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Uruguay: Sixth Review Under the Stand-By Arrangement and Requests for Modification of the Arrangement, Waiver of Nonobservance and Applicability of Performance Criteria, and Extension of Repurchase Expectations in the Credit Tranches—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Uruguay

In the context of the sixth review under the Stand-By Arrangement and requests for modification of the Arrangement, waiver of nonobservance and applicability of performance criteria, and extension of repurchase expectations in the credit tranches with Uruguay, the following documents have been released and are included in this package:

- the staff report for the sixth review under the Stand-By Arrangement and requests for modification of the Arrangement, waiver of nonobservance and applicability of performance criteria, and extension of repurchase expectations in the credit tranches, prepared by a staff team of the IMF, following discussions that ended on September 30, 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 November 15, 2004. 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 statement of November 29, 2004 updating information on recent developments.

- a Press Release summarizing the views of the Executive Board as expressed during its November 29, 2004 discussion of the staff report that completed the request and review.

- a statement by the Executive Director for Uruguay.

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

Letter of Intent sent to the IMF by the authorities of Uruguay*
Technical Memorandum of Understanding*
*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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INTERNATIONAL MONETARY FUND

URUGUAY

Sixth Review Under the Stand-By Arrangement and Requests for Modification of the Arrangement, Waivers of Nonobservance and Applicability of Performance Criteria, and Extension of Repurchase Expectations in the Credit Tranches

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

Approved by Markus Rodlauer and Liam P. Ebrill

November 15, 2004

Stand-By Arrangement. The current arrangement (SDR 1,988.5 million, 648.8 percent of quota) runs through March 2005. SDR 279.6 million remain to be disbursed, and a purchase of SDR 139.8 million is to become available upon completion of this review. On August 27, 2004, the Executive Board concluded the fifth review, three months behind schedule. At that time, the authorities informed the Fund that they would forego one purchase (SDR 139.8 million) under the program, owing to the stronger-than-envisaged external position. The authorities intend to make repurchases to the Fund on an expectations basis through May 2005, and are requesting conversion of remaining repurchases due in 2005 to an obligations basis.

Economic developments. The economic recovery is stronger than expected, and growth has been revised upward to 11 percent. Inflation is running at 8.7 percent, within the central bank's 7–9 percent target range for 2004. Exports and imports are growing strongly, and the external current account is projected to record a modest deficit. Gross international reserves have increased in the year and now stand above US$2 billion.

Review issues. Discussions focused on consolidating recent gains and fostering a stable environment through the political transition. Emphasis was placed on using the revenue dividend from higher growth to further strengthen the fiscal position, ensuring the inflation and NIR objectives of the program were observed, moving ahead with bank restructuring, and updating the debt sustainability analysis for Uruguay.

Program Status. All end-June performance criteria were observed, as were end-September PCs relating to NDA, NIR, and general government noninterest expenditure. Preliminary data suggest that the primary surplus and debt end-September PCs were met as well. Progress is being made in bank restructuring, although with some delay. The end-September PC on historical financial statements of the liquidation funds was missed and is a prior action for this review. The end-October PC on audits of these funds was missed, but 2 of 3 audits have been completed, and the third should be finished by next month; therefore, the authorities are requesting that the PC be reset for end-December. The monthly PC on financial reports for August and September was also missed (and will be missed for October). The authorities are requesting that this PC be eliminated, since semi-annual audited financial reports will be published beginning with the December 2004 reports.

Mission. Discussions were held in Montevideo during September 20–30. The mission met with Finance Minister Alfie, Central Bank President de Brun, Budget Director Davrieux, other senior officials, and the private sector. The staff team comprised A.Wolfe (Head), O. Adedeji, and H. Ma (all WHD), J. Kozack (PDR), and E. Ley (FAD). An MFD team (C. Lee, S. Ramirez, and S. Seelig) overlapped with the mission, which was also assisted by A. Bauer (Resident Representative). D. Vogel (OED) participated in some of the meetings.

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

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EXECUTIVE SUMMARY

Background

Uruguay's recovery from its long recession has been faster than expected, reflecting implementation of prudent policies and a favorable external environment. Since bottoming out at end-2002, growth has accelerated, inflation has fallen to below 9 percent, and financial indicators have improved throughout the year. The stabilization gains and recovery have not been affected by the recent elections or the run-up in oil prices, and the incoming government has indicated its intentions to maintain macroeconomic and financial stability. Nonetheless, the economy remains vulnerable on account of the high public debt and weaknesses in the banking system.

The macro framework is on track, but progress with structural reform remains uneven. Fiscal performance has been better than programmed, reflecting buoyant revenues. The monetary and balance of payments targets of the program are being met as well. The restructuring of the public banks is moving ahead, and (recently) good progress has been made in the disposal of assets of liquidated banks. Important fiscal reforms of the tax system and specialized pension funds, however, were not acted on by Congress prior to the elections, and modernization of the tax administration has experienced delays.

Policy discussions and staff appraisal

- **GDP growth is now forecast at 11 percent in 2004.** Inflation at year's end is projected to be around the upper end of the central bank's (BCU) target band of 7–9 percent. The net international reserve target under the program has been observed through September.

- **The primary surplus for the year is projected to reach 3.6 percent of GDP, 0.2 percent of GDP above the revised target, reflecting continued buoyancy in revenue and tight control over expenditure**. Public utility prices are being adjusted in line with operating costs; but petroleum prices might need to be adjusted further should crude oil prices remain above US$45 per barrel. Achieving the projected primary surplus target will be key to foster market confidence and lay the basis for continued fiscal discipline through the transition to a new government.

- **The restructuring of the public banks and disposal of assets in the bank liquidation funds are moving forward**. Successful implementation of the program's bank restructuring strategy is essential to limit fiscal costs, strengthen creditor discipline, and foster a resumption in lending in support of economic growth.

- **The stronger recovery and fiscal performance have improved the outlook for debt sustainability; nevertheless, important vulnerabilities remain**. Although program risks have diminished further since the last review, public sector debt service will remain high for a significant period of time, leaving no room for policy slippages.

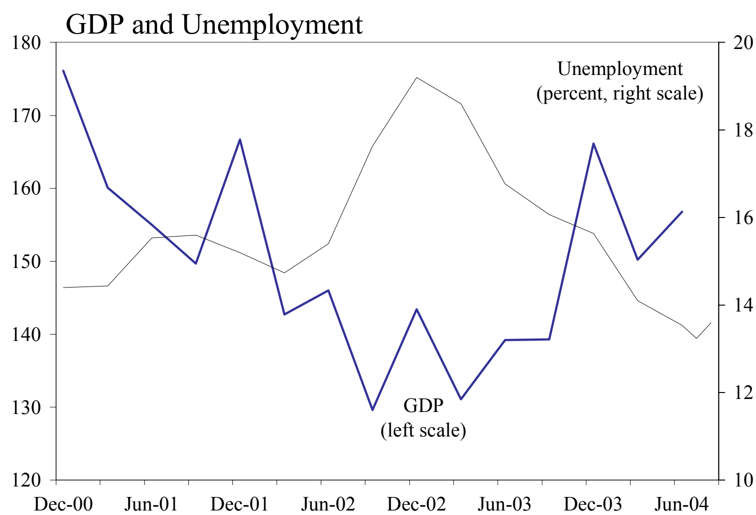
I. Background

Political Situation: October 31 Presidential and Congressional Elections

1. **The candidate of the left-leaning Frente Amplio-led coalition (FA), Dr. Tabaré Vazquez, was elected resident in the first election round on October 31**. Dr. Vazquez's policy focus during the campaign was on poverty alleviation, income redistribution, and state support to promote employment and strategic sectors; throughout the campaign, he also stressed the need to maintain macroeconomic stability and honor the nations' debt commitments. The president-elect has announced that Sen. Danilo Astori would head his economic team; Sen. Astori is well-respected by markets. In congress, the FA will hold 52 seats (out of 99) in the lower house and 17 seats (out of 31) in the senate. Since the elections, sovereign spreads have continued to decline and the exchange rate has been relatively stable. The new government will take office on March 1, 2005; the current Stand-By Arrangement (SBA) expires on March 31, 2005.[1]

Developments under the program

2. **The economic recovery is robust, despite the rise in oil prices, while inflation is running within the target range of 7–9 percent.**



- **Growth and employment**. Real GDP grew 13½ percent (y/y) in the first half of the year, with continued strength in leading indicators pointing to robust growth in the second half as well. The recovery has been broad based, with strong growth in consumption, investment, and exports. Unemployment stood at 13.3 percent in September; some 3½-percentage points lower than a year ago.

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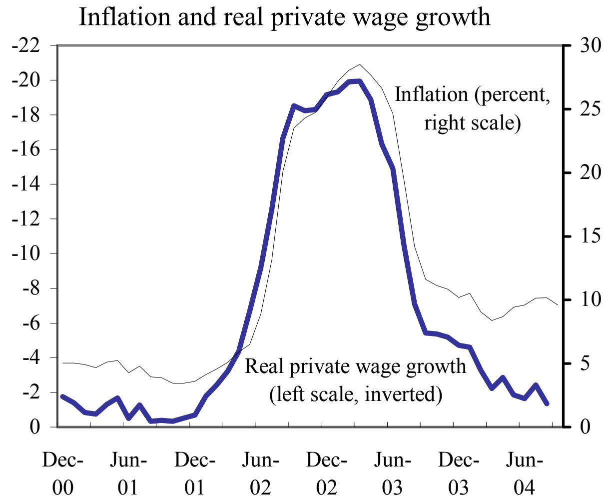
[1] A constitutional referendum was approved by a wide margin requiring that all activity in the water supply and sewerage sectors be conducted by state entities. The impact of the referendum on existing private concessions in these sectors is unclear and will require additional legal clarification.

- **Wages and inflation**. Wage pressures remain modest, with real wages in the private sector down slightly in the year ending September 2004. Inflation was 8.7 percent at end-October (within the central bank's target range of 7–9 percent), despite higher petroleum and energy prices.



- **External current account**. Both export and import growth has been strong throughout the year, and the external current account is expected to post a modest deficit in 2004.

Uruguay: Selected Macroeconomic Indicators
(12-month percentage change, unless otherwise indicated)

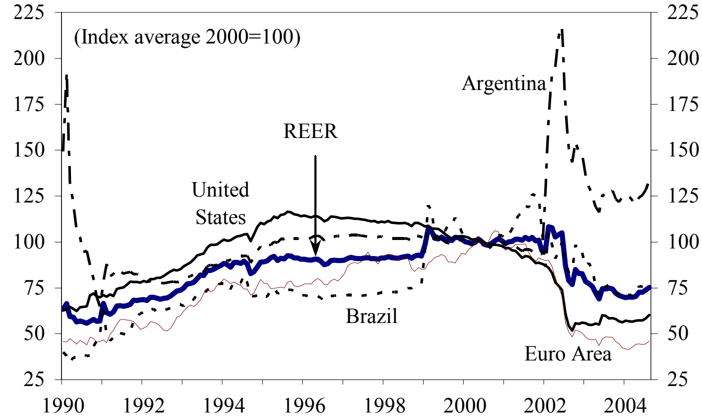
				2004					
				Actual		Proj.			Proj.
	2001	2002	2003	Q1	Q2	Q3	Q4	Year	2005
Real GDP	-3.4	-11.0	2.5	14.6	12.6	10.2	7.0	11.0	4.0
(q/q, s.a.)	...	...	...	2.0	2.4	1.8	0.6	...	...
Unemployment (eop, percent)	14.9	18.6	15.4	13.9	13.3	13.3	...	...	...
CPI (eop)	3.6	25.9	10.2	8.4	9.6	9.6	8.7	8.7	7.1
Merchandise exports	-9.9	-9.8	17.6	34.1	26.9	34.2	23.1	29.2	6.0
Merchandise imports	-12.1	-35.7	11.7	39.9	43.5	38.4	39.0	40.1	9.6
External current account (percent of annual GDP)	-2.8	1.6	0.7	0.2	0.0	-0.5	-0.3	-0.6	-0.8
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	5.3			

Sources: BCU, and Fund staff estimates.

3. **Financial indicators continue to improve**.

- **Exchange rate**. The peso was fairly steady in the year through August, but since then it has appreciated by about 7 percent against the U.S. dollar. Despite this appreciation, Uruguay's real effective exchange rate remains some 30 percent more depreciated than its average in 2001 (before the financial crisis), and 11 percent more depreciated than its average during the 1990s.

Uruguay: Real Effective and Real Bilateral Exchange Rates



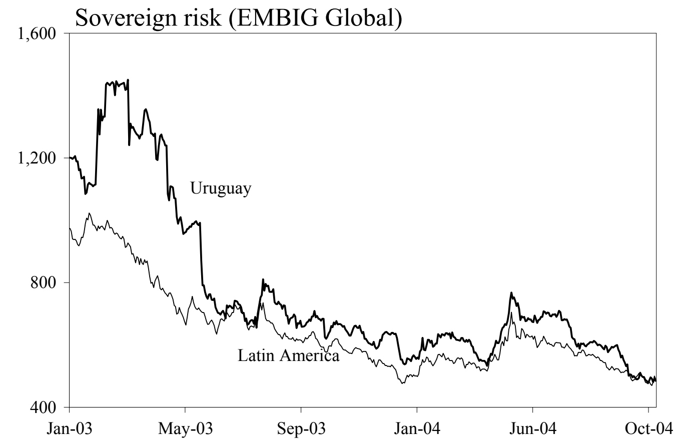
Source: INS and Fund staff estimates.

- **International reserves**. Gross international reserves of the central bank have risen during the year and now stand above US$2 billion. Gross reserves of the banking system cover 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	September 2004
Argentina					
Gross official reserves (US$ million)	26,900	14,900	10,476	14,100	18,223
Banking system gross foreign assets	16,077	6,185	3,171	2,729	2,477
As % of ST debt + FX deposits	44.2	24.9	46.8	47.9	56.2
Paraguay					
Gross official reserves (US$ million)	772	723	642	984	1,180
Banking system gross foreign assets	496	446	288	389	409
As % of ST debt + FX deposits	64.9	60.1	60.9	82.4	72.7
Peru					
Gross official reserves (US$ million)	8,562	8,838	9,690	10,206	11,187
Banking system gross foreign assets	901	851	822	644	487
As % of ST debt + FX deposits	63.9	62.2	74.1	77.2	79.1
Uruguay					
Gross official reserves (US$ million)	2,779	3,099	776	2,087	2,351
Banking system gross foreign assets	6,252	7,271	4,138	3,725	3,705
As % of ST debt + FX deposits	59.2	60.3	48.5	59.6	60.0

- **Debt and sovereign spreads**. Sovereign spreads have been falling since May, in line with regional trends, and were under 500 bps at end-October. The stock of short-term public debt has declined in recent months, owing to the amortization of peso-denominated T-bills, which have only been partially replaced by dollar-denominated T-bills. This has helped improve the maturity profile of short-term debt, since dollar-denominated T-bills have a weighted average residual maturity of ten months compared with one month for peso-denominated T-bills.



- **Private sector deposits in the banking system continue to recover**. Dollar deposits have risen during the year; however, there has been some shift toward shorter maturities, and the level of dollarization remains very high (with over 90 percent of deposits in dollars). Bank credit has yet to revive, as banks continue to focus on cleaning their balance sheets.

Uruguay - Nonfinancial Private Sector Deposits
(Flows in millions of each currency)

	2002	2003	2004 Q I	2004 Q II	2004 Q III 3/	2004 Accum. 3/
Foreign currency deposits (US$, millions)						
Public Banks	-1,359	226	186	3	2	192
Private Banks 1/	-4,536	565	209	84	-15	278
Total Banks	-5,895	791	395	88	-13	470
Residents	-2,478	733	327	29	17	372
Non-residents	-3,417	58	68	59	-30	98
Sight and savings deposits	-1,371	1,127	350	256	269	875
Time deposits 2/	-4,524	-336	45	-169	-282	-405
Local currency deposits (peso, millions)						
Public Banks	-723	2,159	509	657	430	1,596
Private Banks 1/	-2,549	1,069	-233	-14	-478	-725
Total Banks	-3,271	3,228	276	643	-48	871
Sight and savings deposits	-948	3,632	43	675	-503	215
Time deposits	-2,323	-404	233	-32	455	656

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.
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.

- **Domestic interest rates**. Rates on peso- and dollar-denominated Treasury- and central bank-bills have increased somewhat since end-2003, mainly reflecting the increase in U.S. interest rates and the relatively tight monetary policy stance. Interest rates on 6-month peso-denominated T-bills now stand at 18 percent.

