0	3.5	3.5	2.5	2.0	2.0	2.0	2.0
Interest rate spread (bps)	284	1400	900	600	550	500	450	450	450	400	400	400
Real U.S. dollar exchange rate (change in percent)	-13.8	-26.8	-14.9	6.0	8.0	8.0	5.0	1.0	0.0	0.0	0.0	0.0
Primary balance: consolidated public sector	-1.2	0.0	2.7	3.6	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Non-financial public sector	-1.0	0.2	2.9	3.8	3.9	4.2	4.2	4.2	4.2	4.2	4.2	4.2
BCU	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Overall balance: consolidated public sector	-4.1	-4.6	-3.2	-2.3	-1.9	-0.2	0.1	-0.2	-0.3	-0.4	-0.2	-0.2
Non-financial public sector	-3.8	-4.3	-2.9	-1.4	-1.3	0.2	0.4	0.1	-0.1	-0.2	0.0	-0.1
BCU	-0.3	-0.3	-0.4	-0.9	-0.5	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1
B. Debt Dynamics (in percent of GDP)												
Gross non-financial public sector debt 2/	43	85	105	88	77	69	63	60	58	56	54	53
C. Cash Flow (in millions of U.S. dollars)												
Gross borrowing needs	1,217	3,364	1,036	1,261	1,611	1,827	1,731	1,405	1,376	1,381	2,038	1,715
Augmented public sector deficit	707	2,524	324	187	510	190	28	26	67	104	72	83
Public sector deficit	707	526	324	187	209	-31	-70	-13	24	41	11	24
Bank assistance	0	1,998	0	0	301	221	98	39	43	63	61	59
Note of BHU to BROU 3/	0	...	0	0	26	30	35	39	43	63	61	59
Note of BROU 4/	0	...	0	0	175	191	63	0	0	0	0	0
Legal judgements 5/	0	...	0	0	100	0	0	0	0	0	0	0
Amortization	510	840	712	1,074	1,101	1,637	1,702	1,379	1,309	1,277	1,965	1,632
Bonds, long-term	403	349	221	29	169	386	254	489	539	760	1,443	1,113
Commercial bank loans	0	214	217	307	83	127	144	164	198	195	195	191
IDB/WB and other official debt	97	205	234	339	364	459	424	234	260	295	327	328
IMF	10	72	40	400	485	665	880	492	312	27	0	0
Gross financing	1,216	3,364	1,036	1,260	1,499	1,176	1,033	798	864	1,094	1,783	1,387
Short-term bonds (net)	-32	383	403	-80	-257	0	0	0	0	0	0	0
Long-term bonds	1,292	143	405	371	400	400	400	416	438	635	1,310	931
Commercial bank	33	-16	-475	365	262	125	143	162	196	195	195	191
Use of deposits	26	-21	-543	200	181	80	0	0	0	0	0	0
Loans	7	5	68	165	81	45	143	162	196	195	195	191
IDB/WB and other official debt 6/	198	789	461	366	607	651	490	220	230	264	278	265
IMF	0	1,603	484	552	207	0	0	0	0	0	0	0
Central bank credit (net) (excluding IMF funds)	7	665	478	-631	200	0	0	0	0	0	0	0
Other inflows (net)	-299	13	-236	319	80	0	0	0	0	0	0	0
FSBS	0	0	0	265	80	0	0	0	0	0	0	0
Revenue from concessions	0	0	0	54	0	0	0	0	0	0	0	0
Residual financing needs	0	0	0	0	112	651	698	607	512	287	255	328
D. Other Indicators												
Total debt service (in percent of GDP)	5.6	11.4	12.1	13.1	12.3	13.3	12.6	10.9	10.5	10.2	12.9	11.2
Residual financing needs (in percent of GDP)	0.0	0.0	0.0	0.0	0.7	3.7	3.6	3.0	2.4	1.3	1.1	1.4
Average interest rate (in percent)	6.7	5.2	5.5	5.9	6.8	5.8	6.1	6.9	7.5	7.8	7.8	8.2
Memorandum items:												
GDP (millions of dollars)	18,561	12,089	11,202	13,494	15,516	17,574	19,372	20,378	21,153	21,971	22,821	23,704
Nominal debt (millions of dollars)	8,012	10,286	11,801	11,924	11,974	12,084	12,112	12,138	12,206	12,309	12,382	12,465
Fund credit outstanding (millions of dollars)	145	1,754	2,390	2,558	2,369	1,709	831	339	27	0	0	0
Fund credit outstanding (in percent of GDP)	0.8	14.5	21.3	19.0	15.3	9.7	4.3	1.7	0.1	0.0	0.0	0.0

Sources: Ministry of Finance; Banco Central del Uruguay; and Fund staff estimates.

1/ Framework covers the nonfinancial public sector (including obligations to the Fund) and debt is measured in gross terms

2/ Assumes that Fund repayments in 2005-07 would be fully-financed by commercial bonds; previous DSA versions assumed that a new Fund arrangement would cover half the amortizations.

3/ Government guarantees on payments to BROU by BHU, assumed to be invoked fully.

4/ Government guarantees of notes of the asset management company of BROU to BROU, assumed to be invoked fully.

5/ Contingent liability from the government's arbitration with the former owners of Banco de Credito.

6/ Includes additional financing for bank restructuring costs, which could also come from other resources (such as additional bond placements).

Table 3. Uruguay: Public Sector Debt Sustainability Framework, 1999-2009
(In percent of GDP, unless otherwise indicated)

