Uruguay are solved through the democratic process, and that political stability is clearly one of the most important elements to attract investment. At the same time, the authorities remain convinced of the need to advance deregulation and opening-up activities to competition. To overcome reluctance to some structural changes, the authorities continue working on the development of strong regulatory agencies and promoting transparency and competition. In addition, and as the staff report underscores, the negotiations for a number of concessions to the private sector have been recently completed, including Montevideo's International Airport and two seaports. Similarly, two new ports are being developed by private companies and a tender has been issued for the rehabilitation of the public railroad, all of which will reinforce the momentum of some activities, like forestry, that has received a significant amount of foreign investment.

15. The free trade agreement with Mexico, the ongoing negotiations with the United States, and the recent visit of the Uruguayan President to Spain to invite local companies to invest in Uruguay under a friendly business environment, are part of the authorities' strategy to fully integrate the country in the global economy. Finally, few days ago, the authorities notified the Uruguay's subscription to the IMF's Special Data Dissemination Standard, which is a new step to improve the transparency and quality of the country's data, a critical condition to attract foreign investment.

Statement by the Authorities

Right of Reply Document

Since the Staff Report for the Fourth Review Under the Stand-By Arrangement was issued in February 2004, critical advances have taken place in the restructuring process at the state bank BROU. In addition, several favorable developments have been observed in the financial system reflecting the economic recovery and the progress of reform efforts. The Uruguayan authorities would like to update relevant information and make some comments on the Appendix II of this document.

At end-September 2003, when the restructuring plan was initiated, BROU`s financial condition was poor: the Bank was suffering operating losses, had nonperforming loans to total loans ratio of 33 percent, its capital was barely above adequacy requirements, and faced potential liquidity problems. These problems were noticeable on both sides of the balance sheet, which were compounded by serious operating inefficiencies.

However, some figures have been revised since the issuance of the staff report. The return on total assets for 2003 was about 0.1 percent compared with a negative 1.5 percent estimated when the staff report was issued. Furthermore, the Bank met its capital adequacy requirements with an excess of 25 percent in September 2003, that margin increased to 29 percent in March 2004.

The authorities have developed a restructuring plan to address the balance sheet problems of BROU and assure its viability. The restructuring plan has entailed more favorable developments than the estimates used when the staff report was issued. BROU had an operating profit of 5% of capital in the first quarter of 2004, the capital adequacy ratio is clearly above requirements, and liquidity conditions have improved.

The volume of NPLs and other nonperforming assets was excessive. However, after some steps envisaged in the restructuring program, the NPL ratio has already decreased sharply to 11 percent at the end of the first quarter, and it is estimated that it will continue to fall reaching about 10 percent by the end of 2004. At the same time, NPL ratio for BROU's private sector loans has significantly fallen to 25 percent at the end of the first quarter of 2004.

The second tranche of reprogrammed deposits, those falling due during August 2004 – July 2005, have already been repaid. BROU has built up liquidity covering about two thirds of these deposits, and has been successful in retaining the first and second tranche. Despite this success, BROU maintains its cautious approach towards reprogrammed depositors and continue its efforts to build-up the liquidity needed to meet the next tranche of deposits falling due beginning in August 2005.