4. **The monetary program is on track**. Monetary targets have been tightened in the course of the year, as the balance of inflation indicators have been pointing to inflation rates above the BCU's target range (which is set each quarter with a 12-month policy horizon). In September, the BCU announced an inflation target of 6–8 percent for September 2005, unchanged from the June 2005 target. In late August, the central bank initiated a market for

forward purchases of dollars and pesos by offering contracts at rates consistent with interest rate differentials in the two currencies, but so far the daily volume transacted has been very limited. The end-September PCs on NIR and NDA were met with comfortable margins.

5. **Fiscal performance has been better than programmed, reflecting strong revenue performance and strict control over expenditure.** The primary surplus of the consolidated public sector reached 2 percent of annual GDP in the first half of the year, 0.9 percent of GDP above the target. The overperformance in the overall deficit was even higher, owing to lower-than-programmed interest outlays. Revenues have outstripped program targets since early 2004, and the authorities have maintained tight control over central government expenditure and adjusted state-enterprise tariffs in line with cost conditions.[2] Preliminary data point to continued strong fiscal performance in the third quarter, despite lower-than-programmed revenues at the social security administration and periodic work stoppages at the internal revenue service (DGI) in protest of the agency's restructuring plan. The government recently announced the establishment of a fund, comprising resources recovered in the bank restructuring process, to buy back debt (mainly domestic, illiquid series). In late-October, the first buy back (face value of US$1 million) was carried out.

6. **Progress on structural fiscal reforms has been disappointing**. Creation of a large taxpayer unit is moving slowly, and meeting the end-December structural benchmark will be challenging. Congress ended its legislative session in mid-September without acting on tax and special pension fund reforms (end-December structural benchmarks), and it is very unlikely that the Permanent Commission in congress will take up these measures before a new congress meets in mid-February 2005.

7. **Progress continues to be made in bank restructuring**. Reform of the public banks is moving forward (albeit, greater progress is being made at the commercial bank, BROU, than at the state mortgage company, BHU), the long-delayed process of asset disposal of the liquidated banks has begun, and bank supervision is being strengthened. The strategy for reforming the government-owned commercial bank (NBC) has been revamped following the decision by the IFC not to seek a minority stake in the bank.

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[2] In light of this performance, as previously reported, in April–July, the authorities eliminated temporary surcharges and taxes put in place during the 2002 financial crisis that will cost the budget about 0.5 percent of GDP in 2004 (1.4 percent of GDP on an annual basis). In mid-October, the tax on long-distance calls (also an emergency measure) was eliminated to level the tax environment for the state telephone company (the tax was yielding only 0.02 percent of GDP, as private carriers were avoiding the tax through internet phone technology).

- **BROU**

    - **Restructuring plan.** The plan is advancing, with the bank showing profits and operating costs falling. BROU's asset management company (operating since April) has surpassed its (modest) 2004 performance target on asset recovery.

    - **Reprogrammed deposits**. The early release of the second tranche of reprogrammed deposits during April–July went smoothly, with 95 percent of deposits staying in the bank and 75 percent remaining in time deposits. In light of this experience, the solid liquidity position of the bank, and the authorities' view that frozen deposits should not be retained any longer than necessary, BROU has advanced the release of the third and final tranche of reprogrammed deposits (US$773 million). Originally scheduled to start next August, the release began in October and will continue in a gradual manner through April of next year. So far, the results have been encouraging, with the retention rate about the same as with the second-tranche release.[3]

- **BHU**. Despite some progress in reducing operating costs and improving the loan-servicing framework, BHU remains with important underlying weaknesses, including a still large non-performing loan portfolio. BHU's note to BROU has been serviced on time (continuous PC), but amortization payments still required Treasury support. Following the completion of due diligence of BHU's investment portfolios and in light of the progress made in upgrading its information systems, in October the World Bank disbursed US$50 million under its SAL-I operation.

- **Liquidation funds of *Banco Montevideo*, *Banco Comercial*, and *Banco Caja Obrera***. After long delays in outsourcing the disposal of the assets of these funds, a private firm was contracted in August 2004 to manage the assets. The end-October PC on transferring all the assets of the liquidation funds to the asset manager was met. To begin addressing concerns regarding management and recordkeeping of the funds, an inventory of assets and balance sheets were prepared in July–August. The funds' historical financial statements (end-September PC) are being completed as prior actions for this review, and two of three external audits of the funds' activities have been completed, with the third to be finished by year's end (the authorities are requesting that the end-October PC on completing the audits be reset for end-December). The delay in meeting the PCs was related mainly to problems in resolving recordkeeping weaknesses in *Banco Comercial*. Staff will update the Board on the completion of the financial statements and audit results prior to the Board discussion. The liquidation funds have been submitting to the Ministry of Economy and Finance (MEF) and BCU monthly cash flow statements and estimated balance

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[3] Deposits totaling US$113 million were released between October 13 and November 5, and another US$51 million will be released in the rest of November. The remainder (US$609 million) will be released over December 2004–April 2005.

sheets, but these reports have not fully met the monthly PC (for September and October) and will not meet the November PC on submitting financial reports.[4] The authorities are requesting that this PC be eliminated, as semi-annual audited financial statements will be published beginning with the end-December 2004 reports.

- ***Banco de Crédito*** (BDC). After several failed attempts to auction the assets of BDC, the government outsourced the management of the nonperforming assets to the private firm managing the assets of the other liquidation funds, and the authorities intend to securitize the performing assets by early next year.

- ***Nuevo Banco Comercial*** **(NBC).** Following the IFC's decision in August not to pursue a minority stake in the bank (the authorities had hoped that IFC participation would help strengthen governance in the bank), the authorities hired an investment bank to seek a strategic investor before leaving office.

- **Bank supervision**. The BCU has improved the regulatory environment, especially in strengthening credit risk assessment.[5] Also, progress has been made in hiring staff to strengthen the Bank Superintendency's (SIIF) supervisory capacity. Information on debtors of the liquidation funds was transferred to the SIIF's credit registry in July, but technical problems have delayed its incorporation in the registry. The authorities intend to complete the credit registry updating by end-December (structural PC).

II. Policy Issues

The review focused on: (i) macroeconomic performance under the program; (ii) the fiscal outlook for 2004–05 and updating the debt sustainability analysis (DSA); (iii) the stance of monetary policy; and (iv) progress in key structural reforms in the banking and fiscal areas.

8. **Preserving the stabilization and reform gains through the political transition is essential to provide a solid framework for the next administration.** Despite the good economic performance so far this year, the economy remains vulnerable from the high level of public debt and remaining weaknesses in the banking system. To address these risks, the discussions emphasized the need to: (i) lock in at least part of the revenue overperformance to solidify the basis for further fiscal consolidation in the years ahead; (ii) continue to conduct monetary policy in a prudent manner to achieve the programmed buildup in international reserves and return inflation to its target range; and (iii) advance key structural reforms, especially in the banking and fiscal areas.

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[4] The reports were based on estimates rather than *actual* balance sheets. The shortcoming reflected mainly having to concentrate the BCU's limited resources on audit preparation.

[5] Specifically, new risk categories are being introduced, and stress tests, which already have been strengthened to include country risk and single borrower limits, are being expanded to cover exchange rate risks.

9. **The improved economic situation in 2004 has lowered the public debt-to-GDP ratio to close to 90 percent, some 5-percentage points of GDP less than previously envisaged**.[6] The improvement reflects: (i) higher growth (11 percent compared with 7 percent in the revised program); (ii) a more appreciated real exchange rate (partly because of higher-than-targeted domestic inflation and a nominal appreciation of the peso); and (iii) a smaller overall fiscal deficit (2.4 percent of GDP in 2004, compared with 3.3 percent of GDP in the original program). For next year, growth is expected to moderate to 4 percent and the overall fiscal deficit is programmed to fall further to 1.1 percent of GDP, which along with modest assumptions regarding the real exchange rate, would lower the debt-to-GDP ratio to below 80 percent of GDP.

10. **An update of the DSA suggests that maintaining primary surpluses of 4 percent of GDP is consistent with a sustainable debt position by the end of the decade**. Under revised yet still cautious assumptions on growth, interest rates, sovereign spreads, and the exchange rate, the DSA shows that the total public debt-to-GDP ratio would be brought down to below 50 percent of GDP by 2012 (compared with 60 percent of GDP in the previous DSA).[7,8] However, debt would only fall below 60 percent of GDP in 2008, and the DSA result depends crucially on maintaining sound policies. To sustain primary surpluses of 4 percent of GDP over an extended period will require implementing the structural fiscal reforms envisaged under the current program.

Revised DSA Parameters
(Average 2004-2012)

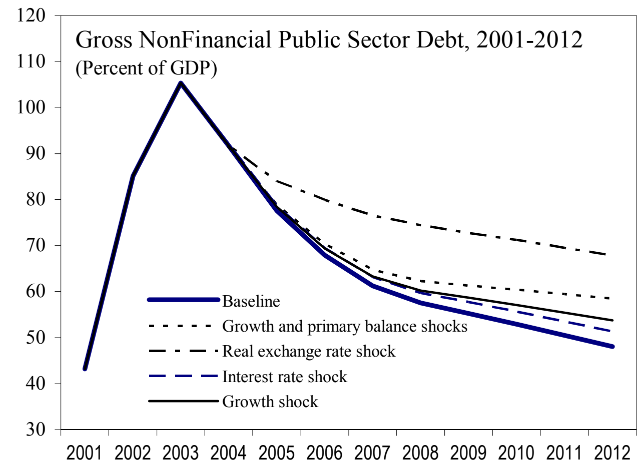
	Old	Revised
Primary surplus (NFPS)	3.9	4.1
Real GDP growth rate	3.5	3.6
Real exchange rate appreciation (cummulative % change)	19.1	25.9
Sovereign spreads (bps)	566.7	466.7

6 Public debt is defined to include all nonfinancial public sector (NFPS) debt plus all outstanding Fund credit. In previous reports, only about three-quarters of outstanding Fund credit was included in the NFPS debt. Adjusting for this change, the end-2004 projected debt stock in Country Report No. 04/327 would have amounted to 96 percent of GDP.

7 About half of the improvement reflects the lower debt ratio at end-2004, with the other half reflecting mainly the more appreciated real exchange rate assumption.

8 Research undertaken at the Fund ("Assessing Sustainability") suggests that an *external* debt ratio of about 40 percent of GDP is a threshold level above which the conditional probability of a debt crisis or correction rises to about 15–20 percent, compared with 2–5 percent for debt ratios below this level. It should be noted that under the DSA financing assumptions, about 10 percent of Uruguay's public debt would be *peso-denominated* by 2012.

Box 1. Public Debt Sustainability Analysis



In updating the DSA analysis (Country Report No. 04/327, Appendix V), staff assumed a medium-term primary surplus of about 4 percent of GDP (in line with the projected outturn for 2005), potential real GDP growth of 2 percent (somewhat lower than in the original DSA; see Appendix II for a more detailed discussion of growth prospects), and a return of the real value of the peso vis-á-vis the U.S. dollar to its 1991 level (before the real appreciation of the peso began under the exchange-rate-based stabilization program of the 1990s; although, some of the competitiveness gains registered against Brazil and Argentina could be eroded, see Chart on page 7). Cautious assumptions about interest rates and sovereign spreads were maintained. Under these revised assumptions, public debt would decline from a projected 91 percent of GDP in 2004 to below 50 percent by 2012 (assuming no contingent liabilities owing to bank restructuring come due; if there are additional bank restructuring costs, this could add up to about 5 percent of GDP).

Uruguay's high public debt will continue to be a significant vulnerability over the next few years. The debt-to-GDP ratio will only fall below 60 percent of GDP in 2008. Large shocks to key variables in the standard DSA analysis such as real growth, real interest rates, and the real exchange rate (depreciation) would lead to significant increases in the public debt-to-GDP ratio that would exacerbate doubts about debt sustainability. However, it must be recognized that Uruguay recently experienced major shocks and has adjusted policies in response, so that a repeat of such shocks and an ensuing crisis is unlikely.

Staff has analyzed three alternative shocks to key macroeconomic variables: (i) an average decline of real GDP growth by 1-percentage point and lower primary surplus by ½-percentage point; (ii) a 200-basis point increase in interest rates over the medium term;[1] and (iii) weak confidence in the peso that prevents the expected appreciation in the real exchange rate. In these cases, except the real exchange rate, the public debt ratio is still somewhat resilient. Lack of appreciation of the real exchange rate, however, would leave the public debt above 60 percent of GDP by 2012.

[1] About 50 percent of public debt is at variable rates, but the largest part is to IFIs; thus, much of the debt has diversified interest rates and would not be affected by increases in sovereign spreads. Staff's sensitivity analysis indicates that a 200 bps increase in dollar interest rates raises fiscal interest costs by 0.5 percent of GDP, on an annualized basis.

A. Fiscal Policy and Debt Management

11. **Exceeding the primary surplus target for 2004 would help the incoming administration meet next year's targets.** Staff welcomed the authorities' commitment to refrain from any further tax cuts or tax exemptions and to save any overperformance in revenue, with a view to surpassing the primary balance target for this year. The authorities reaffirmed their intention to continue to keep expenditure in line with the program and adjust public tariffs in a timely manner in line with cost developments. Continued spending restraint is essential for modest fiscal consolidation next year. Staff supported the authorities' planned budget decree for the first quarter of 2005 (to be issued by year's end) that caps real spending growth at 1.5 percent (y/y), and underscored the need to adjust petroleum product prices in line with crude oil prices. The authorities noted that the July adjustment to petroleum prices

was based on crude oil prices of US$41 per barrel, but given the appreciation of the peso since then, no adjustment was needed unless crude oil prices remained above US$46 per barrel (Box 2).

Box 2: Fiscal Implications of Higher World Oil Prices

- Uruguay imports, on average, 1.1 million barrels of crude oil per month. For each one-dollar increase in the price of crude oil, costs of the state oil company, ANCAP, are estimated to rise by US$13 million (0.1 percent of GDP) on an annual basis.
- The government has some discretion in adjusting fuel prices. By law, ANCAP cannot change prices on its own accord; rather, it must submit proposed changes to the Office of Planning and Budget for approval. In the absence of exceptional circumstances, price changes can only be done at the time of public wage adjustments. Petroleum products are subject to specific taxes, which currently yield 1.2 percent of GDP.
- In 2004, the authorities have raised fuel prices by 20 percent to reflect world oil prices of US$46 per barrel at the current exchange rate. Fuel prices at the pump are now among the highest in the region.

12. **Over the medium term, it will be crucial to push ahead with structural fiscal reforms**. In particular, staff emphasized the importance of strengthening tax administration and reforms of the tax system, the specialized pension funds for the military and police, and the institutional budgetary framework. While many of these reforms require congressional approval and, hence, will need to be taken up by the next government, staff urged the authorities to pursue those reforms they could implement. Specifically, staff highlighted the need to concentrate efforts at the internal revenue service (DGI) to establish a large-taxpayer unit (LTU) by end-December (structural benchmark), and to incorporate recommendations of the Fiscal ROSC regarding supplementary documentation on an updated macroeconomic framework, fiscal risks, and an estimate of the costs of tax expenditure in annual budget decrees. The authorities noted that they are moving ahead with the LTU and expect it to be in place by year's end. They also agreed with the suggestion to supplement next year's budget decree with a revised macroframework and a discussion of fiscal risks, but noted that an estimate of tax expenditure would take time and would not be feasible for this budget cycle.