	Actual					Projections					Debt-stabilizing primary balance 11/	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		2009
1 Public sector debt 1/	31.1	35.7	42.8	85.1	105.3	88.4	75.2	65.7	59.2	56.0	53.9	2.1
o/w foreign-currency denominated	31.1	35.7	42.8	85.1	105.3	88.4	75.2	65.7	59.2	56.0	53.9	2.1
2 Change in public sector debt	0.9	4.6	7.1	42.3	20.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3 Identified debt-creating flows (4+7+12)	5.8	5.7	9.9	58.0	-6.2	-17.0	-13.1	-9.5	-6.6	-3.1	-2.1	-2.1
4 Primary deficit	1.8	1.4	1.0	-0.5	-2.9	-3.8	-3.9	-4.2	-4.2	-4.2	-4.2	-4.2
5 Revenue and grants	29.2	28.5	29.3	27.8	28.6	29.3	29.2	29.4	29.3	29.2	29.2	29.2
6 Primary (noninterest) expenditure	31.0	29.9	30.4	27.3	25.7	25.5	25.3	25.2	25.1	25.0	25.0	25.0
7 Automatic debt dynamics 2/	4.0	4.4	8.9	41.6	-3.3	-14.0	-2.7	-2.4	-1.7	-0.2	0.6	0.6
8 Contribution from interest rate/growth differential 3/	1.7	1.8	2.1	3.1	-8.9	-3.7	1.3	0.0	0.4	1.1	1.7	1.7
9 Of which contribution from real interest rate	0.8	1.4	0.9	-1.4	-7.2	-10.3	-4.0	-2.4	-2.1	-1.4	-1.0	-1.0
10 Of which contribution from real GDP growth	0.9	0.4	1.2	4.5	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11 Contribution from exchange rate depreciation 4/	2.3	2.5	6.8	38.5	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12 Other identified debt-creating flows	0.0	0.0	0.0	16.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 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	0.0
14 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	0.0
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	16.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 Residual, including asset changes (2-3) 5/	-4.9	-1.1	-2.9	-15.7	26.5	0.9	-6.5	-2.9	-0.6	1.3	1.5	1.5
Public sector debt-to-revenue ratio 1/	106.5	125.3	146.1	305.8	368.6	301.8	257.6	223.6	201.9	191.9	184.7	184.7
Gross financing need 6/	4.4	8.0	7.2	11.9	18.1	16.2	13.6	10.8	9.6	12.9	7.8	7.8
in billions of U.S. dollars	0.9	1.6	1.3	1.4	2.0	2.2	2.1	1.9	1.9	2.6	1.6	1.6
Key Macroeconomic and Fiscal Assumptions												
Real GDP growth (in percent)	-2.8	-1.4	-3.4	-11.0	2.5	12.0	5.0	3.5	3.5	2.5	2.0	4.8
Average nominal interest rate on public debt (in percent) 7/	6.8	8.4	8.6	12.3	8.2	8.7	1.4	6.0	6.5	5.7	6.2	7.3
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.6	4.5	2.4	-5.4	-9.7	-9.8	13.1	-3.2	1.8	0.2	0.8	2.2
Nominal appreciation (increase in US dollar value of local currency, in percent)	-6.9	-7.2	-15.3	-45.7	-6.8	-16.3	11.9	...	...	...	...	0.9
Inflation rate (GDP deflator, in percent)	4.2	4.0	6.1	17.7	17.9	18.5	13.5	9.2	4.7	5.5	5.4	...
Growth of real primary spending (deflated by GDP deflator, in percent)	5.2	-5.1	-1.8	-19.9	-3.7	0.7	10.2	11.1	4.2	3.1	2.1	2.0
Primary deficit	1.8	1.4	1.0	-0.5	-2.9	-0.1	1.4	-3.8	-3.9	-4.2	-4.2	-4.1
A. Alternative Scenarios												
A1. Key variables are at their historical averages in 2005-09 8/	88.4	73.3	63.4	56.5	52.0	88.4	73.3	63.4	56.5	52.0	48.0	-3.5
A2. No policy change (constant primary balance) in 2005-09	88.4	75.3	66.2	60.1	57.4	88.4	75.3	66.2	60.1	57.4	55.7	2.2
A3. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 9/	88.4	75.2	65.7	59.2	56.0	88.4	75.2	65.7	59.2	56.0	53.9	2.1
A4. Selected variables are consistent with market forecast in 2005-09	88.4	75.2	65.7	59.2	56.0	88.4	75.2	65.7	59.2	56.0	53.9	2.1
B. Bound Tests												
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006	88.4	86.4	88.6	81.2	78.5	88.4	86.4	88.6	81.2	78.5	77.3	3.0
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006	88.4	93.5	105.7	106.7	113.6	88.4	93.5	105.7	106.7	113.6	122.7	4.8
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006	88.4	81.8	78.8	71.7	68.8	88.4	81.8	78.8	71.7	68.8	67.2	2.7
B4. Combination of B1-B3 using one standard deviation shocks	88.4	90.1	95.4	87.7	85.1	88.4	90.1	95.4	87.7	85.1	84.1	3.3
B5. One time 30 percent real depreciation in 2005 10/	88.4	124.4	111.6	103.4	101.1	88.4	124.4	111.6	103.4	101.1	100.8	4.0
B6. 10 percent of GDP increase in other debt-creating flows in 2005	88.4	85.2	75.1	68.1	65.2	88.4	85.2	75.1	68.1	65.2	63.5	2.5

1/ Framework covers the nonfinancial public sector (including obligations to the Fund) and debt is measured in gross terms.
 2/ Derived as $(r - p(1+g) - g + ae(1+r)) / (1+g-pr)$ 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 $r - p(1+g)$ 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/ Derived as nominal interest expenditure, divided by previous period debt stock.
 8/ The key variables include real GDP growth, real interest rate, and primary balance in percent of GDP.
 9/ The implied change in other key variables under this scenario is discussed in the text.
 10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
 11/ 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.

Table 4. Uruguay: External Debt Sustainability Framework, 1999-2009
(In percent of GDP, unless otherwise indicated)

	Actual			Projections					Debt-stabilizing non-interest current account 7/ 0.4			
	1999	2000	2001	2002	2003	2004	2005	2006		2007	2008	2009
I. External debt	39.5	44.3	47.8	87.2	98.3	82.0	70.7	61.5	55.0	52.4	50.7	
2 Change in external debt	0.0	4.8	3.5	39.4	11.1	-16.3	-11.3	-9.1	-6.5	-2.6	-1.7	
3 Identified external debt-creating flows (4+8+9)	4.0	3.1	4.8	23.9	3.9	-12.2	-3.0	-3.0	-2.5	-1.5	-1.0	
4 Current account deficit, excluding interest payments	0.2	1.3	0.2	-6.2	-5.7	-4.7	-3.6	-3.0	-2.7	-2.5	-2.4	
5 Deficit in balance of goods and services	-35.7	-39.1	-37.4	-42.2	-51.4	-56.0	-54.0	-52.0	-50.8	-51.2	-52.2	
6 Exports	16.6	18.2	17.5	21.9	27.2	29.2	27.8	26.4	25.8	26.0	26.5	
7 Imports	-19.1	-20.9	-19.9	-20.3	-24.2	-26.8	-26.2	-25.6	-25.0	-25.2	-25.7	
8 Net non-debt creating capital inflows (negative)	-1.1	-1.4	-1.7	-0.1	-2.3	-2.8	-1.6	-1.4	-1.3	-1.2	-1.2	
9 Automatic debt dynamics 1/	4.9	3.1	6.3	30.1	11.9	-4.8	0.2	1.4	1.4	2.2	2.5	
10 Contribution from nominal interest rate	2.2	1.5	2.7	4.6	5.0	5.0	3.8	3.6	3.4	3.5	3.5	
11 Contribution from real GDP growth	1.2	0.6	1.6	8.1	-2.4	-9.8	-3.6	-2.2	-2.0	-1.3	-1.0	
12 Contribution from price and exchange rate changes 2/	1.6	1.0	2.0	17.5	9.3	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	-4.0	1.7	-1.3	15.5	7.2	-4.1	-6.3	-6.1	-4.0	-1.1	-0.7	
External debt-to-exports ratio (in percent)	237.5	243.1	272.8	397.6	360.9	280.5	254.3	232.8	213.1	201.4	190.9	
Gross external financing need (in billions of US dollars) 4/	3.2	2.5	2.7	3.0	2.7	1.5	1.9	2.6	2.6	2.2	2.2	
in percent of GDP	15.4	12.2	14.6	25.1	24.4	11.3	12.2	14.6	13.5	11.0	10.3	
Key Macroeconomic Assumptions												
Real GDP growth (in percent)	-2.8	-1.4	-3.4	-11.0	2.5	5.6	5.0	3.5	3.5	2.5	2.0	4.8
GDP deflator in US dollars (change in percent)	-3.8	-2.6	-4.4	-26.8	-9.6	10.5	9.5	9.4	6.5	2.6	1.8	6.2
Nominal external interest rate (in percent)	5.1	3.6	5.6	6.2	5.4	0.8	6.1	5.3	5.7	6.1	7.0	6.1
Growth of exports (US dollar terms, in percent)	-16.2	5.2	-10.5	-18.8	14.7	1.8	12.9	9.4	7.7	6.6	6.0	11.0
Growth of imports (US dollar terms, in percent)	-10.9	4.9	-11.2	-33.8	9.8	15.7	33.4	12.6	10.5	7.6	6.0	12.7
Current account balance, excluding interest payments	-0.2	-1.3	-0.2	6.2	5.7	2.6	4.7	3.6	3.0	2.7	2.5	3.1
Net non-debt creating capital inflows	1.1	1.4	1.7	0.1	2.3	0.6	2.8	1.6	1.4	1.3	1.2	1.6
A. Alternative Scenarios												
A1. Key variables are at their historical averages in 2005-09 5/												
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 6/												
A3. Selected variables are consistent with market forecast in 2005-09												
B. Bound Tests												
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006												
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006												
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006												
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006												
B5. Combination of B1-B4 using one standard deviation shocks												
B6. One time 30 percent nominal depreciation in 2005												