13. **Uruguay's debt management strategy continues to focus on extending the maturity of domestic debt placements, securing timely disbursements from IFIs, and issuing longer-term debt in the international markets.** In addition to the 18-month peso-denominated note issued in July (US$250 million),[9] the authorities have extended the residual maturity of dollar-denominated T-bills by about 6 months and started issuing inflation-indexed T-notes with a maturity of 3 years. These placements cover short-term debt rollover needs through June 2005. The authorities have also stepped up efforts to implement policies linked to World Bank and IDB disbursements, and have secured new lending commitments for next year to ease the financing burden for the incoming administration. Staff welcomed these steps and encouraged the authorities to take advantage of opportunities

[9] The note has a minimum return guarantee equal to the depreciation of the peso relative to the U.S. dollar.

to issue longer-term instruments in the international markets if market conditions permit. The authorities noted that they would consider a bond issue in international capital markets after the elections, to prefinance part of the 2005 gross financing needs (US$1.9 billion).[10]

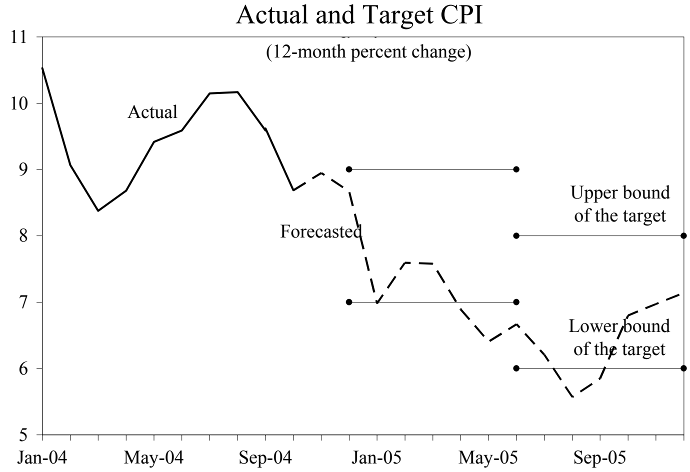
Uruguay: Scheduled Disbursements from Multilateral Development Banks, 2004-05

Loan	Amount (US$ million)	Original Timing (Country Report No. 04/172)	Conditionality	Disbursement status
World Bank SAL I	50	Q1/2004	BHU restructuring.	Disbursed, October 2004.
World Bank SAL I	50	Q3/2004	Unemployment insurance scheme.	Delayed. Likely in Q4/2004.
IDB Financial Sector Loan	60	Q1/2004	Strengthening of financial regulation.	Delayed. Likely in Q2/2005.
IDB Financial Sector Loan	60	Q3/Q4 2004	Strengthening of financial regulation.	Q1/2005
World Bank SAL 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.	2005

B. Monetary and Exchange Rate Policies

14. **The authorities intend to continue with the peso float, with base money as the intermediate target of monetary policy**. Staff supports the current cautious stance on monetary policy, and views as appropriate the inflation target range of 6–8 percent for September 2005. Regarding the authorities' plans to move to inflation-targeting, they explained that this could be implemented very soon, but the decision should be left to the next BCU directorate.[11] Staff recommended that the BCU not be involved in establishing a market in forward foreign exchange, as this should be left to private banks. The authorities pointed out that such contracts can help spur development of a private market, and stressed that the BCU has

Actual and Target CPI



[10] Of which, about US$500 million is short-term debt.

[11] The current three-person directorate's term expires in March 2005 at the time of the change in government.

made fully transparent the mechanics of forward contract pricing, and that its internal rule to cover all open positions through immediate offsetting transactions in the spot market eliminates any exchange rate risk.[12]

15. **The strong external environment and absence of election-induced volatility have allowed the BCU to meet its targeted build up of international reserves with comfortable margins.** Staff urged the authorities to exceed the program target, pointing out that a further build up was warranted (including over the medium term) 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 that a further NIR increase would be desirable over time, but noted that a higher buildup would result in the issuance of additional central bank debt and a widening of the quasi-fiscal deficit. The authorities reiterated their commitment to reducing financial dollarization, noting that the required strengthening of confidence in the peso would take time.

C. Banking Reforms

16. **Progress in bank restructuring needs to continue to minimize contingent costs for the public finances**. Staff welcomed progress in: outsourcing asset management of the liquidation funds and examining their past operations; reforming the public banks; and strengthening bank supervision. Staff stressed the need to improve governance at NBC and urged that the authorities move cautiously with establishing a deposit insurance scheme.

- **Liquidation funds**. Staff welcomed the important steps to advance the liquidation of the funds' assets and encouraged the authorities to build on this progress. Staff advised that the asset liquidation process be carried out transparently, with appropriate oversight of the asset manager, who should have full access to the credit files, and stressed the need for close coordination between the liquidation funds and the asset manager. The authorities concurred with staff and noted that since the beginning of November, the asset manager has had full and timely access to all credit files. Staff welcomed the authorities' decision to establish a structural benchmark (for end-January 2005) to monitor the performance of the asset manager (LOI, paragraph 6 and Table 2). Staff noted that the swap scheme offered in July had attracted very few offers to participate, and welcomed the authorities' commitment to avoid offering any additional compensation to creditors of the funds.[13]

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[12] The BCU can take long or short positions in foreign currency, but private sector demand is one-sided for purchases of U.S. dollars forward.

[13] For details of this scheme, see Country Report No. 04/327, ¶20.

- **BROU**

    - **Restructuring**. Staff underscored the need to sustain the momentum of reforms at BROU, as the bank's deposits account for half of all deposits in the banking system, with large contingent costs for the government if the reforms do not prosper. Moreover, strengthening the bank's risk management and credit policies and practices will enable sustained lending by the bank for support of economic growth. Staff welcomed the progress at BROU's asset management company (AMC), while stressing the need for the AMC to receive full cooperation from BROU staff to efficiently manage the assets. The authorities assured staff that the working relationship between BROU and the AMC was solid and affirmed that all new and remaining Category 4 and 5 nonperforming loans would be transferred to the AMC by end-December, in line with the structural PC under the program.

    - **Reprogrammed deposits.** Staff concurred with the authorities' assessment that BROU had sufficient liquidity to support the early release of the last tranche of reprogrammed deposits, while noting that the release should wait until electoral uncertainty ends. The authorities explained that any uncertainty related to the election outcome had no discernible economic or market impact, and that the freeze should not be maintained any longer than was necessary; therefore, their seven-month release schedule was appropriate. Staff welcomed the authorities' commitment to stand ready to take all necessary actions in the unexpected event of deposit outflow and to release only a small part of the deposits before the elections.

- **BHU**. The transformation of BHU into a nonbank mortgage company needs to be stepped up. Staff noted the progress in the bank's restructuring and that the bank's loan with BROU has been fully serviced this year. Nevertheless, staff highlighted that the bank's fundamentals remain weak and service of its note to BROU (which is guaranteed by the government) is a key medium-term fiscal risk. The authorities shared staff's concerns, but pointed out that BHU has been servicing the interest component of its debt with BROU six-months ahead of schedule, and they expect to have no problem with BHU meeting next year's obligations.

- **NBC**. The authorities need to address governance issues at NBC, including appointing a CEO and board members with necessary qualifications and banking experience. Staff regretted that the IFC would not become a minority shareholder in the bank, which had been envisaged as a means of strengthening governance in the bank, and supported the authorities' new strategy to find a majority shareholder for the bank. However, the authorities noted that finding a suitable buyer so close to a change in government would be challenging.

- **Bank supervision**. Staff welcomed the recent progress in hiring staff for the SIIF and in strengthening bank regulations on assessing credit risk. The objective to hire 40 new staff by February 2005 is within reach, but will require focused efforts. Staff

underscored the need to further improve risk assessment by incorporating exchange rate risk explicitly into the assessment process. Staff stressed the need to fully update (as soon as feasible) the national credit registry with information from the liquidation funds' asset inventory.

- **Deposit insurance**. Staff cautioned that upfront funding for an ambitious insurance program would result in a significant increase in dollar-denominated public debt (as the stock of dollar deposits in the banking system is over US$7.5 billion), and recommended to proceed cautiously. Staff also pointed out that the structure of the Uruguayan banking system presents significant implementation challenges (such as the explicit government guarantee on BROU deposits). The authorities agreed that design and implementation of such a scheme would need to be carried out in a cautious manner, and that this would likely be taken up by the new administration.

III. Vulnerabilities and Program Risks

17. **While Uruguay has recovered well from the 2002 crisis, its economy remains vulnerable from the high public debt, exposure to interest rate and oil price shocks, and banking sector weaknesses**. While most indicators of financial vulnerability continue to show improvement, fragilities remain in the banking system; in particular, dollarization remains high, with the majority of dollar-denominated deposits in sight deposits, and the public banks (which hold half of total deposits) are still in the process of restructuring. Financial intermediation has yet to fully recover, and proper credit and risk management policies will be essential to avoid a resurgence of NPLs. Banking system reserves are relatively low compared with other dollarized economies in the region.

Vulnerability Indicators

	2001	2002	2003	Proj. 2004	Proj. 2005
Share of nonperforming loans in total loans (in percent) 1/	17.9	38.0	13.5	8.2	…
Nonfinancial public debt (percent of GDP) 2/	43.2	85.1	105.3	91.7	77.6
Total external debt including nonresident deposits (Percent of GDP)	85.3	106.4	118.2	104.6	91.2
Of which: Public sector	31.4	68.9	85.3	75.5	64.9
Gross official reserves (US$ million)	3,099	776	2,087	2,561	2,701
Banking system foreign assets as percent of short-term external debt plus all FX deposits 3/	60.3	48.5	59.6	62.1	64.4

Sources: Central Bank of Uruguay; and Fund staff estimates.
1/ For 2004, end-May.
2/ Includes obligations to the IMF.
3/ By remaining maturity.

18. **Fund exposure to Uruguay is likely to remain high for some time**. Despite the authorities' welcome decision to forego one disbursement under the current program, Fund credit outstanding would reach 609 percent of quota (around 20 percent of GDP) at the end of the arrangement in March 2005. While Uruguay's balance of payments has strengthened in recent years, gross reserves of the central bank need to be bolstered further (they remain well below their level before the crisis), and capacity to repay the Fund on an expectations basis in 2005 is limited. Full-year repayment on an expectations basis would reach 9 percent of GDP; therefore, to smooth out repayments to the Fund, the authorities intend to repay the Fund on an expectations basis through May 2005 and are requesting conversion of remaining purchases due in 2005 to an obligations basis. The authorities also explained that establishing now the repayment schedule for the entire year will facilitate debt management in 2005. Nevertheless, even under their proposed repayment schedule, the repayment burden to the Fund will rise steeply in 2005–07, when annual payment obligations are projected to average about SDR 485 million, roughly 4 percent of average GDP over the period.

Uruguay: Payments to the Fund, 2004-07
(In millions of SDRs)

	2004	2005	2006	2007
Expectations basis	**...**	**893**	**574**	**321**
Authorities' plan 1/	**129**	**459**	**434**	**574**
Obligations basis	**129**	**227**	**667**	**574**

1/ Assumes obligations basis 2006-07.

IV. Program Financing, Monitoring, and Safeguards

19. **Financing Assurances**. Financing needs through June 2005 have been secured. Staff's baseline scenario for the remainder of 2005 assumes modest access to domestic and international financial markets that depends, of course, on maintaining sound policies—in particular, meeting the fiscal target. Financing requirements for the remainder of the decade, which will average about US$1.5 billion a year (7.5 percent of average annual GDP), will need to be met through private capital market placements and continued IFI support.

20. **Program Monitoring.** Uruguay's statistical database has been generally adequate for assessing and monitoring macroeconomic policies, but the lag in providing fiscal data from below the line (albeit reduced since a coordinating committee on fiscal data was established at the time of the last review) still exceeds the 60-day limit in the TMU. Staff welcomed the shortening of the period (from two months to one) in publishing data on central government operations and the publication of information on the stock of floating debt, but urged that further efforts be made to reduce the reporting lag on below-the-line fiscal data. Prior actions, performance criteria, benchmarks, and indicative targets under the program are specified in the attached LOI and TMU (Attachments I and II). The seventh review is expected to take place in February 2005.

21. **Safeguards**. The recommendations of the 2002 Safeguards Assessment are being implemented, albeit with some delays. The external audit of the BCU's 2003 financial statements was finalized in March, and the BCU has created an independent audit committee to oversee the bank's financial reporting practices. However, only limited progress has been made in adopting fully International Financial Reporting Standards in BCU financial statements, and implementation of the recommendation to publish by end-April of each year

the audited financial statements of the central bank of the previous year depends on the approval of the *Tribunal de Cuentas* (national audit office). Only one out of four supplemental audits of the bank stabilization fund (FSBS) has been completed (end-March 2004 structural benchmark).

V. Staff Appraisal

22. **Uruguay is recovering well from the 2002 financial crisis, with a significantly strengthened outlook for debt sustainability.** The improved situation is a product of the sound macroeconomic policies pursued by the authorities and the supportive external environment. Staff encourages the authorities to further capitalize on the current favorable environment, continue with sound macroeconomic policies, and push ahead with structural reforms, to set the basis for a sustained expansion of the economy and a smooth transition to a new government that will take office in 2005.

23. **Exceeding the primary surplus target under the program will buttress the medium-term outlook for continued fiscal discipline and debt sustainability**. Staff welcomes the authorities' commitment to save part of the growth dividend for revenue and achieve a primary surplus in excess of the program target for 2004. They intend to achieve this by refraining from any further tax reductions, maintaining expenditure restraint, and keeping public utility tariffs broadly aligned with operating costs. In particular, the authorities need to continue to ensure timely pass through of world oil prices to domestic fuel prices. Delivering on these commitments will be important to facilitate continued fiscal discipline next year and beyond, which in turn will be critical for maintaining market confidence. The favorable growth and fiscal outturn projected for this year have made important contributions to promoting debt sustainability over the medium-term, but there is no room for fiscal slippage.

24. **Staff regrets the slow progress on fiscal reforms**. Delivering the necessary primary surplus targets over the medium term will depend crucially on addressing structural weaknesses in Uruguay's public finances, by strengthening revenue administration, reforming the tax system and the specialized pension funds of the police and military, and improving the institutional budgetary framework. Staff encourages the authorities and other parties to the political process to work toward a consensus on these reforms that will need to be taken forward by the next government.

25. **Monetary policy is being conducted in a prudent manner.** Staff supports the present stance of monetary policy that aims at reducing inflation to the target range of 6–8 percent within the 12-month policy horizon. While the authorities raised the 2004 NIR target under the program during the last review, staff encourages them to use the opportunity of a stronger-than-programmed balance of payments to bolster Uruguay's NIR position even further, in anticipation of the large medium-term debt service obligations. Staff recommends against direct participation of the central bank to create a forward foreign-exchange market, which should develop through private initiative as confidence in the peso strengthens.

26. **Maintaining momentum in restructuring the public banks is essential to ensure their viability, improve creditor discipline, minimize potential fiscal costs, and support a sustainable return to financial intermediation**. Staff welcomes efforts made in the restructuring of BROU and BHU and urges continued progress. For a successful workout of BROU's nonperforming loans, the asset management company will need full cooperation of BROU staff. The unfreezing of the third and final tranche of reprogrammed deposits is proceeding smoothly following a cautious schedule. Acceleration of the BHU reform program to ensure that the bank can service its obligations is essential to address a key medium-term fiscal risk.

27. **Liquidation of the assets of the failed banks is finally underway, and the steps taken to ensure transparency of the liquidation funds' operations are essential to address governance concerns**. Dealing with the remaining assets in the liquidation funds in a transparent way is important to raise creditor discipline, limit fiscal costs, and maintain public confidence. Although there has been some delay with financial statements and audits of the liquidation funds, the financial statements are being completed as prior actions for this review and two of the three audits are finished, with the third to be completed by year's end. Continued close monitoring of the liquidation funds' activities is necessary to ensure that any potential further problems are quickly addressed and the asset disposal process proceeds as foreseen in the contract with the asset manager. The authorities should continue to refrain from granting any further compensation schemes to bondholders and large depositors of the liquidated banks.

28. **Appropriate resources need to be devoted to ensure the timely provision of fiscal data**. While fiscal data lags have diminished, they are still over 60 days. Staff welcomes the advance by one month of published data on central government operations and the publication of information on the stock of floating debt.

29. **While the risks to the program have diminished, significant vulnerabilities remain, leaving no room for policy slippages.** Important risks remain from the still high public debt, the high degree of financial dollarization, and remaining weaknesses in the banking system. To manage these risks, it will be crucial to protect the main elements of the program through the political transition.

30. **For the new government, the key challenge will be to pursue its economic and social priorities in a way that preserves and builds on the stabilization gains achieved**. This will require, in particular, continued focus on fiscal consolidation and medium-term debt sustainability, rebuilding the Uruguayan banking system, and reforms that boost the economy's growth potential by strengthening productivity and competitiveness, as Uruguay integrates further into the region and the global economy. Staff hopes that the new government and congress will reach a consensus and move decisively in carrying out the necessary structural reforms to ensure sustained high growth and financial stability.

31. **Staff supports the authorities' request for waivers and completion of the sixth review and their request for an extension of repurchase expectations to an obligations schedule for June 2005–December 2005**. Performance under the program has been broadly

satisfactory, especially with the key macroeconomic policies and banking reforms. The missed structural PC on preparation of financial statements of the liquidation funds is a prior action for this review, Staff supports the request for waiver of nonobservance of the end-October PC on completing external audits of these statements and the resetting of this PC to end-December, as two of the three audits have been completed and the third is well advanced. Staff also supports the waivers of nonobservance of the monthly PCs for September, October, and November on submitting financial statements of the liquidation funds; looking forward these monthly PCs can be dropped as the authorities will begin publishing audited semi-annual financial statements beginning with the December 2004 statements. Waivers of applicability of end-September fiscal and debt performance criteria are requested as final data will not be available at the time of the review; staff expects that the targets will be observed.

Table 1. Uruguay: Selected Economic and Financial Indicators

	2000	2001	2002	2003	2004 Country Report 04/327	2004 Rev. Proj.	Proj. 2005
	(Percent change)						
Output, prices, and wages							
Real GDP	-1.4	-3.4	-11.0	2.5	7.0	11.0	4.0
Contributions to growth (percent)							
Consumption	-1.3	-2.2	-15.2	-1.0	7.4	10.0	3.8
Investment	-2.2	-1.4	-5.0	2.7	0.8	2.9	1.2
Net exports	2.2	0.3	9.1	0.9	-1.2	-1.9	-1.0
GDP deflator	4.0	5.3	18.7	17.9	9.2	8.7	7.0
CPI inflation							
Average	4.8	4.4	14.0	19.4	9.3	9.3	6.7
End of period	5.1	3.6	25.9	10.2	9.0	8.7	7.1
Exchange rate change (Ur$/US$)							
Average	6.7	10.1	62.1	30.4	...	…	…
End of period	7.7	18.0	84.2	7.3	...	…	…
Average public sector wage (end of period)	2.9	5.1	0.5	7.9	9.7	9.7	9.2
GDP							
In Ur$ billions	243.0	247.2	261.0	315.4	368.7	380.6	423.3
In US$ billions	20.1	18.6	12.1	11.2	12.2	13.0	14.9
Monetary indicators 1/							
BCU monetary liabilities	-0.1	4.1	-7.4	25.3	11.4	22.2	7.9
Currency issued	-3.9	-0.2	5.8	22.4	12.6	5.1	8.5
M-2	3.5	0.6	-5.1	17.4	16.8	6.9	6.4
M-3	10.2	19.6	15.8	21.7	19.8	15.6	8.4
Credit to the private sector (constant exch. rate) 2/	0.3	-3.8	-17.6	-23.9	2.0	-2.5	0.3
	(Percent of GDP, unless otherwise indicated)						
Public sector operations							
Revenue	31.2	32.4	31.1	31.1	30.5	29.7	29.2
Noninterest expenditure (incl. discrepancy)	32.7	33.6	31.1	28.4	27.1	26.1	25.4
Primary balance	-1.5	-1.2	0.0	2.7	3.4	3.6	3.8
Interest	2.6	2.9	4.7	6.0	6.5	6.0	4.9
Overall balance	-4.1	-4.1	-4.6	-3.2	-3.1	-2.4	-1.1
Savings and investment							
Gross domestic investment	14.0	13.8	11.5	13.1	12.5	13.8	13.8
Gross national savings	11.1	10.9	13.1	13.7	12.8	13.2	13.0
Foreign savings	2.8	2.8	-1.6	-0.7	-0.3	0.6	0.8
External indicators							
Merchandise exports, fob (US$ millions)	2,384	2,144	1,934	2,273	2,808	2,938	3,114
Merchandise imports, fob (US$ millions)	3,311	2,914	1,872	2,092	2,639	2,930	3,212
Merchandise terms of trade (percentage change)	-6.6	-0.7	4.8	3.3	0.3	-2.4	-1.2
Current account balance	-2.8	-2.8	1.6	0.7	0.3	-0.6	-0.8
Overall balance of payments (US$ millions) 3/	167	302	-2,323	1,311	663	474	-14
Public debt 4/	45.5	53.8	93.8	108.6	102.7	100.7	86.6
External debt 5/	44.3	47.8	87.2	98.3	94.2	85.3	73.3
Of which: External public debt	30.3	31.4	68.9	85.3	82.2	75.5	65.0
Gross official reserves (US$ millions)	2,779	3,099	776	2,087	2,750	2,561	2,701
In months of imports of goods and services	8.0	10.0	3.8	9.2	9.9	8.4	8.1
As percent of short-term debt 5/	108.9	114.7	31.8	105.8	137.4	127.4	122.0
As percent of short-term debt plus all FX deposits	18.2	18.0	7.7	21.4	26.1	25.2	25.6
Banking system foreign reserves as percent of short-term debt plus all FX deposits	59.2	60.3	48.5	59.6	65.0	61.8	64.3
REER (percentage depreciation -, e.o.p.)	-0.9	-5.4	-13.2	-15.0	...	…	…

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

1/ Evaluated at program exchange rates for 2004.

2/ Part of the sharp drop in 2003 is due to the removal of the three liquidated banks from the database in May 2003.

3/ Defined as changes in reserve assets.

4/ Defined for combined public sector.

5/ Excludes nonresident deposits.

Table 2. Uruguay: Summary Balance of Payments

(In millions of U.S. dollars)

	2001	2002	2003	2004					2005
				Q1	Q2	Q3	Q4	Year	
Current account	**-533**	**191**	**76**	**30**	**-2**	**-64**	**-42**	**-78**	**-125**
Goods and services	**-447**	**196**	**344**	**162**	**68**	**30**	**-7**	**253**	**148**
Goods	**-771**	**61**	**182**	**-22**	**54**	**30**	**-55**	**7**	**-98**
Exports	2,144	1,934	2,273	611	764	800	763	2,938	3,114
Imports	2,914	1,872	2,092	633	710	770	818	2,930	3,212
Services	**324**	**135**	**162**	**184**	**14**	**0**	**48**	**246**	**246**
Exports	1,132	727	778	328	201	196	250	975	1,033
Imports	808	592	616	144	187	196	203	728	787
Income	**-114**	**-76**	**-344**	**-144**	**-82**	**-114**	**-55**	**-395**	**-353**
Current transfers	**28**	**70**	**76**	**12**	**12**	**20**	**20**	**64**	**80**
Financial account	**794**	**-2,337**	**897**	**-31**	**-100**	**171**	**252**	**292**	**111**
Direct investment, net	**319**	**77**	**260**	**55**	**59**	**100**	**100**	**314**	**250**
Portfolio investment, net	**553**	**415**	**-541**	**6**	**-465**	**10**	**-7**	**-456**	**91**
Government securities	**324**	**171**	**-5**	**35**	**-56**	**10**	**-7**	**-18**	**91**
Banks	229	244	-537	-29	-409	0	0	-438	0
Other investment, net	**-78**	**-2,828**	**1,179**	**-92**	**307**	**61**	**159**	**435**	**-229**
Loans	**-1,041**	**1,290**	**375**	**120**	**-38**	**49**	**146**	**277**	**-382**
Nonfinancial public sector	182	633	237	-31	-48	-38	93	-24	0
Other, net (fin. derivatives)	0	14	0	0	0	0	0	0	0
BCU/use of IMF resources	-58	883	671	122	86	166	50	424	-383
Of which: FSBS resources	0	-716	0	0	0	0	0	0	0
Banks	-1,166	-240	-533	30	-77	-79	3	-123	0
Deposits	**1,004**	**-1,693**	**267**	**-232**	**421**	**13**	**13**	**215**	**153**
Public banks	302	-110	-465	-26	-257	0	0	-283	0
Private banks	701	-1,582	732	-206	678	13	13	497	153
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**	**158**	**102**	**0**	**0**	**260**	**0**
Overall balance	**302**	**-2,323**	**1,311**	**157**	**0**	**107**	**210**	**474**	**-14**
Reserve assets (- increase)	**-302**	**2,323**	**-1,311**	**-157**	**0**	**-107**	**-210**	**-474**	**-140**
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**154**
Memorandum items:									
Current account balance (percent of GDP)	-2.8	1.6	0.7					-0.6	-0.8
Financial account balance (percent of GDP)	4.2	-19.3	8.0					2.2	0.7
Gross international reserves	3,099	776	2,087					2,561	2,701
In months of imports of GNFS	10.0	3.8	9.2					8.4	8.1
In percent of ST debt 1/	31.8	16.3	49.7					56.5	55.3

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

1/ Including nonresident deposits.

Table 3. Uruguay: Quantitative Performance Criteria and Indicative Targets
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				Target
	Target	Adj. Target	Prel.	Margin (+)	Dec. 31
A. Quantitative performance criteria					
	(In millions of Uruguayan pesos)				
1. Combined public sector primary balance	10,238	...	...	**...**	12,525
2. General government noninterest expenditure	30,592	30,700	29,908	**792**	41,525
3. Change in the net domestic assets of the BCU	-550	1,000	-7,552	**8,552**	-3,830
	(In millions of U.S. dollars)				
4. Net international reserves of the BCU (- decrease) (cumulative floor) 2/ 5/	50	0	187	**187**	180
5. Nonfinancial public sector gross debt (ceiling) 3/ 6/	9,035	...	...	**...**	9,040
B. Indicative targets					
	(In millions of Uruguayan pesos)				
1. Combined public sector overall balance (cumulative floor) 2/ 3/ 7/	-9,040	...	...	**...**	-11,384
2. Change in the monetary base (ceiling) 8/	1,000	1,000	-1,755	**2,755**	1,750

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 3. Uruguay: Performance Under the 2004-05 Economic Program (concluded)

	Date	Status
C. Structural performance criteria		
Completion of financial statements covering the operations of the liquidation funds since inception.	End-Sept	Prior action for sixth review.
Completion of external financial audits of the liquidation funds.	End-Oct	Proposed to be reset to end-December. Two of three audits completed in early November.
Completion of transfer of remaining available assets of the liquidation funds to the asset manager.	End-Oct	Observed
Incorporate into the credit registry of the Banking Superintendency the information on nonperforming borrowers of the liquidation funds whose loans were held by the liquidation funds.	End-Dec	Ongoing
Completion of the transfer to the BROU fiduciary trust of all new and remaining Category 4 and 5 loans.	End-Dec	Ongoing
Complete semiannual financial reports of the liquidation funds for end-December 2004 for auditing and publication.	End-Jan	Ongoing
Submission of monthly balance sheets and cash flows of the liquidation funds by the 20th of the following month to the MEF and BCU, starting with the end-August financial statements.	Monthly	Missed for September 20 and October 20 and will be missed for November20. Proposed to be eliminated, superseded by the PC above on publishng semi-annual reports.
Government to ensure timely service of BHU note to BROU.	Continuous	Observed
D. Structural benchmarks		
Completion of supplementary external audit of the FSBS.	End-Mar	Ongoing; audit of transactions with BDC completed.
Completion of external audit by an internationally reputable firm of assets transferred to the fiduciary trust.	End-June	Observed
Establishment of a Large Taxpayers Unit at the Tax Administration Department (DGI).	End-Dec	Ongoing
Approval by Congress of the reform of the pension funds for the police and the military.	End-Dec	
Approval by Congress of the reform of the pension funds for bank employees.	End-Dec	
Asset manager to reach 700 payment agreements approved by its creditor committee.	End-Jan	Ongoing

Table 4. Uruguay: Public Sector Operations

	2000	2001	2002	2003	2004 Original Program	2004 Revised Program	2004 Proj. Q1	2004 Proj. Q2 1/	2004 Proj. Q3	2004 Proj. Q4	2004 Proj. Year	2005 Proj.
						(In millions of Uruguayan pesos)						
Revenue	**75,944**	**80,866**	**81,138**	**98,180**	**111,471**	**112,457**	**28,716**	**27,751**	**28,396**	**29,116**	**113,979**	**124,744**
Taxes	75,944	54,007	57,832	70,096	78,889	81,967	20,070	21,520	19,894	21,301	82,785	89,894
VAT and excise taxes	50,164	29,437	29,708	37,667	43,179	43,858	11,493	11,226	11,705	12,193	46,617	52,477
On income and profits	27,409	12,719	14,302	15,621	17,906	19,587	4,071	5,810	3,923	3,714	17,518	16,453
On foreign trade	12,640	2,428	2,730	3,780	4,763	4,881	1,133	1,145	1,268	1,524	5,070	5,707
On property and other	1,968	9,424	11,091	13,028	13,040	13,640	3,373	3,339	2,998	3,869	13,580	15,257
Social security contributions 2/	8,147	14,381	12,836	11,794	13,678	13,389	3,234	3,097	3,819	3,491	13,641	15,022
Nontax revenue 3/	15,085	5,250	5,274	6,200	6,780	6,828	1,654	2,338	1,809	1,816	7,617	7,678
Current surplus of public enterprises 4/	5,849	7,227	5,196	10,090	12,124	10,273	3,758	796	2,874	2,509	9,936	12,150
Noninterest expenditure	**22,223**	**83,954**	**81,066**	**89,529**	**99,887**	**99,932**	**24,490**	**24,441**	**23,601**	**27,603**	**100,135**	**108,491**
Current 3/	79,615	74,871	74,653	81,721	89,321	90,007	20,629	22,321	22,623	24,444	90,017	96,124
Wages	71,185	18,074	18,158	19,701	21,686	21,943	5,456	5,862	5,697	6,365	23,381	25,383
Goods and services	17,219	12,833	12,057	15,031	16,707	17,556	3,955	3,866	4,117	4,184	16,123	16,223
Social security benefits	11,298	41,907	42,818	44,218	47,041	47,366	11,721	11,601	12,104	12,123	47,549	51,301
Other	41,120	2,057	1,619	2,771	3,887	3,142	-503	991	704	1,772	2,964	3,218
Capital (Government and enterprises) 3/	1,548	9,083	6,413	7,808	10,566	9,925	3,861	2,121	978	3,159	10,119	12,367
Primary balance	**-3,671**	**-3,088**	**72**	**8,651**	**11,584**	**12,525**	**4,225**	**3,310**	**4,795**	**1,513**	**13,844**	**16,253**
Interest	6,308	7,276	12,163	18,881	23,591	23,909	7,192	4,197	7,152	4,392	22,933	20,743
Overall balance	**-9,979**	**-10,364**	**-12,091**	**-10,231**	**-12,008**	**-11,384**	**-2,967**	**-886**	**-2,357**	**-2,879**	**-9,089**	**-4,490**

Table 4. Uruguay: Public Sector Operations

	2000	2001	2002	2003	2004 Original Program	2004 Revised Program	2004 Proj. Q1	2004 Proj. Q2 1/	2004 Proj. Q3	2004 Proj. Q4	2004 Proj. Year	2005 Proj.
	(In percent of GDP)											
Revenue	**31.2**	**32.7**	**31.1**	**31.1**	**30.8**	**30.5**	**30.2**	**29.2**	**29.8**	**30.6**	**29.9**	**29.5**
Taxes	20.6	21.8	22.2	22.2	21.8	22.2	21.1	22.6	20.9	22.4	21.8	21.2
VAT and excise taxes	11.3	11.9	11.4	11.9	11.9	11.9	12.1	11.8	12.3	12.8	12.2	12.4
On income and profits	5.2	5.1	5.5	5.0	4.9	5.3	4.3	6.1	4.1	3.9	4.6	3.9
On foreign trade	0.8	1.0	1.0	1.2	1.3	1.3	1.2	1.2	1.3	1.6	1.3	1.3
On property and other	3.4	3.8	4.3	4.1	3.6	3.7	3.5	3.5	3.2	4.1	3.6	3.6
Social security contributions 2/	6.2	5.8	4.9	3.7	3.8	3.6	3.4	3.3	4.0	3.7	3.6	3.5
Nontax revenue 3/	2.4	2.1	2.0	2.0	1.9	1.9	1.7	2.5	1.9	1.9	2.0	1.8
Current surplus of public enterprises	2.0	2.9	2.0	3.2	3.3	2.8	3.9	0.8	3.0	2.6	2.6	2.9
Noninterest expenditure	**31.2**	**32.7**	**31.1**	**28.4**	**27.6**	**27.1**	**25.7**	**25.7**	**24.8**	**29.0**	**26.3**	**25.6**
Current 3/	20.6	21.8	28.6	25.9	24.6	24.4	21.7	23.5	23.8	25.7	23.7	22.7
Wages	11.3	11.9	7.0	6.2	6.0	6.0	5.7	6.2	6.0	6.7	6.1	6.0
Goods and services	5.2	5.1	4.6	4.8	4.6	4.8	4.2	4.1	4.3	4.4	4.2	3.8
Social security benefits	0.8	1.0	16.4	14.0	13.0	12.9	12.3	12.2	12.7	12.7	12.5	12.1
Other	3.4	3.8	0.6	0.9	1.1	0.9	-0.5	1.0	0.7	1.9	0.8	0.8
Capital (Government and enterprises) 3/	6.2	5.8	2.5	2.5	2.9	2.7	4.1	2.2	1.0	3.3	2.7	2.9
Primary balance	**-1.5**	**-1.2**	**0.0**	**2.7**	**3.2**	**3.4**	**4.4**	**3.5**	**5.0**	**1.6**	**3.6**	**3.8**
Interest	2.6	2.9	4.7	6.0	6.5	6.5	7.6	4.4	7.5	4.6	6.0	4.9
Overall balance	**-4.1**	**-4.2**	**-4.6**	**-3.2**	**-3.3**	**-3.1**	**-3.1**	**-0.9**	**-2.5**	**-3.0**	**-2.4**	**-1.1**
Memorandum												
Augmented Balance 4/	**-9,979**	**-10,364**	**-56,106**	**-10,231**	**-12,008**	**-11,384**	**-2,967**	**-886**	**-2,357**	**-2,879**	**-9,089**	**-4,490**
In percent of GDP	-4.1	-4.2	-21.5	-3.2	-3.3	-3.1	-3.1	-0.9	-2.5	-3.0	-2.4	-1.1
GDP (billions of pesos)	243	247	261	315	363	368	...	...	...	...	381	423

Sources: Ministry of Finance; and Fund staff estimates.