1/ Derived as $[r - g - p(1+g) + ea(1+r)] / (1+g+pr+gp)$ times previous period debt stock, with r = nominal effective interest rate on external debt; p = 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 $[-p(1+g) + ea(1+r)] / (1+g+pr+gp)$ times previous period debt stock; r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ 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.

6/ The implied change in other key variables under this scenario is discussed in the text.

7/ 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.

FUND RELATIONS
(As of December 31, 2004)

I. **Membership Status:** Joined March 11, 1946; Article VIII

A. Financial Relations

II. **General Resources Account:**

	<u>In millions of SDRs</u>	<u>In percent of Quota</u>
--	--------------------------------	--------------------------------

Quota	306.50	100.0
Fund holdings of currency	2,034.88	663.91
Reserve position	0.0	0.0

III. **SDR Department:**

	<u>In millions of SDRs</u>	<u>Percent of Allocation</u>
--	--------------------------------	----------------------------------

Net cumulative allocation	49.98	100.0
Holdings	0.00	0.00

IV. **Outstanding Purchases and Loans:**

	<u>In millions of SDRs</u>	<u>In percent of quota</u>
--	--------------------------------	--------------------------------

Stand-By Arrangements	1,728.38	563.91
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V. **Financial Arrangements:**

			<u>SDR Millions</u>	
<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved</u>	<u>Amount Drawn</u>

Stand-By	4/01/02	3/31/05	1,988.50	1,848.70
Of which SRF	6/25/02	8/08/02	128.70	128.70
Stand-By	5/31/00	3/31/02	150.00	150.00
Stand-By	3/29/99	3/28/00	70.00	0.00

VI. **Projected Obligations to Fund:** (Expectation basis through May 2004 (Country Report No. 05/14) and Obligation basis thereafter) (SDR millions; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	317.30	434.43	574.40	268.35	133.98
Charges/interest	74.69	59.89	26.44	10.53	3.76
Total	391.99	494.32	600.84	278.88	137.74

B. Nonfinancial Relations

- VII. **Safeguards Assessment:** An on-site assessment of the BCU was conducted in July 2002, and the final safeguards assessment report was approved by Fund Management in January 2003. The assessment identified a need to strengthen the control and oversight framework within the BCU, in particular in the external audit area. To this end, staff recommended the establishment of an audit committee, the hiring of a private audit firm with international affiliation to perform a financial audit of the BCU, and the establishment of similar external audit procedures for the FSBS. The authorities committed to the implementation of all the safeguards recommendations. An external audit of the BCU's 2003 accounts and two of four supplementary external audits of each bank's FSBS have been completed, with the remaining two audits near completion. The BCU has created an independent audit committee to oversee the bank's financial reporting practices. Limited action has been taken to implement International Financial Reporting Standards in published financial statements. The recommendation to publish by end-April the audited financial statements of the central bank of the previous year cannot be guaranteed as this depends on the approval of the national audit office.
- VIII. **Exchange Rate Arrangement:** The currency is the Uruguayan peso (Ur\$). Uruguay has followed an independently floating exchange rate regime since July 29, 2002. On February 1, 2005, buying and selling interbank rates for the U.S. dollar, the intervention currency, were Ur\$24.35 and Ur\$24.40, respectively. Uruguay's exchange system is mostly free of restrictions on payments and transfers for current international transactions. However, reprogrammed time deposits at BROU and BHU gives rise to an exchange restriction under Article VIII, as it prevents nonresidents affected by the reprogramming from transferring abroad proceeds of recent current international transactions. Staff has recommended approval of the exchange restriction, given it is temporary and does not discriminate among Fund members.
- IX. **Article IV Consultation:** The 2003 Article IV consultation was concluded by the Executive Board on July 11 (Country Report No. 03/247). Uruguay is on the standard consultation cycle governed by the provisions approved by the Executive Board on July 15, 2002.
- X. **FSAP participation and ROSCs:** The ROSC-module on fiscal transparency was published on March 5, 2000. A ROSC-module on data dissemination practices was published on October 18, 2001. An FSAP exercise was started in November 2001, but was subsequently suspended on account of the financial crisis in 2002.
- XI. **Technical Assistance:** Technical assistance in tax policy and tax administration was provided by FAD in May and July 2003. In April 2003, STA provided technical assistance on adequate recording of loans funded by the FSBS. MFD has been providing substantial technical assistance since 2002 in the resolution of intervened banks and the restructuring of the public bank BROU.
- XII. **Resident Representative:** Mr. Andreas Bauer.

RELATIONS WITH THE WORLD BANK GROUP
(As of January 31, 2005)

The Board considered the last Country Assistance Strategy (CAS) on May 5, 2000 and a CAS Progress Report on July 25, 2002. The Bank increased its financial support, shifting to a high case lending scenario of US\$550 million for fiscal years 2002-04, concentrated in adjustment lending. A Structural Adjustment Loan (SAL 1) and a Special Structural Adjustment Loan (SSAL 1) were approved with the CAS Progress Report, totaling US\$303 million, to assist Uruguay in addressing structural weaknesses and in managing the economic crisis. On April 8, 2003, another structural adjustment package (SAL 2 and SSAL 2) was approved totaling US\$252.5 million, focusing on improving public services and human development policies. Progress in implementation of SAL 1 and SSAL 1 has been satisfactory, and the last tranche in the amount of US\$100 million (US\$50 of SAL 1 and US\$50 of SSAL 1) was released in October 2004. Second tranche release for a total amount of US\$75 million of SAL 2 (US\$50 million) and SSAL 2 (US\$25 million) has been delayed. Although substantial progress towards compliance with conditions for second tranche release of SSAL 2 (Social Sectors) has been achieved, this operation is linked to SAL 2 (Utilities Sector) for which progress has been delayed due to the Government's lack of support to pass key legislation during the transition period following the general elections and prior to the new administration taking office on March 1, 2005. Approval of new investment operations has been postponed until a new CAS will be prepared with the new administration. It is expected that the new CAS will be approved by end-May 2004.