1/ Preliminary.

2/ Excludes contributions that are transferred to the private pension funds.

3/ Includes extrabudgetary operations.

4/ Includes the following bank-restructuring costs: US$33 million of capital transfers for bank recapitalization, US$564 million of liquidity supplied by BCU, US$444 million for the Fondo de Fortalecimiento del Sistema Bancario (FFSB), and US$993 million for the FSBS.

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

				2004				
				Actual		Proj.		Proj.
	2001	2002	2003	Q1	Q2	Q3	Q4	2004
Gross outflows	**1,217**	**3,364**	**1,036**	**178**	**398**	**405**	**240**	**1,220**
Augmented deficit, NFPS	**707**	**2,524**	**324**	**81**	**19**	**104**	**-10**	**194**
Primary deficit	170	-14	-323	-147	-104	-114	-129	-494
Interest Payments	537	540	647	228	123	218	119	688
Bank assistance	0	1,998	171	4	26	4	104	138
Bank asset recovery	0	0	-171	-4	-26	-4	-104	-138
Amortizations	**510**	**840**	**712**	**97**	**378**	**301**	**250**	**1,026**
Long-term bonds	403	349	221	15	2	11	1	29
Loans	107	491	491	82	376	130	249	838
Commercial bank loans	0	214	217	0	191	12	104	307
Official loans (IDB, WB, others)	97	205	234	81	90	79	89	339
IMF	10	72	40	0	96	40	56	192
Debt consolidation	0	0	0	0	0	160	0	160
	0	0	0	0	0	0	0	0
Gross inflows	**1,216**	**3,364**	**1,036**	**178**	**398**	**404**	**241**	**1,220**
Short-term bills (net)	-32	383	393	-12	-38	-122	-140	-311
Long-term bonds	1,292	143	405	88	12	250	0	350
Loans	238	1,438	464	101	304	-3	380	782
Commercial banks	33	-16	-475	77	292	-100	180	449
Use of deposits	26	-21	-543	-6	126	-100	180	200
Loans	7	5	68	83	166	0	0	249
Central bank credit (net)	7	665	478	-5	-39	44	0	0
Use of Fund resources	0	-301	-484	-138	96	-207	-207	-456
Official loans (IDB, WB, Others)	198	789	461	29	51	53	200	333
IMF	0	1,603	484	138	0	207	207	552
Other inflows	-299	13	-236	1	23	280	0	304
Residual financing needs	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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

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

	December			2004			
						Prel.	Proj.
	2001	2002	2003	Mar.	Jun.	Sept.	Dec.
1. Banco Central del Uruguay							
Net foreign assets	40,358	-18,747	-1,516	-654	-2,488	-5,192	-4,149
(in US$ million)	2,733	-689	-52	-22	-84	-190	-134
Net international reserves	43,652	-5,374	16,763	17,522	20,806	17,504	21,421
(in US$ million)	2,956	-198	572	591	702	640	691
Other net foreign assets	-3,294	-13,373	-18,279	-18,175	-23,294	-22,696	-25,570
(in US$ million)	-223	-492	-624	-613	-786	-830	-825
Net domestic assets	-27,707	30,464	16,195	16,099	18,646	20,880	22,088
Credit to the public sector	-3,454	41,919	72,205	73,930	72,250	71,959	73,649
Credit to the financial system	-27,179	-9,340	-61,261	-61,077	-54,115	-47,506	-56,822
Credit to the private sector	284	2,163	2,067	2,847	1,697	1,657	1,698
Other	2,642	-4,279	3,185	399	-1,186	-5,229	3,564
Monetary liabilities	12,651	11,717	14,679	15,445	16,158	15,689	17,939
Currency issued	9,449	10,001	12,244	11,666	11,623	11,211	12,865
Currency in circulation	7,095	7,673	9,440	8,326	8,767	8,219	9,865
Vault cash	2,354	2,328	2,804	3,340	2,856	2,992	3,000
Private sector deposits	3,203	1,716	2,435	3,780	4,535	4,477	5,074
2. Public and Private Banks 2/							
Net foreign assets	-10,313	14,995	35,548	42,054	44,786	49,630	57,401
(in US$ million)	-698	551	1,213	1,418	1,510	1,815	1,852
Net domestic assets	144,429	142,908	156,190	164,156	162,509	144,890	163,029
Credit to the public sector	10,082	10,854	6,426	9,869	14,581	12,294	12,294
Credit to the financial system	25,880	4,601	58,662	60,936	53,281	48,248	50,870
Credit to the private sector	133,636	171,869	138,471	139,245	135,846	127,540	141,367
Other	-25,169	-44,416	-47,370	-45,894	-41,200	-43,192	-41,503
Liabilities to the private sector (residents)	134,116	157,903	191,738	206,209	207,294	194,520	220,429
Public banks	65,978	85,398	99,891	108,427	108,774	101,619	114,910
Local currency	9,863	9,212	11,534	13,050	12,737	12,742	13,397
Foreign currency	56,116	76,186	88,356	95,377	96,038	88,876	101,512
Private banks	68,138	72,505	91,847	97,782	98,520	92,902	105,520
Local currency	11,070	9,699	10,240	9,914	9,858	9,440	10,144
Foreign currency	57,067	62,805	81,607	87,869	88,662	83,462	95,375
3. Banking System 3/							
Net foreign assets	30,045	-3,752	34,032	41,400	42,298	44,438	53,251
(in US$ million)	2,034	-138	1,161	1,396	1,427	1,625	1,718
Net domestic assets	114,369	171,044	169,581	176,915	178,299	162,779	182,117
Credit to the public sector	6,628	52,774	78,631	83,799	86,832	84,253	85,943
Credit to the rest of financial system	-3,651	-7,067	-5,403	-3,481	-3,690	3,734	-2,952
Credit to the private sector	133,920	174,032	140,538	142,091	137,543	129,197	143,065
Local currency	42,037	36,325	32,648	33,668	32,576	32,908	33,883
Foreign currency	91,883	137,707	107,890	108,424	104,968	96,289	109,182
Other	-22,528	-48,695	-44,185	-45,495	-42,387	-48,421	-37,938
Broad money (M3)	144,414	167,292	203,613	218,315	220,597	207,217	235,368
Currency outside banks	7,095	7,673	9,440	8,326	8,767	8,219	9,865
Residents' deposits	137,319	159,619	194,172	209,989	211,830	198,998	225,503
Local currency	20,969	18,960	21,827	23,002	22,625	22,212	23,575
Foreign currency	116,350	140,659	172,345	186,987	189,204	176,785	201,928
(12-month percent change)							
BCU monetary liabilities	4.1	-7.4	25.3	41.6	36.8	43.7	22.2
Currency issued	-0.2	5.8	22.4	25.0	24.2	19.0	5.1
Broad money							
M2 = currency + peso deposits	0.6	-5.1	17.4	16.7	9.9	9.1	6.9
M3 = M2 + residents' foreign currency deposits	19.6	15.8	21.7	22.4	19.3	10.8	15.6
Credit to the private sector (const. exchange rate)	-3.8	-17.6	-23.9	-9.5	-10.0	-7.3	-2.5
Total deposits held by residents	21.0	16.2	21.6	22.6	19.1	10.7	16.1
Local currency	1.8	-9.6	15.1	16.4	5.3	6.9	8.0
Foreign currency and indexed	25.3	20.9	22.5	23.4	21.0	11.1	17.2
Memorandum item:							
Exchange rate of presentation	14.8	27.2	29.3	29.7	29.7	27.4	31.0

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	Projections 2004	2005	2006	2007	2008	2009
1. Output and prices (In percent change)								
Real GDP	-11.0	2.5	11.0	4.0	3.5	3.5	2.5	2.0
Real domestic demand	-18.1	1.6	12.7	4.9	4.4	4.0	3.1	2.6
Of which : consumption	-15.7	-1.1	11.3	4.3	3.2	3.3	2.5	2.4
Consumer prices (end-of-period)	25.9	10.2	8.7	7.1	6.6	6.1	4.8	4.3
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	10.0	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	-2.4	-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	13.8	13.8	14.1	14.2	14.3	14.0
Gross national savings	13.1	13.7	13.2	13.0	13.2	12.9	12.6	12.1
Foreign savings	-1.6	-0.7	0.6	0.8	1.0	1.3	1.6	1.9
3. Combined public sector operations (In percent of GDP)								
Overall balance	-4.6	-3.2	-2.4	-1.1	-0.6	-0.4	-0.4	-0.4
Primary balance	0.0	2.7	3.6	3.8	4.0	4.0	4.0	4.0
Public sector debt 1/	93.8	108.6	100.7	86.6	76.8	69.2	64.8	61.9
4. Reserve adequacy								
Gross official reserves								
In months of imports of goods and services	3.8	9.2	8.4	8.1	7.5	7.3	7.0	6.6
In percent of short-term debt								
excluding nonresident deposits	31.8	105.8	127.4	122.0	100.7	104.2	125.9	127.3
including nonresident deposits	16.3	49.7	56.5	55.3	48.5	48.4	51.2	49.9
5. Balance of payments and other external indicators (In millions of U.S. dollars)								
Current account balance	191	76	-78	-125	-165	-238	-331	-410
Trade balance	61	182	7	-98	-169	-212	-259	-311
Exports, f.o.b.	1,934	2,273	2,938	3,114	3,301	3,466	3,639	3,821
Imports, f.o.b.	1,872	2,092	2,930	3,212	3,469	3,677	3,898	4,132
Nonfactor services	135	162	246	246	245	257	260	264
Exports, f.o.b.	727	778	975	1,033	1,095	1,157	1,215	1,276
Imports, f.o.b.	592	616	728	787	850	901	955	1,012
Factor services (net)	-76	-344	-395	-353	-321	-363	-412	-443
Transfers (net)	70	76	64	80	80	80	80	80
Financial account	-2,337	897	292	111	-422	-375	-37	155
Foreign direct investment, net	77	260	314	250	250	250	250	250
Portfolio investment, net	415	-541	-456	91	-14	94	8	12
Other investment, net	-2,828	1,179	435	-229	-658	-719	-295	-107
Errors and omissions	-177	338	260	0	0	0	0	0
Overall balance	-2,323	1,311	474	-14	-586	-613	-368	-255
Reserve assets (- increase)	2,323	-1,311	-474	-140	11	-85	-44	-29
(In percent of GDP)								
Current account balance	1.6	0.7	-0.6	-0.8	-1.0	-1.3	-1.6	-1.9
Financial account	-19.3	8.0	2.2	0.7	-2.5	-2.0	-0.2	0.7
Total external debt (excl. nonres. deposits)	87.2	98.3	85.3	73.3	63.3	56.6	52.3	49.6
(In percent of exports of goods and nonfactor services)								
Total external debt (excl. nonres. deposits)	397.6	360.9	284.0	265.1	246.1	231.7	217.7	205.2
Total external debt (incl. nonres. deposits)	485.1	434.0	348.4	329.5	311.4	298.1	285.1	273.3
Debt service	55.6	50.7	36.5	48.9	40.0	37.7	27.2	25.6
Of which: interest	25.7	17.2	13.9	15.9	17.1	17.4	17.4	16.8

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

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

Table 8. Uruguay: Proposed Schedule of Purchases

(In millions of SDRs, unless otherwise indicated)

Augmented, extended, and rephased Stand-By Arrangement							
Original schedule (Country Report No. 04/327)				Proposed schedule			
Date	SDR	% quota		Date	SDR	% quota	
May 2004	139.8	45.6	Completion of the fifth review and observance of end-June 2004 performance criteria				
August 2004	Eliminated, as proposed in the Letter of Intent.						
November 2004	139.8	45.6	Completion of the sixth review and observance of end-September 2004 performance criteria	November 2004	139.8	45.6	Completion of the sixth review and observance of end-September 2004 performance criteria
February 2005	139.8	45.6	Completion of the seventh review and observance of end-December 2004 performance criteria	February 2005	139.8	45.6	Completion of the seventh review and observance of end-December 2004 performance criteria

Source: Fund staff estimates.

Table 9. 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	128.7	459.0	434.3	574.4	320.8	203.9
Expectations basis	...	...	893.3	574.4	320.8	203.9	17.5
Obligations basis	...	...	226.6	666.7	574.4	320.8	203.9
Charges and interest 2/	46.6	64.6	85.2	66.5	32.0	14.3	5.6
On Fund credit	45.9	63.9	84.3	65.6	31.0	13.3	4.7
On use of SDRs	0.7	0.7	1.0	1.0	1.0	1.0	1.0
Total obligations 1/	103.0	192.6	544.2	500.9	606.4	335.1	209.5
In millions of U.S. dollars	144.0	284.0	803.3	741.5	899.5	497.5	311.2
In percent of exports of goods and NFS	4.7	7.3	19.4	16.9	19.5	10.2	6.1
In percent of GDP	1.3	2.2	5.5	4.6	5.1	2.6	1.6
In percent of quota	33.6	62.8	177.5	163.4	197.8	109.3	68.4
In percent of overall external debt service	9.3	19.9	38.6	42.2	51.5	37.4	23.4
In percent of gross reserves	6.9	11.1	29.7	28.0	34.7	19.8	12.8
Fund credit outstanding (end of period) 1/							
In millions of SDRs	1,625.9	1,870.0	1,550.9	1,116.5	542.1	221.4	17.5
In millions of U.S. dollars	2,416.0	2,753.8	2,292.5	1,654.6	804.5	328.7	26.0
In percent of exports of goods and NFS	79.2	70.4	55.3	37.6	17.4	6.8	0.5
In percent of GDP	21.6	21.1	15.7	10.3	4.5	1.7	0.1
In percent of quota	530.5	610.1	506.0	364.3	176.9	72.2	5.7
In percent of public sector external debt	25.3	28.0	23.7	17.7	8.8	3.7	0.3
In percent of overall external debt	21.9	24.8	20.9	15.5	7.7	3.2	0.3
In percent of gross reserves	115.8	107.5	84.9	62.4	31.0	13.1	1.1
Memorandum items (in millions of U.S. dollars unless otherwise noted):							
Exports of goods and NFS	3,051	3,912	4,147	4,396	4,623	4,854	5,097
Quota (millions of SDRs)	306.5	306.5	306.5	306.5	306.5	306.5	306.5
GDP	11,202	13,034	14,577	16,006	17,733	18,977	19,900
U.S. dollar per SDR, e.o.p.	1.49	1.47	1.48	1.48	1.48	1.48	1.49
U.S. dollar per SDR, average	1.40	1.47	1.48	1.48	1.48	1.48	1.49
Public sector debt	12,163	13,119	12,975	13,117	13,102	13,095	13,054
Public sector external debt	9,557	9,835	9,693	9,363	9,137	8,935	8,741
Overall external debt service	1,548	1,430	2,080	1,758	1,747	1,331	1,328
Overall external debt	11,012	11,111	10,988	10,674	10,433	10,216	10,007
Gross foreign reserves	2,087	2,561	2,701	2,650	2,595	2,508	2,430

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

1/ Assuming that all scheduled purchases are made and that repurchases under the SRF and SBA in 2004 are made on an obligations basis. Consistent with the authorities' plans, SBA repurchases in 2005 are assumed to be made on an expectations basis through May and on an obligations basis from June-December. Remaining repurchases are assumed to be made on an obligations basis. On March 17, 2003, the IMF Executive Board converted the two remaining SRF repurchases to an obligations basis. On February 20, 2004, the IMF Executive Board converted SBA repurchases falling due in 2004 to an obligations basis.

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 10. Uruguay: Vulnerability Indicators

	2000	2001	2002	2003	Proj. 2004	Proj. 2005
(Percent change, unless otherwise indicated)						
Financial sector indicators						
Broad money	10.2	19.6	15.8	21.7	15.6	8.4
Credit to the private sector (const. exch. rate)	0.3	-3.8	-17.6	-23.9	-2.5	0.3
Share of nonperforming loans in total loans (in percent) 1/	16.4	17.9	38.0	13.5	8.2	…
Interbank interest rates (percent, end of period) 2/	17.5	42.7	45.0	2.5	7.8	…
Nonfinancial public debt (percent of GDP) 3/	35.8	43.2	85.1	105.3	91.7	77.6
External indicators						
Merchandise exports	4.1	-10.1	-9.8	17.6	29.2	6.0
Merchandise imports	3.9	-12.0	-35.8	11.7	40.1	9.6
Merchandise terms of trade	-6.6	-0.7	4.8	3.3	-2.4	-1.2
REER appreciation (+) 4/	-0.9	-5.4	-13.2	-15.0	-0.7	…
(Percent of GDP, unless otherwise indicated)						
Current account balance	-2.8	-2.8	1.6	0.7	-0.6	-0.8
Capital and financial account balance	3.8	4.2	-19.3	8.0	2.2	0.7
Of which : Net foreign direct investment	1.4	1.7	0.6	2.3	2.4	1.7
Portfolio investment (securities, etc.)	1.5	3.0	3.4	-4.8	-3.5	0.6
Other net inflows (deposits, loans, trade credits, etc.)	1.0	-0.4	-23.3	10.5	3.3	-1.5
Total external debt including nonresident deposits	72.7	85.3	106.4	118.2	104.6	91.2
Of which: Public sector excl. nonresident deposits	30.3	31.4	68.9	85.3	75.5	65.0
Foreign currency deposits (nonresidents)	28.4	37.6	19.3	19.9	19.3	17.9
In percent of exports GNFS	394.4	487.4	485.1	434.0	348.4	329.5
Total external debt excluding nonresident deposits	44.3	47.7	87.2	98.3	85.3	73.3
In percent of exports GNFS	240.2	272.8	397.6	360.9	284.0	265.1
External interest payments to exports GNFS (in percent)	21.7	23.7	25.7	17.2	13.9	15.9
External amortization payments to exports GNFS (in percent)	14.4	19.7	29.9	33.5	22.6	33.0
(U.S. million, unless otherwise indicated)						
Central Bank reserve liabilities 5/	150	144	970	1,515	1,710	…
Short term foreign assets of the financial sector 5/	7,367	7,695	3,140	4,989	5,761	…
Short term foreign liabilities of the financial sector 5/	6,504	7,547	4,101	3,530	1,989	…
Gross official reserves	2,779	3,099	776	2,087	2,561	2,701
In months of imports GNFS	8.0	10.0	3.8	9.2	8.4	8.1
In percent of total debt service	210.2	17.1	122.5	447.1	502.2	424.7
In percent of broad money	27.8	28.6	10.0	29.9	31.1	31.5
In percent of base money	365.9	483.0	203.8	415.1	408.0	414.5
In percent of short-term external debt incl. nonres FX deposits 5/	33.6	31.8	16.3	49.7	56.5	55.3
In percent of short-term external debt excl. nonres FX deposits 5/	108.9	114.7	31.8	105.8	127.4	122.0
In percent of short-term external debt plus all FX deposits 5/	18.2	18.0	7.7	21.4	25.2	25.6
Banking system foreign assets as percent of short-term external debt plus all FX deposits 6/	59.2	60.3	48.5	59.6	61.8	64.3
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	485	… …
Exchange rate (per U.S. dollar, period average)	12.1	13.3	21.6	29.2	…	…

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

1/ For 2004, end-May.

2/ For 2004, end-October.

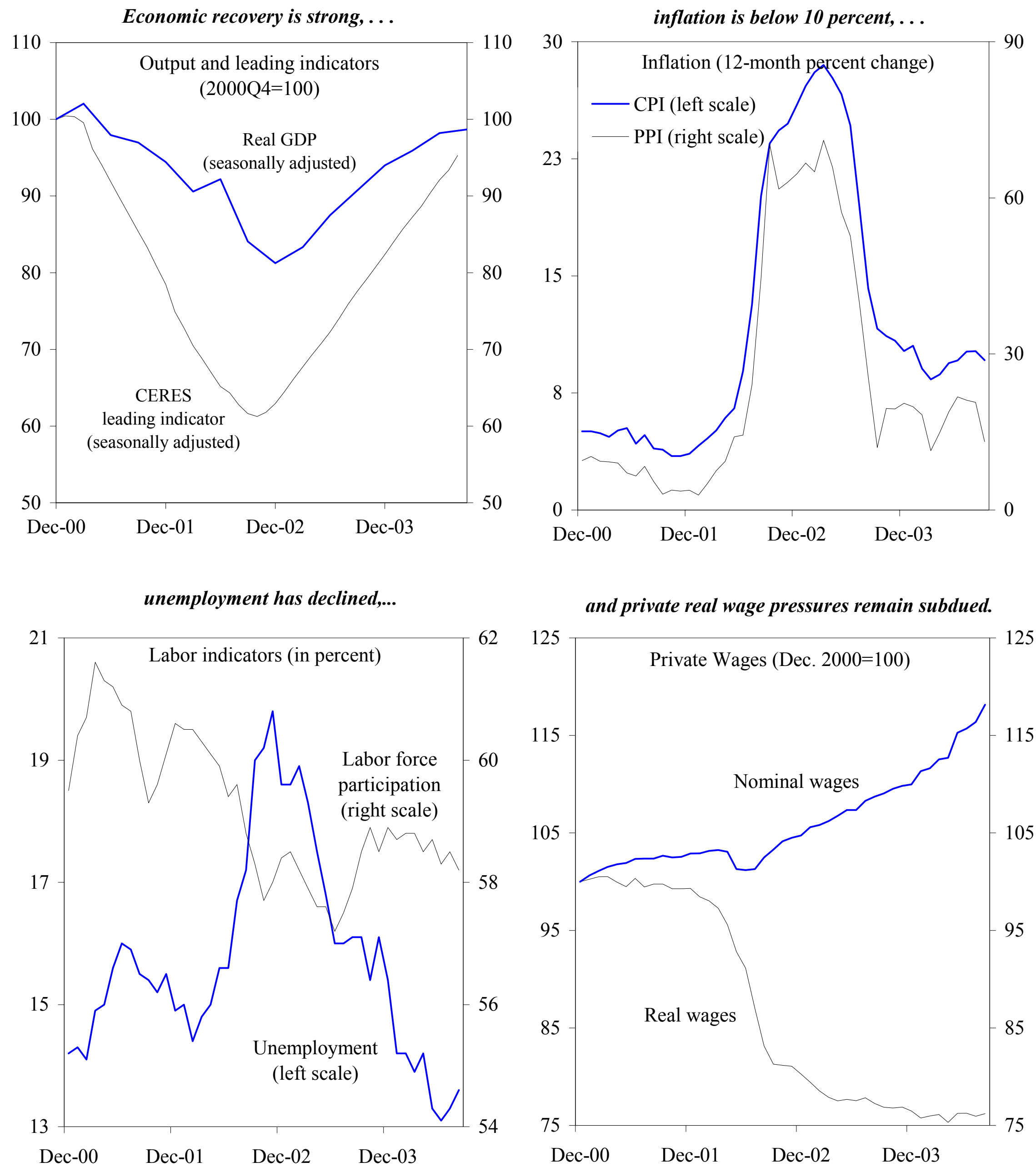
3/ Includes obligations to the IMF.

4/ For 2004, end-July.

5/ For 2004, end-August.

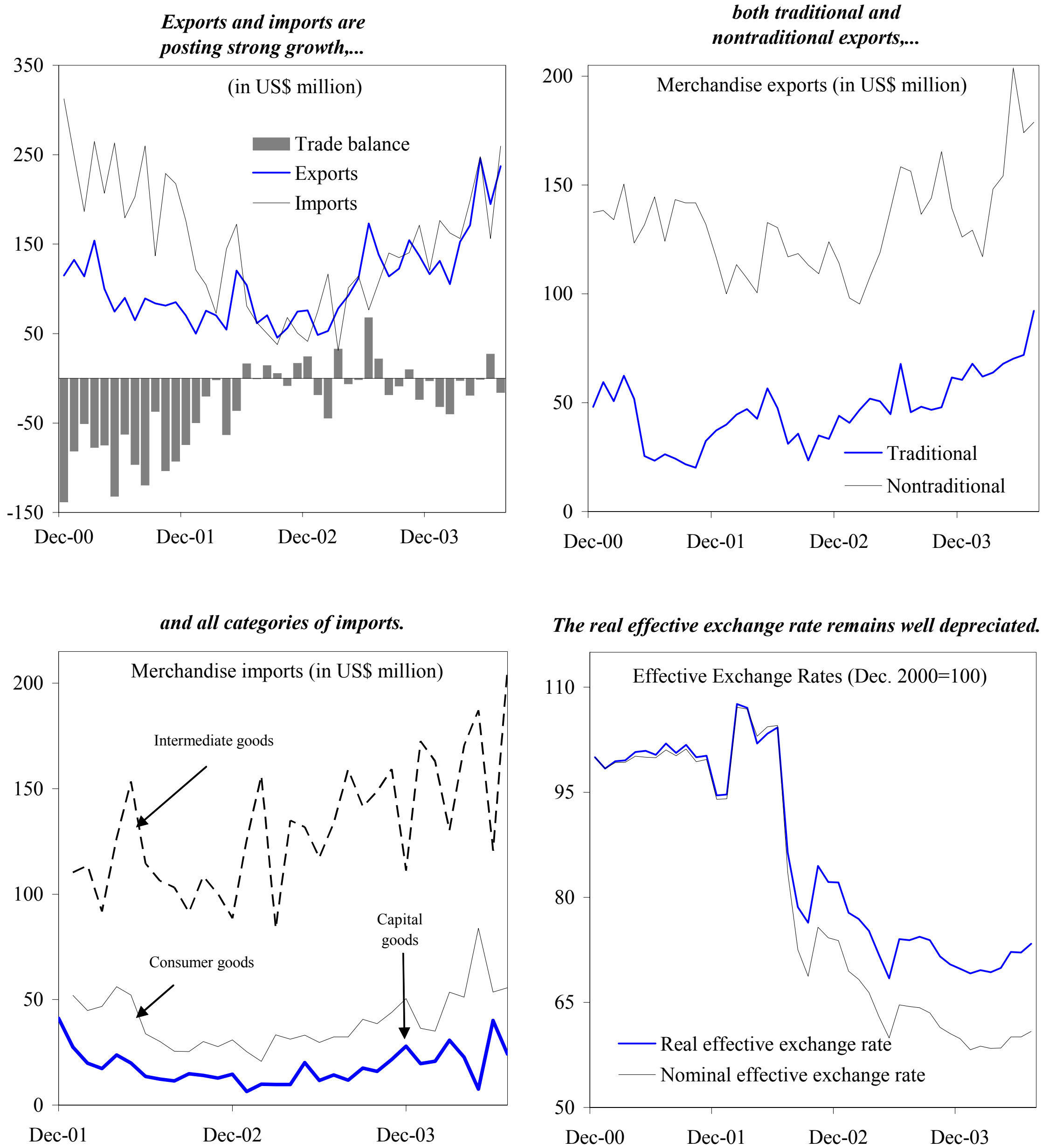
6/ By remaining maturity.

Figure 1. Uruguay: Activity and Prices



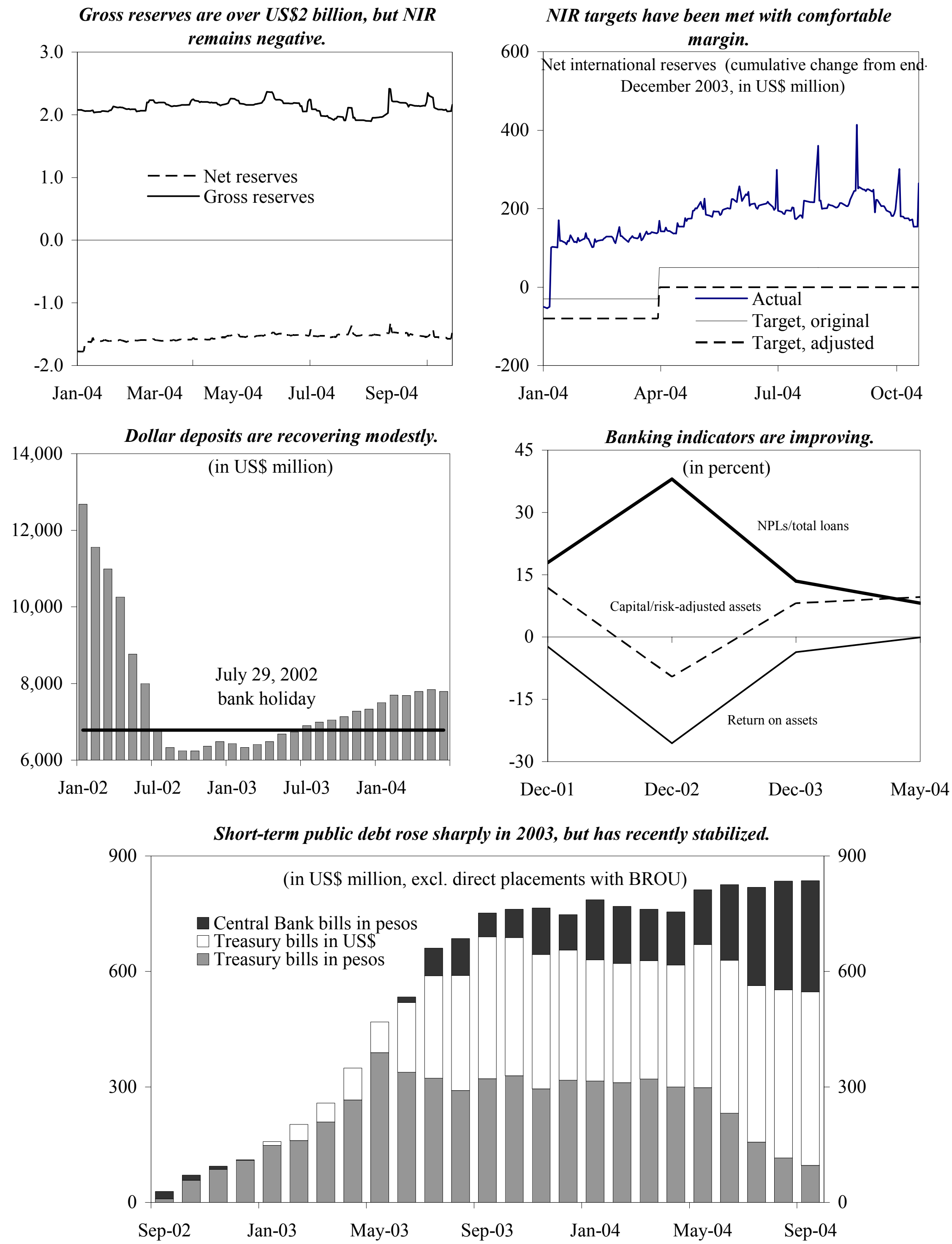
Source: Central Bank of Uruguay; Ministry of Economy and Finance; CERES; and Fund staff estimates.