The investment portfolio comprises six projects totaling US\$289.5 million in commitments, with an undisbursed amount of US\$113.8 million as of January 30, 2005. Of the two structural adjustment packages, a total of US\$175 million remains to be disbursed. The performance of the investment portfolio has improved significantly in CY04, with disbursements for investment operations aggregating to US\$43.8 million. This is a reflection of the substantially improved economic situation, as well closer portfolio monitoring, with portfolio performance reviews being conducted on a semi-yearly basis.

FINANCIAL RELATIONS WITH THE WORLD BANK GROUP
(In millions of U.S. dollars)

	Commitments (Net of Cancellations)	Disbursements	Undisbursed Amount
I. IBRD Operations (as of January 30, 2005)			
Agriculture	18.5	15.8	2.7
Central Government and Administration	252.5	77.5	175.0
Telecommunication	6.0	1.3	4.7
Education	42.0	9.8	32.2
Power	125.0	82.8	42.2
Transportation	71.0	55.3	15.7
Water Supply	27.0	10.7	16.3
Total	542.0	253.2	288.8

II. IFC Operations (as of December 31, 2004)

	Loans	Equity	Quasi	Participation
Held	22.2	2.0	12.2	0.0
Disbursed	22.2	2.0	12.2	0.0

III. IBRD Loan Transactions (calendar year)

Total outstanding loans (as of December 31, 2004): US\$785.4

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Disbursements	31.7	38.7	50.4	143.9	66.3	134.2	64.7	233.5	97.4	143.8
Repayments	77.8	69.7	67.9	64.1	63.2	57.9	72.5	75.3	78.2	80.2
Net Lending	-46.1	-31.0	-17.5	79.8	3.1	76.3	-7.8	158.2	19.2	63.6

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of January 12, 2005)

The most recent IDB Country Strategy for Uruguay focuses on the following priority areas: (i) enhancing the regional and international competitiveness of domestic output and encouraging private investment, in order to foster healthy competition and allow for integration with both the regional and international markets; (ii) deepening the reform of the State, with a view to rationalizing expenditure, targeting interventions, and reducing its role in the production of domestic goods and services; and (iii) improving social welfare and increasing equity, particularly to those families and children living in poverty. The IDB is currently preparing a new Country Strategy for Uruguay for 2005–09.

As of January 12, 2005 the Bank's active portfolio in Uruguay included 17 loans for the financing of investment projects; one sector loan, for strengthening the banking sector; and 29 nonreimbursable technical cooperation operations for US\$16.7 million. The lending portfolio amounts to US\$991.3 million, of which US\$512.6 million are pending disbursement. The IDB's lending program for 2005 includes financing for a program to support livestock competitiveness for US\$25 million and a social sector program (policy-based loan) for an estimated US\$250 million. The preliminary lending program for 2006 includes financing for the modernization of the Montevideo Port for US\$85 million as well as for the fourth stage of the sanitation plan in Montevideo for US\$48 million.

FINANCIAL RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(In millions of U.S. dollars)

Total outstanding loans: US\$2,240.9¹

Loan transactions:

	1998	1999	2000	2001	2002	2003	2004 ²
Disbursements	150.8	358.5	162.9	214.2	558.6	373.2	63.9
Amortization	48.3	57.0	59.4	60.7	73.1	103.2	119.3
Net Loan Flows	102.5	301.5	103.5	153.5	485.5	270.0	-55.4

Source: Inter-American Development Bank.

¹ As of November 30, 2004.

² IDB estimates, as of December 10, 2004.

STATISTICAL ISSUES

The statistical database in Uruguay is generally adequate for the assessment and monitoring of macroeconomic policies, but important weaknesses exist, especially in the fiscal sector. A multisector mission of November 10–24, 1999 developed an action plan for bringing Uruguay's data dissemination policies and practices into line with the Fund's Special Data Dissemination Standard (SDDS). To improve the provision of fiscal data for program monitoring purposes, the government established recently a committee to bolster coordination between the MEF, the BCU, BROU, and BHU.

Real sector

National account statistics have a number of shortcomings, including the use of an outdated benchmark year 1983, limited coverage of the enterprise survey, long publication lags, inadequate information on the informal economy, and incomplete quarterly accounts. The BCU compiles and disseminates annual GDP estimates in current and constant prices by production and expenditure approach, as well as quarterly constant price GDP estimates by production and expenditure approach. Gross national income, gross disposable income and gross savings are also available annually. The November 1999 multisector mission recommended a range of improvements including the completion of the revision of data and methods that had already been partially carried out, introduction of annually chained volume measures, incorporation of new benchmark survey data, and compilation of quarterly estimates of GDP at current prices.

The authorities do not provide trade price and volume indices for publication in the International Financial Statistics (*IFS*).

Both the consumer and wholesale price indices are reported on a regular and timely basis for publication in the *IFS*. The consumer price index has a base period of March 1997 =100, and the wholesale price index's base has been updated to 2001. The coverage of the CPI is limited to the capital city.

Government finances

Official data on the central administration, the state enterprises and the social security system are complete and current, but there are problems with the timeliness of the data on local governments; there are also problems with the timeliness of financing and debt data reported for inclusion in the Fund's statistical publications. However, the reporting lag on central government operations has been reduced by one month and the authorities have started the publication of information on the stock of floating debt. The multisector mission that visited Uruguay in November 1999 reviewed the sources used for the compilation of central government financing data and identified sources of information for local governments. The mission made recommendations for the compilation of this data and its reporting to STA. The information reported for publication in the *Government Finance Statistics Yearbook* includes data on the central government; however, complete annual central government debt data have not been reported for periods after 1994 and data on local governments have not been reported

for periods after 1997. Following the recommendations of the multisector mission, however, significant improvements have been made in the compilation and dissemination of financing and debt data. Information on a monthly and quarterly basis for financing and debt data respectively, are disseminated on the Central Bank's website from 1999 onwards for the central government and total public sector.

Monetary accounts

Two STA money and banking statistics missions visited Montevideo in July 1998 and March 1999. The missions reviewed the timeliness, coverage, and classification of the monetary accounts for the banking system and developed a unified system for reporting data to the Fund. The 1999 multisector mission continued work on improving the basic source data and the methodology for compiling monetary statistics, and recommended a new reporting system, which has since been adopted by the Central Bank. The mission developed a database that contains the data needs for publication in *IFS* and for operational use by WHD.

The STA mission that visited Montevideo in April 2003 provided recommendations for the adequate recording of the loans funded from the Fund for the Stabilization of the Banking System (FSBS) in the Central Bank's balance sheet. The mission's recommendations have been implemented and were reflected in the *IFS* June 2003 issue.

Balance of payments

Balance of payments statements are compiled and published on a quarterly basis. Data are compiled following the recommendations of the fifth edition of the *Balance of Payments Manual (BPM5)*. The authorities have made significant progress in implementing the multisector mission recommendations in order to improve the coverage and quality of balance of payments estimates. The directory of direct investment enterprises has been updated and measures have been introduced to improve the survey on inward investment; quarterly surveys have been introduced in the case of services, and other activities not currently covered; the coverage of reserve assets has been revised to exclude certain assets that are not available to finance balance of payments needs. Uruguay compiles and reports to STA quarterly data on balance of payments and annual data on the international investment position (IIP) for publication in the *IFS* and the *Balance of Payments Statistics Yearbook*. The new surveys would also allow for improved coverage of the private sector in the IIP.