Figure 2. Uruguay: External Sector Indicators



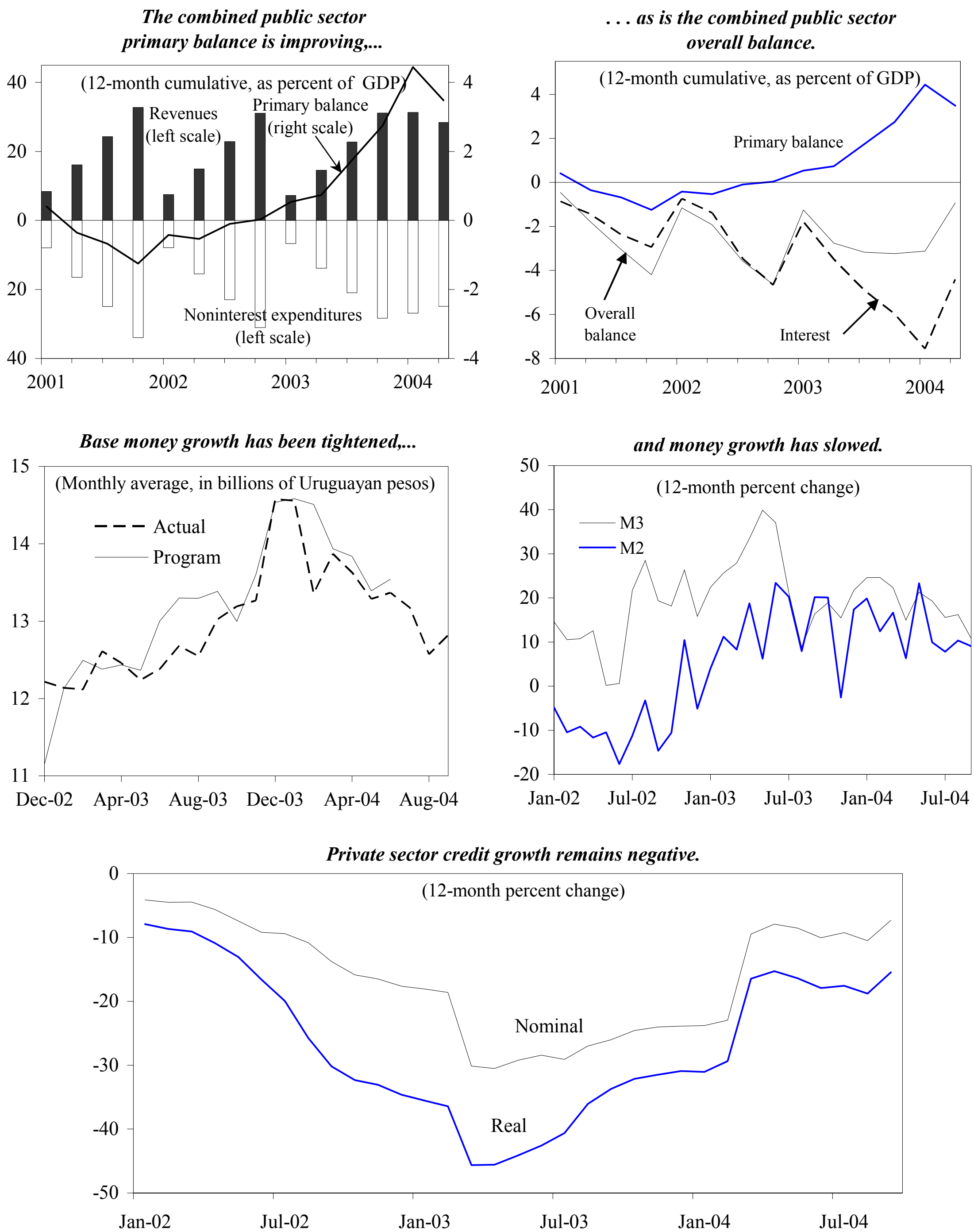
Source: Central Bank of Uruguay; Ministry of Economy and Finance; CERES; and Fund staff estimates.

Figure 3. Uruguay: Financial and Vulnerability Indicators



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

Figure 4. Uruguay: Fiscal and Monetary Indicators



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

Table 1. Uruguay:Nonfinancial Public Sector Debt Sustainability 1/.
(Excludes 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	11.0	4.0	3.5	3.5	2.5	2.0	2.0	2.0	2.0
Interest rate spread (bps)	284	1,400	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	2.9	8.0	8.0	5.0	2.0	0.0	0.0	0.0	0.0
Primary balance: consolidated public sector	**-1.2**	**0.0**	**2.7**	**3.6**	**3.8**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**
Nonfinancial public sector	-1.0	0.2	2.9	3.8	4.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2
BCU	-0.2	-0.2	-0.2	-0.2	-0.2	-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**	**-2.4**	**-1.1**	**-0.6**	**-0.4**	**-0.4**	**-0.4**	**-0.2**	**0.1**	**0.2**
Nonfinancial public sector	-3.8	-4.3	-2.9	-1.5	-0.6	-0.3	0.0	-0.1	-0.1	0.0	0.2	0.3
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 nonfinancial public sector debt	**43**	**85**	**105**	**92**	**78**	**68**	**61**	**58**	**55**	**53**	**50**	**48**
				C. Cash Flow (in millions of U.S. dollars)								
Gross borrowing needs	**1,217**	**3,364**	**1,036**	**1,220**	**1,482**	**1,530**	**1,632**	**1,171**	**1,105**	**1,193**	**1,799**	**1,317**
Augmented public sector deficit	707	2524	324	194	96	43	7	30	29	4	-53	-73
Public sector deficit	707	526	324	194	96	43	7	30	29	4	-53	-73
Bank assistance	0	1998	171	138	0	0	0	0	0	0	0	0
Bank asset recovery	0	0	-171	-138	0	0	0	0	0	0	0	0
Amortization	510	840	712	1026	1386	1487	1625	1141	1076	1188	1852	1389
Bonds, long-term	403	349	221	29	169	375	209	401	414	602	1266	912
Commercial bank loans	0	214	217	307	81	125	143	162	196	195	195	191
IDB/WB and other official debt	97	205	234	339	364	459	424	232	241	262	288	286
IMF	10	72	40	192	772	527	850	345	224	129	103	0
Debt Consolidation	0	0	0	160	0	0	0	0	0	0	0	0
Gross financing	**1,216**	**3,364**	**1,036**	**1,220**	**1,328**	**955**	**935**	**759**	**821**	**1,031**	**1,722**	**1,317**
Short-term bonds (net)	-32	383	393	-311	-185	0	0	0	0	0	0	0
Long-term bonds	1,292	143	405	350	400	400	400	416	438	635	1,310	931
Commercial bank	33	-16	-475	449	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	249	81	45	143	162	196	195	195	191
IDB/WB and other official debt	198	789	461	333	364	430	392	181	187	201	217	195
IMF	0	1,603	484	552	207	0	0	0	0	0	0	0
Central bank credit (net)	7	665	478	0	0	0	0	0	0	0	0	0
Use of Fund disbursement	0	-301	-484	-456	200	0	0	0	0	0	0	0
Other inflows (net)	-299	13	-236	304	80	0	0	0	0	0	0	0
FSBS	0	0	0	96	80	0	0	0	0	0	0	0
Debt consolidation	0	0	0	160	0	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**	**154**	**575**	**698**	**412**	**284**	**162**	**77**	**0**
				D. Other Indicators								
Total debt service (in percent of GDP)	5.6	11.4	12.1	13.2	13.9	13.2	12.9	10.0	9.5	9.6	12.1	9.7
Residual financing needs (in percent of GDP)	0.0	0.0	0.0	0.0	1.0	3.4	3.7	2.0	1.4	0.7	0.3	0.0
Average interest rate (in percent)	6.7	5.2	5.5	5.8	6.0	6.6	6.9	7.6	7.9	8.0	7.9	8.1
Memorandum items:												
GDP (millions of dollars)	18,561	12,089	11,202	13,028	14,929	17,005	18,856	20,140	21,019	21,937	22,898	23,902
Nominal debt (millions of dollars)	8,012	10,286	11,801	11,947	11,582	11,545	11,552	11,582	11,611	11,615	11,562	11,490
Fund credit outstanding (millions of dollars)	145	1,754	2,390	2,750	2,339	2,075	1,650	1,449	1,210	886	507	267
Fund credit outstanding (in percent of GDP)	0.8	14.5	21.3	21.1	15.7	12.2	8.8	7.2	5.8	4.0	2.2	1.1

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.

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	11.0	4.0	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	2.9	8.0	8.0	5.0	2.0	0.0	0.0	0.0	0.0
Primary balance: consolidated public sector	**-1.2**	**0.0**	**2.7**	**3.6**	**3.8**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**
Nonfinancial public sector	-1.0	0.2	2.9	3.8	4.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2
BCU	-0.2	-0.2	-0.2	-0.2	-0.2	-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**	**-2.4**	**-1.1**	**-0.7**	**-0.5**	**-0.6**	**-0.6**	**-0.5**	**-0.3**	**-0.2**
Nonfinancial public sector	-3.8	-4.3	-2.9	-1.5	-0.6	-0.3	-0.2	-0.4	-0.4	-0.3	-0.1	0.0
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 nonfinancial public sector debt	**43**	**85**	**105**	**92**	**79**	**71**	**65**	**61**	**60**	**58**	**56**	**54**
C. Cash Flow (in millions of U.S. dollars)												
Gross borrowing needs	**1,217**	**3,364**	**1,036**	**1,220**	**1,730**	**1,817**	**1,799**	**1,269**	**1,237**	**1,377**	**2,012**	**1,556**
Augmented public sector deficit	707	2,524	324	194	344	331	172	124	135	137	89	77
Public sector deficit	707	526	324	194	96	56	37	72	79	63	18	10
Bank assistance	0	1,998	171	138	248	275	135	52	56	74	71	67
Bank asset recovery	0	0	-171	-138	0	0	0	0	0	0	0	0
Amortization	510	840	712	1,026	1,386	1,487	1,627	1,146	1,101	1,240	1,923	1,478
Bonds, long-term	403	349	221	29	169	375	210	406	423	618	1,293	954
Commercial bank loans	0	214	217	307	81	125	143	162	196	195	195	191
IDB/WB and other official debt	97	205	234	339	364	459	424	232	258	297	332	333
IMF	10	72	40	192	772	527	850	345	224	129	103	0
Debt Consolidation	0	0	0	160	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
Gross Financing	**1,216**	**3,364**	**1,036**	**1,220**	**1,576**	**1,230**	**1,070**	**811**	**877**	**1,105**	**1,793**	**1,395**
Short-term bonds (net)	-32	383	393	-311	-185	0	0	0	0	0	0	0
Long-term bonds	1,292	143	405	350	400	400	400	416	438	635	1,310	931
Commercial bank	33	-16	-475	449	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	249	81	45	143	162	196	195	195	191
IDB/WB and other official debt	198	789	461	333	612	705	527	233	243	275	288	273
IMF	0	1,603	484	552	207	0	0	0	0	0	0	0
Central bank credit (net)	7	665	478	0	0	0	0	0	0	0	0	0
Use of Fund disbursement	0	-301	-484	-456	200	0	0	0	0	0	0	0
Other inflows (net)	-299	13	-236	304	80	0	0	0	0	0	0	0
FSBS	0	0	0	96	80	0	0	0	0	0	0	0
Debt consolidation	0	0	0	160	0	0	0	0	0	0	0	0
Revenue from concessions	0	0	0	54	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
Central bank resources to pay interest to the Fund	17	86	10	0	0	0	0	0	0	0	0	0
Residual financing needs	**0**	**0**	**0**	**0**	**154**	**588**	**729**	**458**	**360**	**272**	**219**	**161**
D. Other Indicators												
Total debt service (in percent of GDP)	5.6	11.4	12.1	13.2	13.9	13.3	13.0	10.2	9.8	10.1	12.7	10.4
Residual financing needs (in percent of GDP)	0.0	0.0	0.0	0.0	1.0	3.5	3.9	2.3	1.7	1.2	1.0	0.7
Average interest rate (in percent)	6.7	5.2	5.5	5.8	5.9	6.4	6.8	7.4	7.7	7.8	7.7	7.9
Memorandum items:												
GDP (millions of dollars)	18,561	12,089	11,202	13,028	14,929	17,005	18,856	20,140	21,019	21,937	22,898	23,902
Nominal debt (millions of dollars)	8,012	10,286	11,801	11,947	11,830	12,080	12,253	12,376	12,512	12,649	12,738	12,815
Fund credit outstanding (millions of dollars)	145	1,754	2,390	2,750	2,339	2,075	1,650	1,449	1,210	886	507	267
Fund credit outstanding (in percent of GDP)	0.8	14.5	21.3	21.1	15.7	12.2	8.8	7.2	5.8	4.0	2.2	1.1

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.

Table 3. Uruguay: Sensitivity of Nonfinancial Public Sector Debt 1/
(In percent of GDP)

				Projections								
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Table 1 scenario	43	85	105	92	78	68	61	58	55	53	50	48
Sensitivity to GDP growth												
GDP growth higher by 1 percent a year (2005-2012)	43	85	105	92	77	66	59	55	52	49	46	43
GDP growth lower by 1 percent a year (2005-2012)	43	85	105	92	78	69	63	60	59	57	55	54
Sensitivity to the real exchange rate												
Real exchange rate remains constant (2005-2012)	43	85	105	92	84	80	77	74	73	71	69	68
Real exchange rate reaches 75 percent of 2000 level	43	85	105	92	78	68	61	58	55	53	50	48
Real exchange rate reaches 65 percent of 2000 level	43	85	105	92	80	72	66	62	60	58	56	54
Sensitivity to primary surplus												
Primary surplus 0.5 percent higher a year (2005-2012)	43	85	105	92	77	67	60	56	53	50	47	43
Primary surplus 0.5 percent lower a year (2005-2012)	43	85	105	91	78	69	63	60	58	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	43	85	105	91	79	70	65	62	61	60	59	58
Sensitivity to interest rate												
Interest rate higher by 200 basis points	43	85	105	92	79	69	63	60	58	56	53	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.

Table 4. Uruguay: Public Sector Debt Sustainability Framework, 1999-2009.

(In percent of GDP, unless otherwise indicated)

	Actual							Projections					
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009
								I. Baseline Projections					
Public sector debt 1/	31.1	35.7	42.8	85.1	105.3			**91.7**	**77.6**	**67.9**	**61.3**	**57.5**	**55.2**
o/w foreign-currency denominated	29.5	35.1	42.3	81.9	102.9			88.9	74.5	64.5	57.6	53.5	50.8
Change in public sector debt	0.9	4.6	7.1	42.3	20.3			-13.6	-14.1	-9.7	-6.6	-3.8	-2.3
Identified debt-creating flows (4+7+12)	5.8	5.6	9.8	57.2	-4.9			-16.5	-8.6	-7.3	-6.5	-4.6	-3.7
Primary deficit	1.8	1.4	1.0	-0.5	-2.9			-3.8	-4.0	-4.2	-4.2	-4.2	-4.2
Revenue and grants	29.2	28.5	29.3	27.8	28.6			29.3	29.3	29.4	29.3	29.2	29.2
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
Automatic debt dynamics 2/	4.0	4.2	8.8	41.2	-3.5			-12.7	-4.6	-3.1	-2.3	-0.4	0.5
Contribution from interest rate/growth differential 3/	1.7	1.8	2.1	3.1	-8.9			-12.7	-4.6	-3.1	-2.3	-0.4	0.5
Of which contribution from real interest rate	0.8	1.4	0.9	-1.4	-7.2			-3.1	-1.3	-0.6	-0.1	1.0	1.6
Of which contribution from real GDP growth	0.9	0.4	1.2	4.5	-1.8			-9.6	-3.3	-2.5	-2.1	-1.4	-1.1
Contribution from exchange rate depreciation 4/	2.3	2.4	6.7	38.1	5.4			...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	16.5	1.5			0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	16.5	1.5			0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3) 5/	-4.9	-1.0	-2.7	-14.9	25.1			2.9	-5.5	-2.4	-0.2	0.8	1.4
Public sector debt-to-revenue ratio 1/	106.5	125.3	146.1	305.8	368.6			313.1	264.8	230.9	209.1	196.9	189.2
Gross financing need 6/	4.4	8.0	7.2	11.9	10.8			14.9	12.9	10.5	10.0	7.0	6.4
in billions of U.S. dollars	0.9	1.6	1.3	1.4	1.2	10-Year	10-Year	1.9	1.9	1.8	1.9	1.4	1.3
						Historical	Standard						
Key Macroeconomic and Fiscal Assumptions						Average	Deviation						
Real GDP growth (in percent)	-2.8	-1.4	-3.4	-11.0	2.5	0.5	5.6	11.0	4.0	3.5	3.5	2.5	2.0
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	5.6	6.4	6.9	7.7	8.1
Average real interest rate (nominal rate minus change in GDP defl	2.6	4.5	2.4	-5.4	-9.7	-9.8	13.1	-2.6	-1.3	-0.6	0.1	1.9	3.1
Nominal appreciation (increase in US dollar value of local currenc	-6.9	-7.2	-15.3	-45.7	-6.8	-16.3	11.9	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.2	4.0	6.1	17.7	17.9	18.5	13.5	8.7	7.0	7.0	6.8	5.8	5.0
Growth of real primary spending (deflated by GDP deflator, in pe	5.2	-5.1	-1.8	-19.9	-3.7	0.7	10.2	10.1	3.2	3.1	3.1	2.1	2.0
Primary deficit	1.8	1.4	1.0	-0.5	-2.9	-0.1	1.4	-3.8	-4.0	-4.2	-4.2	-4.2	-4.2
								II. Stress Tests for Public Debt Ratio					
1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006								**91.7**	**91.8**	**95.0**	**87.4**	**83.8**	**82.4**
2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**91.7**	**95.1**	**107.0**	**107.8**	**113.1**	**121.4**
3. Primary balance is at historical average minus two standard deviations in 2005 and 2006								**91.7**	**84.3**	**81.0**	**73.9**	**70.3**	**68.4**
4. Real interest rate, real GDP growth, and primary balance at historical averages minus one standard deviation shocks in 2005 and 2006								**91.7**	**94.8**	**101.0**	**93.2**	**89.6**	**88.5**
5. One time 30 percent real depreciation in 2005 8/								**91.7**	**129.5**	**116.5**	**108.1**	**104.7**	**104.0**
6. 10 percent of GDP increase in other debt-creating flows in 2005								**91.7**	**87.6**	**77.2**	**70.3**	**66.6**	**64.6**

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

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

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

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

5/ For projections, this line includes exchange rate changes, the use of deposits, balances from FSBS, and part of IMF disbursements.