In October 2003, Uruguay disseminated the international reserves and foreign currency liquidity data template on the Central Bank's website for the first time. Monthly information on the data template is currently available for August 2003–September 2004. Uruguay also disseminates quarterly external debt statistics.

Uruguay: Core Statistical Indicators
(As of February 1, 2005)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Public Debt
Date of latest Observation	01/31/05	01/31/05	01/31/05	12/04	11/04	01/31/05	12/04	11/04 (X) 11/04 (M)	10/04	12/04	Q3/04	09/03
Date received	01/30//05	01/30//05	01/30//05	01/21/05	01/21/05	01/30/05	01/15/05	12/04	12/04	01/05	12/04	01/05
Frequency of data	Daily	Daily	Daily	Monthly	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly	Quarterly
Frequency of reporting	Daily	Daily	Daily	Monthly	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly	Quarterly
Source of data	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Institute of Statistics	Central Bank	Central Bank	Ministry of Finance	Central Bank	Central Bank
Mode of reporting	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	Web	Web	E-mail/ Web	E-mail/ Web	E-mail/ Web	Web
Confidentiality	None	None	None	None	None	None	None	None	None	None	None	None
Frequency of Publication	Daily	Daily	Monthly	Monthly	Monthly	Daily	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly

Montevideo, Uruguay
February 9, 2005

Dear Mr. de Rato:

1. Uruguay's economic program, which has been supported by a three-year stand-by arrangement (SBA) approved on April 1, 2002, and modified in August of that year, has yielded excellent results. The economy is recovering sharply; inflation has been well contained; the external position has strengthened significantly; and the successful debt restructuring has lengthened significantly the maturity profile of the public debt (which has fallen from 105 percent of GDP in 2002 to 89 percent of GDP by 2004). Supported by a favorable external environment, these results were achieved through sound macroeconomic policy management, particularly by strengthening the public finances and in implementing a cautious monetary policy with a floating exchange rate.
2. In addition, implementation of a comprehensive banking sector reform program, supported by close technical cooperation with the Fund's Monetary and Financial Systems Department, has substantially strengthened the health of the banking system—the public commercial bank (BROU) is now showing profits, its balance sheet shows very low nonperforming loans, and its risk and credit management practices have been bolstered. The banking system has been streamlined, with four domestic banks and one savings & loan liquidated, and a new bank formed with the performing assets of three of these banks. The asset recovery of the liquidated banks is well underway (and the asset manager has met its end-January target of 700 approved payment agreements, a structural benchmark under the program). Moreover, we have made significant progress in improving the transparency of the liquidation process, with externally-audited semi-annual reports to begin being published in the first quarter of this year.
3. We are working for a smooth transition with the new government, which takes office on March 1. In particular, consistent with our commitment during the last review, spending authorization for the first quarter of 2005 limit expenditure growth to 1.5 percent in real terms (y/y), and we have secured funding of the public finances through June of this year. The incoming central bank president attended the December 2004 monetary policy meeting, at which time the 12-month target range for inflation was established at 5.5–7.5 percent.
4. Performance under the 2004 program was favorable. GDP growth was about 12 percent, inflation ended the year at 7.6 percent, and gross international reserves rose by around US\$500 million to about US\$2.5 billion. Preliminary data show that all end-December quantitative performance criteria (PCs) were observed (provision of final data on the primary fiscal balance and gross debt of the nonfinancial public sector is a prior action for this review). Also observed were structural PCs on completing the transfer of all new and remaining non-performing loans of BROU to its fiduciary trust (end-December 2004), completing semiannual financial reports of the liquidation funds for end-December 2004

(end-January 2005), and on ensuring the timely service of the BHU (housing bank) note to BROU.

5. Some reforms envisaged under the program took longer than expected, although the government has remained firmly committed to them. Incorporation of the information on nonperforming borrowers in the liquidation funds (whose loans were held by the liquidation funds) into the credit registry of the Banking Superintendency could not be finished by end-December (PC), owing to the need to ensure the accuracy of the information; this action will be implemented before February 17, 2005 as a prior action for completion of this review. Structural benchmarks for end-December were not observed on establishing a large taxpayers unit (LTU) at the tax administration department (DGI) and on congressional approval of reforms of the pension funds of the police, military, and bank employees. These reforms will need to be completed by the new government. Overall, however, our structural reform program (focused on banking and fiscal reforms) has been broadly successful.

6. Based on the progress made under the program, we request: (i) completion of the Seventh Review under the Stand-By Arrangement, with availability of a purchase equivalent to SDR 139.8 million; and (ii) a waiver on nonobservance of the end-December structural performance criterion on transferring loan information in the liquidated banks to the credit registry of the Banking Superintendency, on the basis that it will be implemented before completion of this review.

7. As this is the last review under the Fund arrangement, which expires on March 31, 2005, we would like to take the opportunity to thank the Fund for its crucial support in dealing with the 2002 financial crisis and its aftermath. With that support, the government of Uruguay put in place an economic program that has allowed the country to overcome the difficulties posed at the height of the crisis and to recover in a strong manner, leaving the incoming government with a solid basis on which to build. No doubt, Uruguay continues to face important challenges to ensure sustained rapid growth, reduce the public debt, and strengthen further the banking system. Nevertheless, we are convinced that with the improved fiscal position, the successful debt exchange of May 2003, and the good progress made in restructuring the financial system, the country is on the right path to managing these challenges.

Sincerely yours,

/s/
Julio de Brun
President
Central Bank of Uruguay

/s/
Isaac Alfie
Minister of Economy and Finance
Oriental Republic of Uruguay

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street NW
Washington DC 20431

Table 1. Uruguay: Quantitative Performance Criteria and Indicative Targets Under the 2004-05 Economic Program 1/

	Base Dec. 2003	March 31, 2004				June 30, 2004			
		Target	Adj. Target	Actual	Margin (+)	Target	Adj. Target	Actual	Margin (+)
A. Quantitative performance criteria									
(In millions of Uruguayan pesos)									
1. Combined public sector primary balance (cumulative floor) 2/ 3/		1,897	1,722	4,200	2,478	3,605	3,379	7,536	4,157
2. General government noninterest expenditure (cumulative ceiling) 2/ 4/		10,016	10,254	9,581	673	19,757	19,757	19,603	154
3. Change in the net domestic assets of the BCU (ceiling) 2/ 5/		1,480	3,030	-5,045	8,075	-750	800	-7,440	8,240
(In millions of U.S. dollars)									
4. Net international reserves of the BCU (- decrease) (cumulative floor) 2/ 5/	-1,723	-30	-80	140	220	50	0	201	201
5. Nonfinancial public sector gross debt (ceiling) 3/ 6/	8,772	8,853	8,810	8,780	30	8,864	8,797	8,788	9
B. Indicative targets									
(In millions of Uruguayan pesos)									
1. Combined public sector overall balance (cumulative floor) 2/ 3/ 7/		-5,171	-5,445	-2,967	2,478	-7,848	-8,010	-3,853	4,157
2. Change in the monetary base (ceiling) 8/	14,577	550	550	-705	1,255	800	800	-1,209	2,009
<hr/>									
		September 30, 2004				December 31, 2004			
		Target	Adj. Target	Act.	Margin (+)	Target	Adj. Target	Prel.	Margin (+)
A. Quantitative performance criteria									
(In millions of Uruguayan pesos)									
1. Combined public sector primary balance (cumulative floor) 2/ 3/		10,238	10,216	12,004	1,788	12,525	12,444	13,828	1,384
2. General government noninterest expenditure (cumulative ceiling) 2/ 4/		30,592	30,700	29,956	744	41,525	41,742	40,936	806
3. Change in the net domestic assets of the BCU (ceiling) 2/ 5/		-550	1,000	-7,552	8,552	-3,830	-2,280	-12,016	9,736
(In millions of U.S. dollars)									
4. Net international reserves of the BCU (- decrease) (cumulative floor) 2/ 5/		50	0	187	187	180	130	438	308
5. Nonfinancial public sector gross debt (ceiling) 3/ 6/		9,035	8,921	8,842	79	9,040	8,977	8,934	43
B. Indicative targets									
(In millions of Uruguayan pesos)									
1. Combined public sector overall balance (cumulative floor) 2/ 3/ 7/		-9,040	-8,280	-6,492	1,788	-11,384	-10,231	-8,846	1,385
2. Change in the monetary base (ceiling) 8/		1,000	1,000	-1,755	2,755	1,750	1,750	628	1,122

Sources: Ministry of Economy and Finance; and Central Bank of Uruguay.

1/ As defined in the Technical Memorandum of Understanding.

2/ Cumulative changes from end-December 2003.

3/ Adjusted upward/downward for changes in social security contributions, as defined in the TMU.

4/ Adjusted upward/downward for changes in collections of the Fondos de Libre Disponibilidad (FLD), as defined in the TMU.

5/ Adjusted upward/downward for changes in program disbursements from the World Bank and IDB, as defined in the TMU.

6/ All maturities. The 2003 base includes all loans guaranteed by the government. For December 2003, the debt ceiling has been adjusted upwards to reflect the transfer of Brady bonds from the central bank to the government.

7/ Adjusted upward/downward for changes in interest payments, as defined in the TMU.

8/ Cumulative change from December 2003 average.

Table 2. Uruguay: Structural Conditionality Under the 2004-05 Economic Program 1/

Structural conditionality	Expected timing	Status
A. Prior actions		
Incorporate into the credit registry of the Banking Superintendency the information on nonperforming borrowers in the liquidation funds whose loans were held by the liquidation funds.		
Submit final data for the primary surplus of the combined public sector and NFPS gross debt		
B. Structural performance criteria		
Completion of the transfer to the BROU fiduciary trust of all new and remaining Category 4 and 5 loans.	December 31, 2004	Observed
Incorporate into the credit registry of the Banking Superintendency the information on nonperforming borrowers in the liquidation funds whose loans were held by the liquidation funds.	December 31, 2004	Not observed
Complete semiannual financial reports of the liquidation funds for end-December 2004 for auditing and publication.	January 31, 2005	Observed
Government to ensure timely service of BHU note to BROU.	Continuous	Observed
C. Structural benchmarks		
Establishment of a Large Taxpayers Unit at the Tax Administration Department (DGI).	December 31, 2004	Not observed
Approval by Congress of the reform of the pension funds for the police and the military.	December 31, 2004	Not observed
Approval by Congress of the reform of the pension funds for bank employees.	December 31, 2004	Not observed
Asset manager to reach 700 payment agreements approved by its creditor committee.	January 31, 2005	Observed

1/ As defined in the Technical Memorandum of Understanding.

INTERNATIONAL MONETARY FUND

URUGUAY

**Seventh Review Under the Stand-By Arrangement, and Request for Waiver of
Nonobservance of Performance Criterion**

Supplementary Information

Prepared by the Western Hemisphere Department
(In collaboration with other Departments)

Approved by Markus Rodlauer and Liam P. Ebrill

February 18, 2005

1. Since the issuance of the staff report, additional information on recent developments and policy measures has become available. This information does not alter the thrust of the staff appraisal.
2. **Prior actions.** As explained in the staff report, there were two prior actions for this review.
 - The provision of final fiscal and public debt data for end-2004 has been done and incorporated in the attached revised Table 3 of the staff report. In line with the preliminary assessment, the quantitative performance criteria on the primary fiscal surplus and the public debt were observed. The primary surplus (below-the-line) ended the year at 3.4 percent of GDP (above-the-line data shows a primary surplus of 3.6 percent of GDP). Taking into account the adjustors for higher-than-programmed transfers to the private pension funds, the margin relative to the PC was US\$757 million (about 0.2 percent of GDP).
 - The incorporation of data on borrowers with nonperforming loans (NPL) held by the liquidation funds into the credit registry of the Banking Superintendency, however, has not been fully completed. The staff of the superintendency has been working expeditiously on this matter, while taking care to avoid including any borrower who is performing. So far, the credit information transferred covers 93 percent of the liquidation funds' nonperforming borrowers, or 92 percent of the face value of their NPLs. The information transferred covers those borrowers who have not made any payment on their debts since the inception of the liquidation funds, but the authorities are still in the process of verifying information on some debtors who have made payments to ensure that performing debtors are not erroneously included in the credit registry. The authorities expect the transfer to be completed by May 2005.

3. **Notwithstanding the delay in fully completing the second prior action, staff supports the authorities' request to proceed with the seventh review.** The bulk of relevant creditor information has been transferred to the credit registry, and the authorities are committed to completing the transfer in the near future.

4. **Political developments.** The incoming government has reached agreement with the opposition (Colorado and Blanco) parties on broad principles that will guide economic policy during its term in office, including continued fiscal discipline, maintainance of the current monetary and exchange rate policy frameworks, and the need for structural reforms to improve the investment climate. Staff welcomes the agreement as an important step in building a consensus on a strategy for further fiscal consolidation and reforms to boost growth in a lasting way, and hopes that it can be sustained and translated into policy actions in the coming months.

Table 3. Uruguay: Quantitative Performance Criteria, Indicative Targets, and Structural Conditionality Under the 2004–05 Economic Program 1/

	March 31, 2004				June 30, 2004			
	Target	Adj. Target	Actual	Margin (+)	Target	Adj. Target	Actual	Margin (+)
A. Quantitative performance criteria								
(In millions of Uruguayan pesos)								
1. Combined public sector primary balance (cumulative floor) 2/ 3/	1,897	1,722	4,200	2,478	3,605	3,379	7,536	4,157
2. General government noninterest expenditure (cumulative ceiling) 2/ 4/	10,016	10,254	9,581	673	19,757	19,757	19,603	154
3. Change in the net domestic assets of the BCU (ceiling) 2/ 5/	1,480	3,030	-5,045	8,075	-750	800	-7,440	8,240
(In millions of U.S. dollars)								
4. Net international reserves of the BCU (- decrease) (cumulative floor) 2/ 5/	-30	-80	140	220	50	0	201	201
5. Nonfinancial public sector gross debt (ceiling) 3/ 6/	8,853	8,810	8,780	30	8,864	8,797	8,788	9
B. Indicative targets								
(In millions of Uruguayan pesos)								
1. Combined public sector overall balance (cumulative floor) 2/ 3/ 7/	-5,171	-5,445	-2,967	2,478	-7,848	-8,010	-3,853	4,157
2. Change in the monetary base (ceiling) 8/	550	550	-705	1,255	800	800	-1,209	2,009
	September 30, 2004				December 31, 2004			
	Target	Adj. Target	Actual	Margin (+)	Target	Adj. Target	Actual	Margin (+)
A. Quantitative performance criteria								
(In millions of Uruguayan pesos)								
1. Combined public sector primary balance (cumulative floor) 2/ 3/	10,238	10,216	12,004	1,788	12,525	12,444	13,201	757
2. General government noninterest expenditure (cumulative ceiling) 2/ 4/	30,592	30,700	29,956	744	41,525	41,742	40,936	806
3. Change in the net domestic assets of the BCU (ceiling) 2/ 5/	-550	1,000	-7,552	8,552	-3,830	-2,280	-12,016	9,736
(In millions of U.S. dollars)								
4. Net international reserves of the BCU (- decrease) (cumulative floor) 2/ 5/	50	0	187	187	180	130	438	308
5. Nonfinancial public sector gross debt (ceiling) 3/ 6/	9,035	8,921	8,842	79	9,040	8,977	8,934	43
B. Indicative targets								
(In millions of Uruguayan pesos)								
1. Combined public sector overall balance (cumulative floor) 2/ 3/ 7/	-9,040	-8,280	-6,492	1,788	-11,384	-10,231	-9,474	757
2. Change in the monetary base (ceiling) 8/	1,000	1,000	-1,755	2,755	1,750	1,750	628	1,122

Sources: Ministry of Economy and Finance; and Central Bank of Uruguay.

Table 3. Uruguay: Quantitative Performance Criteria, Indicative Targets and Structural Conditionality
Under the 2004–05 Economic Program (concluded)

Structural Conditionality	Date	Status
A. Structural performance criteria		
Completion of the transfer to the BROU fiduciary trust of all new and remaining Category 4 and 5 loans.	end-Dec.	Observed
Incorporate into the credit registry of the Banking Superintendency the information on nonperforming borrowers in the liquidation funds whose loans were held by the liquidation funds.	end-Dec.	Prior action for seventh review
Complete semiannual financial reports of the liquidation funds for end-December 2004 for auditing and publication.	end-Jan.	Observed
Government to ensure timely service of BHU note to BROU.	Continuous	Observed
B. Structural benchmarks		
Establishment of a Large Taxpayers Unit at the Tax Administration Department (DGI).	end-Dec.	Not observed.
Approval by Congress of the reform of the pension funds for the police and the military.	end-Dec.	Not observed.
Approval by Congress of the reform of the pension funds for bank employees.	end-Dec.	Not observed.
Asset manager to reach 700 payment agreements approved by its creditor committee.	end-Jan.	Observed

Sources: Ministry of Economy and Finance; and Central Bank of Uruguay.

1/ As defined in the Technical Memorandum of Understanding.

2/ Cumulative changes from end-December 2003.

3/ Adjusted upward/downward for changes in social security contributions, as defined in the TMU.

4/ Adjusted upward/downward for changes in collections of the Fondos de Libre Disponibilidad (FLD), as defined in the TMU.

5/ Adjusted upward/downward for changes in program disbursements from the World Bank and IDB, as defined in the TMU.

6/ All maturities. The 2003 base includes all loans guaranteed by the government. For December 2003, the debt ceiling has been adjusted upwards to reflect the transfer of Brady bonds from the central bank to the government.

7/ Adjusted upward/downward for changes in interest payments, as defined in the TMU.

8/ Cumulative change from December 2003 average.

Montevideo, Uruguay
February 18, 2005

Dear Mr. de Rato:

As described in our letter of February 9, 2005, we have been working to incorporate the information on nonperforming borrowers in the liquidation funds (whose loans were held by the liquidation funds) into the credit registry for the Banking Superintendency. Completion of this action is a prior action for the completion of the Seventh Review under the Stand-by Arrangement.

As of today, we have been able to transfer information covering 93 percent of the nonperforming borrowers, accounting for 92 percent of the face value of nonperforming loans to the credit registry. The information transferred covers those borrowers who have not made any payment of their debts since the inception of the liquidation funds. However, we are still in the process of verifying information on debtors who have made payments, and this process has taken longer than anticipated as we need to ensure that performing debtors are not erroneously included in the credit registry.

While the prior action, therefore, has not been fully completed, the key debtors (those who have not made any payments) are in the registry, which is the most important element for bolstering creditor discipline. Therefore, we request to proceed with the Seventh Review under the Stand-by Arrangement. Of course, the superintendency of banks and the central bank remain fully committed to transferring the remaining information on nonperforming creditors to the credit registry. We expect this to be completed by May 2005.

Sincerely yours,

/s/
Julio de Brun
President
Central Bank of Uruguay

/s/
Isaac Alfie
Minister of Economy and Finance
Oriental Republic of Uruguay

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431



Press Release No. 05/39
FOR IMMEDIATE RELEASE
February 23, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Final Review Under Uruguay's Stand-By Arrangement, Approves US\$ 213.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the seventh review under the SDR 1.99 billion (US\$ 3.04 billion) Stand-By Arrangement for Uruguay. Completion of this final review makes SDR 139.8 million (about US\$ 213.8 million) immediately available to Uruguay. In completing the review, the Board granted a waiver for the nonobservance of one performance criterion related to the incorporation of loan information in the liquidation funds into the credit registry.

The Stand-By Arrangement was approved on March 25, 2002 in an amount equivalent to SDR 594.1 million (about US\$ 908.7 million) for a 24-month period starting April 1, 2002 (see [Press Release No. 02/14](#)) and was augmented by SDR 1.16 billion (about US\$ 1.77 billion) on June 25, 2002 (see [News Brief. No. 02/54](#)), and by SDR 376.0 million (about US\$ 575.1 million) on August 8, 2002 (see [News Brief. No. 02/87](#)), and reduced by SDR 139.8 million (about US\$ 213.8 million) on August 27, 2004 (see [Press Release No. 04/180](#)). Total disbursements under the Stand-By Arrangement, including the amount approved today, is SDR 1.99 billion (about US\$ 3.04 billion)

In commenting on the Executive Board decision, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, said:

“Supported by the current IMF Stand-By Arrangement, Uruguay’s economic program has successfully steered the economy out of the 2002 financial crisis while boosting economic growth, keeping inflation well under control, and substantially strengthening the international reserve position. The favorable results reflect the implementation of prudent macroeconomic policies, diversification of trade, and structural reforms, especially in the banking system, as well as a supportive external environment. The authorities should be commended for leaving behind stronger public finances and a reinforced policy platform for the incoming government to launch its own policy package aimed at achieving high quality growth and sustainable public finances for the medium to long term.

“Uruguay’s public finances have strengthened considerably. However, despite significant improvement in the public debt profile, the debt burden remains high, and further fiscal

tightening will be needed to bring it down to a sustainable level. Key fiscal reforms for the medium term should include strengthening the tax system and tax administration, reforming the specialized pension funds, and improving the budgetary process.

“Monetary policy has been conducted prudently. The incoming government’s decision to continue with the current policy framework is appropriate. Uruguay will benefit from taking advantage of the favorable external situation to bolster its international reserves further. In addition, steps to strengthen the autonomy and financial position of the central bank will be helpful in bolstering its ability to pursue appropriate monetary policies.

“Banking reforms have progressed well, and the health of the financial system has improved markedly. Insolvent banks have been closed, and the liquidation of their assets is moving forward. Bank supervision and regulation have been strengthened, and the authorities are working to bring them fully in line with international standards. The restructuring process will need to ensure that the banking system can return quickly to its role of channeling financial resources to support economic growth, and to reduce the government’s exposure to contingent costs from the restructuring process.

“The incoming authorities have made a welcome commitment to build on the progress made to date. They face important challenges that still confront the Uruguayan economy. Going forward there is clear potential for the recent virtuous cycle of strong policies, economic growth, and social progress to continue, if—based on a broad domestic consensus—the new authorities reinvigorate the process of carrying out pending structural fiscal reforms, completing ongoing banking reforms, and creating an environment conducive to increased private investment and productivity growth. The incoming authorities’ intention to ensure that any increased spending under the social emergency program is accommodated within the existing overall budget constraint is welcome. The recent accord among the main political parties on key policy principles bodes well for Uruguay’s prospects,” Mr. Carstens said.

**Statement by Hector Torres, Executive Director for Uruguay
and David Vogel, Advisor to Executive Director
February 23, 2005**

Background

1. Nearly three years ago, by the time the current program was approved, Uruguay was affected by a sort of economic earthquake that devastated many areas of the country. After suffering serious adverse shocks, and also due to some domestic problems, Uruguay lost its investment grade status. The country risk increased tenaciously - exceeding the level of 2,500 basis points-, thus the country found itself completely closed off from international financial markets. Meanwhile, the significant frauds carried out by two of the main private banks in Uruguay with strong links to Argentina led to the withdrawal of nearly half of the deposits of the banking system. Some banks were closed and the maturities of public banks' time deposits in dollars were extended after a bank holiday. While the GDP fell deeply, decreasing by 11 percent in 2002, and unemployment rate was around 20 percent, some projections – including the IMF's- that were prepared after the large devaluation of the peso, warned that inflation could climb up to 40% in 2002 and 50% in 2003. In the meantime, debt liquidity problems rapidly emerged.
2. Today, the situation is quite different. Uruguay exhibits an impressive broad-based recovery and the unemployment rate, although still high, has fallen eight percentage points. Moreover, the country risk has been below 375 basis points, inflation is under control, and public debt to GDP ratio shows a rapid decreasing path. The Uruguayan economy was able to turn around by implementing sound macroeconomic policies, and many reforms in different areas of the economy -including in the banking sector-, as well as achieving a successful debt exchange. **More importantly, these policies and actions have set a solid basis on which to build upon a sustainable economic growth and a strong institutional framework.**

Economic Policies and Structural Reforms

3. **In an electoral year, the fiscal primary balance exceeded the target.** In the past, Uruguay, as several other countries, showed expansionary economic policies prior to the elections, with the consequent deterioration of the fiscal position. On the contrary, in 2004 the authorities accomplished a significant increase in revenue collection in line with the GDP growth, while pursuing a very prudent expenditure policy and timely adjusting public tariffs. Similarly, the non-interest expenditure relative to GDP gradually decreased from 34% in 2001 to 25.7% in 2004. As a result, fiscal indicators substantially improved, as mirrored in a primary fiscal surplus of around 3.7 percent of GDP in 2004. Continuing with this policy, the authorities have limited real spending increase in the first quarter of 2005 to 1.5 percent. They would have liked to reach an even higher fiscal surplus, but it was not possible mainly due to the shortfall in collections at the social security institute since last June. In this regard, the authorities

fully agree with the staff's comments on the need to address this institute's weak incentive to make collections.

4. **The independency of the Central Bank has been respected.** Given the likely uncertainties stemming from an electoral year, as well as others related to the global economy, which reflected in inflation expectations above the Central Bank's target range, the authorities carried out a cautious monetary policy. The result was an additional reduction of the inflation to about 5.5 percent. Meanwhile, once the market demonstrated to be composed, and inflation expectations returned to the envisaged target, monetary policy was eased. Furthermore, as noted in the staff report, the authorities as well as the incoming Central Bank President participated in the December monetary policy meeting, where the inflation target range for 2005 was set, providing another clear sign of the very smooth transition that Uruguay is experiencing.
5. **During the bank resolution process the authorities have broken with perverse practices of socializing private liabilities and losses.** With regards to recent events, asset management company (AMC) has continued making repayments to Banco de la República Oriental del Uruguay (BROU) ahead of schedule, while the restructuring of the bank continues vigorously and its liquidity position substantially improves. As a result, BROU has started to unfreeze the last tranche of reprogrammed deposits, retaining nearly the whole amount released, with a good portion remaining in time deposits. While in general the authorities share the staff's concern on the remaining vulnerabilities that the BHU's weak position entails, it is fair to underscore the critical change observed in the transformation of the BHU. With respect to the liquidation funds, the authorities have made important progress in the recovery process, i.e. seizable assets of former owners of the failed banks will be auctioned in the near future, all of which is undertaken in a transparent manner. Furthermore, the authorities have already completed the semi-annual financial reports of these funds for auditing and publication. The government -main creditor of the liquidation funds- is devoting the recovered assets to repurchase debt, while the Central Bank has taken advantage of the increase in money demand to purchase reserves, which are employed to make debt payments. Similarly, the authorities will use this final disbursement under the Fund-supported program to make payments to the Fund.
6. **The Superintendency of Banks has acted taking into account only technical aspects.** Likewise, the authorities have strengthened this superintendency by increasing its staff and trying to make the institute more autonomous. This institute has been strict with the reserve requirements for public banks and NBC, which will be eased to the extent that these institutions improve on critical aspects, such as governance structure, risk management, and credit policies. Meanwhile, the banking superintendency is attempting to diminish one significant source of vulnerability that the country has traditionally had that is associated with banks' loans in dollars to firms that only operate in the local market. Furthermore, the institute will seek to reach agreements with its peers in different countries to further improve supervision of the financial institutions.

7. **The respect for property rights and the predictability of the rules of the game have been the centerpiece of the government's strategy, as mirrored, for instance, in the debt-exchange operation.** This strategy is allowing the country to gradually regain access to private markets and attract investment. As we noted in past reviews, the authorities wanted to complete their ambitious agenda of structural reforms. However, certain reforms were not possible to undertake due to different political and social constraints, and the need to prioritize some reforms during this very difficult period. Nonetheless, the significant amount of investment established in Uruguay in 2004, and a number of large-scale projects expected to take place in the coming years attests to the authorities' success in, among other things, integrating the country in the global economy, opening up the economy to competition, promoting transparency and predictability, etc.

Conclusion

8. Finally, the authorities would like to thank the Executive Directors, Management, and the staff for their strong involvement in the Uruguayan case. The Fund-supported program has been critical in allowing Uruguay to overcome the worst economic and financial crisis in the country's modern history. The authorities are also well aware of the remaining vulnerabilities and the reforms needed to minimize them. At the same time, they are proud of their achievements and are confident that they have left Uruguay with substantially better fundamentals and sound precedents to successfully cope with the remaining vulnerabilities. Last but not least, we would like to remark that beyond the intrinsic value that the Uruguayan democratic system has in fostering liberty and legal security, it is allowing for a very smooth transition, as evidenced by the current market behavior.