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/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 5. Uruguay: External Debt Sustainability Framework, 1999–2009

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
								I. Baseline Projections						
1 **External debt**	39.5	44.3	47.8	87.2	98.3			**85.3**	**73.6**	**62.8**	**55.3**	**50.7**	**47.6**	
2 Change in external debt	0.0	4.8	3.5	39.4	11.1			-13.0	-11.7	-10.8	-7.4	-4.6	-3.1	
3 Identified external debt-creating flows (4+8+9)	4.0	3.1	4.8	23.9	3.9			-11.1	-3.7	-2.7	-1.8	-0.6	0.1	
4 Current account deficit, excluding interest payments	0.2	1.3	0.2	-6.2	-4.9			-3.3	-3.0	-2.7	-2.2	-1.7	-1.2	
5 Deficit in balance of goods and services	-35.7	-39.1	-37.4	-42.2	-51.4			-58.4	-54.8	-51.5	-49.0	-48.4	-49.0	
6 Exports	16.6	18.2	17.5	21.9	27.2			30.2	27.9	26.0	24.6	24.2	24.4	
7 Imports	-19.1	-20.9	-19.9	-20.3	-24.2			-28.2	-26.9	-25.5	-24.4	-24.2	-24.6	
8 Net non-debt creating capital inflows (negative)	-1.1	-1.4	-1.7	-0.1	-2.3			-2.4	-1.7	-1.5	-1.3	-1.2	-1.2	
9 Automatic debt dynamics 1/	4.9	3.1	6.3	30.1	11.1			-5.4	1.0	1.5	1.7	2.3	2.5	
10 Contribution from nominal interest rate	2.2	1.5	2.7	4.6	4.2			3.9	4.0	3.7	3.7	3.6	3.5	
11 Contribution from real GDP growth	1.2	0.6	1.6	8.1	-2.4			-9.3	-3.0	-2.3	-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			-1.9	-8.0	-8.1	-5.6	-4.0	-3.2	
External debt-to-exports ratio (in percent)	237.5	243.1	272.8	397.6	360.9			282.6	263.6	241.6	224.5	209.4	195.3	
Gross external financing need (in billions of US dollars) 4/	3.2	2.5	2.7	3.0	2.7			1.5	2.0	2.4	2.5	2.2	2.4	
in percent of GDP	15.4	12.2	14.6	25.1	24.4			11.4	13.2	14.2	13.5	11.2	11.2	
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	-2.8	-1.4	-3.4	-11.0	2.5	0.5	5.6	11.0	4.0	3.5	3.5	2.5	2.0	4.4
GDP deflator in US dollars (change in percent)	-3.8	-2.6	-4.4	-26.8	-9.6	-2.6	10.5	4.8	10.2	10.1	7.1	4.2	2.3	6.4
Nominal external interest rate (in percent)	5.1	3.6	5.6	6.2	4.5	5.4	0.9	4.6	5.4	5.8	6.5	7.0	7.2	6.1
Growth of exports (US dollar terms, in percent)	-16.2	5.2	-10.5	-18.8	14.7	1.8	12.9	28.9	6.0	6.0	5.2	5.0	5.0	9.3
Growth of imports (US dollar terms, in percent)	-10.9	4.9	-11.2	-33.8	9.8	0.7	15.7	35.9	9.3	8.0	6.0	6.0	6.0	11.9
Current account balance, excluding interest payments	-0.2	-1.3	-0.2	6.2	4.9	1.1	2.4	3.3	3.0	2.7	2.2	1.7	1.2	2.4
Net non-debt creating capital inflows	1.1	1.4	1.7	0.1	2.3	1.0	0.6	2.4	1.7	1.5	1.3	1.2	1.2	1.6
								II. Stress Tests for External Debt Ratio						
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2005-09 5/								**85.3**	**89.7**	**92.6**	**95.4**	**97.7**	**99.4**	
A2. Constant real exchange rate during 2005-09								**85.3**	**79.4**	**73.0**	**67.4**	**62.9**	**59.1**	
A3. GDP growth 1 percentage point lower per year in 2005-09								**85.3**	**74.4**	**64.1**	**57.2**	**53.1**	**50.5**	
B. Bound Tests														
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006								**85.3**	**74.9**	**64.9**	**57.4**	**52.8**	**49.7**	
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**85.3**	**86.2**	**86.1**	**76.8**	**71.2**	**67.5**	
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006								**85.3**	**106.6**	**133.5**	**120.3**	**112.5**	**107.5**	
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006								**85.3**	**80.4**	**75.6**	**67.6**	**63.0**	**60.3**	
B5. Combination of B1-B4 using one standard deviation shocks								**85.3**	**108.9**	**136.3**	**121.4**	**112.5**	**107.0**	
B6. One time 30 percent nominal depreciation in 2005								**85.3**	**108.6**	**93.9**	**84.0**	**78.0**	**74.1**	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = 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 $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) 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.

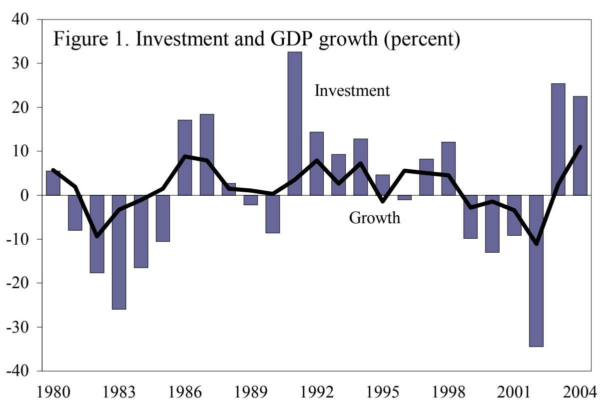
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

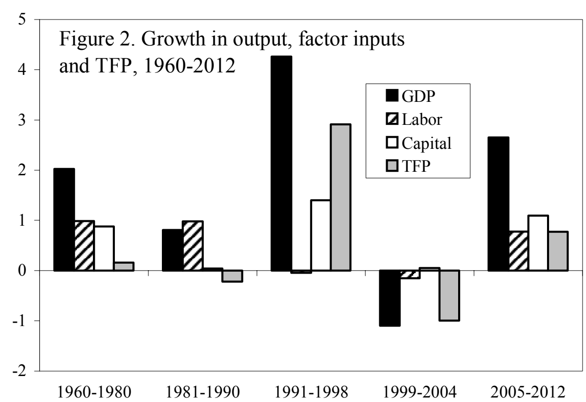
INVESTMENT AND GROWTH

Historically, capital accumulation has been the main engine of growth in Uruguay, but total factor productivity (TFP) needs to recover from the sharp decline in the recent recession. Real growth averaged 2 percent a year between 1960 and the run-up to the regional crisis in the late 1990s. The economy experienced a prolonged recession between 1998 and 2001, which was exacerbated by the 2002 financial crisis when the economy contracted 11 percent. Since then, the economy has recovered strongly in 2003–04. Periods of substantial increases in investment were matched by strong positive real GDP growth (Figures 1 and 2).

Several large-scale investment projects are being planned for the medium term, but sustained growth will require further improvements in the investment climate to broaden the scope of investment and raise TFP. 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. However, to broaden the scope of investment and raise TFP, it will be important to:

- Reduce the role of the public sector in the economy and improve its efficiency to lower public sector absorption of domestic savings.
- Open sectors where public enterprises operate gradually to private sector competition.
- Broaden the sources of financing for investment, which historically have relied almost exclusively on bank credit.
- Maintain macroeconomic stability.
- Simplify the regulatory environment to make it more investment friendly and competitive in the region.





URUGUAY-FUND RELATIONS
(As of September 30, 2004)

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

A. Financial Relations

II. **General Resources Account**:

	In millions of SDRs	In percent of Quota
Quota	306.50	100.0
Fund holdings of currency	2,074.06	676.69
Reserve position	0.0	0.0

III. **SDR Department**:

	In millions of SDRs	Percent of Allocation
Net cumulative allocation	49.98	100.0
Holdings	1.10	2.21

IV. **Outstanding Purchases and Loans**:

	In millions of SDRs	In percent of quota
Stand-by arrangements	1,767.56	576.69

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR Millions)	Amount Drawn (SDR Millions)
Stand-by	4/01/02	3/31/05	1,988.50	1,708.90
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:** (Obligation Basis) (SDR millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	37.36	226.63	666.65	574.40	198.45
Charges/interest	18.84	75.12	53.78	21.42	6.89
Total	56.19	301.74	720.43	595.82	205.34

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. One of the four supplementary external audits of the FSAs has been completed, with three on-going. An external audit of the BCU's 2003 accounts has been completed. 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 *Tribunal de Cuentas* (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 October 26, 2004, buying and selling interbank rates for the U.S. dollar, the intervention currency, were Ur$27.25 and Ur$27.30, respectively. Uruguay's exchange system is mostly free of restrictions on payments and transfers for current international transactions. However, the reprogramming of 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 that 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, ROSCs, and OFC Assessments:** 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

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 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 PR, 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 release in the amount of US$100 million (US$50 of SAL 1 and US$50 of SSAL 1) is expected for the first quarter of FY05. Progress in implementation of SAL 2 (public services) has been slow, as opposed to SSAL 2 (human development policies). Nevertheless, second and third tranche releases of both operations—that are linked—have been delayed. Approval of new investment operations was postponed in mid-CY02. A new CAS PR is being prepared for the transition period, and a new CAS will be prepared with the new administration that takes office in March 2005.

The investment portfolio comprises six projects totaling US$289.5 million in commitments, with an undisbursed amount of US$131.6 million as of August 31, 2004. Of the two structural adjustment packages, a total of US$275 million remains to be disbursed. The last Investment Portfolio Performance Review took place in December 2003. At that time, the portfolio presented low levels of execution, mostly due to the fiscal constraints faced by Uruguay. However, implementation of the investment portfolio, measured in terms of percentages of budgetary execution and disbursement ratio, is now accelerating as the economic situation improves.

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 August 31, 2004)			
Agriculture	18.5	15.3	3.2
Central Government and Administration	555.6	280.6	275.0
Telecommunication	6.0	1.3	4.7
Education	42.0	7.5	34.5
Power	125.0	79.2	45.8
Transportation	71.0	47.1	23.9
Water Supply	27.0	7.5	19.5
Total	**845.1**	**438.5**	**406.6**

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

	Loans	**Equity**	**Quasi**	**Participation**
Held	25.3	2.0	12.2	0.0
Disbursed	23.6	2.0	12.2	0.0

III. IBRD Loan Transactions (calendar year)

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**[1]
Disbursements	31.7	38.7	50.4	143.9	66.3	134.2	64.7	233.5	97.4	29.2
Repayments	77.8	69.7	67.9	64.1	63.2	57.9	72.5	75.3	78.2	55.1
Net Lending	**-46.1**	**-31.0**	**-17.5**	**79.8**	**3.1**	**76.3**	**-7.8**	**158.2**	**19.2**	**-25.9**

[1] As of August 31, 2004.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

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 October 15, 2004 the Bank's active portfolio in Uruguay included 18 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$989.6 million, of which US$452 million are pending disbursement. The IDB's lending program for 2004 includes a highway infrastructure program for US$77 million; financing for a program to support livestock competitiveness for US$25 million; and a loan by the Private Sector Department under the trade financing facility (ABN-AMRO) for US$12.5 million. The tentative lending program for 2005 includes a social sector program (policy-based loan), for an estimated US$250 million.

FINANCIAL RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(In millions of U.S. dollars)

Total outstanding loans: US$2,231.7[1]

Loan transactions:

	1998	1999	2000	2001	2002	2003	2004[2]
Disbursements	150.8	358.5	162.9	214.2	558.6	373.2	123.9
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**	**4.6**

Source: Inter-American Development Bank.

[1] As of August 31, 2004.
[2] IDB projections, as of September 31, 2004.

URUGUAY: 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 annual data on balance of payments and 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: Core Statistical Indicators
(As of August 1, 2004)

	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	10/25/04	10/25/04	10/25/04	09/04	08/04	10/25/04	09/04	08/04 (X) 09/04 (M)	06/04	06/04	Q2 04	06/03
Date received	10/26//04	10/26//04	10/26//04	10/18/04	10/18/04	10/26//04	10/15/04	10/04	09/04	09/04	09/04	09/04
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
November 12, 2004

Dear Mr. de Rato:

1. Since completion of the fifth review under the Stand-By Arrangement last August, the Uruguayan economy has recovered faster than expected, financial indicators have continued to improve, and good progress is being made in implementing the program. In this letter, we update our economic program through the end of the Stand-By Arrangement (March 2005), maintain the end-December quantitative performance criteria (PCs) set at the fifth review, propose modification of the structural performance criterion on the completion of audits of the liquidation funds, and deletion of the monthly structural performance criterion on the submission of financial statements of the liquidation funds, which had been set at that same review. We have reached understandings on an additional structural performance criterion on the incorporation of debtor information from the liquidation funds into the credit registry of the Superintendency of Banks and a structural benchmark on the performance of the liquidation funds' asset manager. The liquidation funds will continue to submit monthly financial reports to the Ministry of Finance (MEF) and central bank (BCU), but we request eliminating the monthly structural performance criteria on this reporting. The end-September PCs on NIR, NDA, and general government noninterest expenditure were observed, as were the end-June PCs on the primary surplus of the combined public sector and the gross debt of the nonfinancial public sector. The last purchase under the arrangement is subject to a program review to be completed by mid-February 2005.

2. Real GDP grew by 13.6 percent during the first half of 2004. Inflation is under 9 percent, despite higher energy and electricity prices. Consistent with these developments, we have raised our projection for real GDP growth in 2004 to 11 percent, and we expect inflation to end the year at around 9 percent. The current account is expected to show a modest deficit, reflecting the strong pickup in imports that, in part, is being financed by foreign direct investment. Gross international reserves are expected to increase, raising the coverage of dollar liabilities in the banking system by official reserves and banks' foreign assets to about 62 percent.

3. The fiscal program is well on track, and we are aiming to exceed the primary surplus target of 3.4 percent of GDP in 2004. Expenditure restraint will be maintained, and public tariffs will continue to be adjusted in line with operational costs. No further tax reductions will be granted, and any overperformance of revenue will be saved. We will continue with the modernization of the tax administration, including by establishing a Large Taxpayers Unit by end-December (structural benchmark). To strengthen the budget process, we intend to submit with the expenditure authorization for the remainder of this administration, which will limit the increase in real expenditure in in the first quarter of 2005 (y/y) to 1.5 percent,

supporting documentation that would include a discussion of the macroeconomic outlook and fiscal risks.

4. The strong growth and fiscal performance in 2004 has enabled Uruguay to achieve a larger reduction in public debt (as a percentage of GDP) than previously envisaged. Our debt sustainability analysis has been revised to reflect the latest developments and shows that with a primary surplus for the combined public sector of about 3¾ percent of GDP in 2005, rising to 4 percent in subsequent years, the debt-to-GDP ratio would decline to 48 percent by 2012.

5. The monetary program is on track, and we expect to meet the end-December program targets on NDA and NIR with comfortable margins. Base money growth targets have been maintained at the level announced in June, consistent with the attainment of a targeted inflation range of 6-8 percent by September 2005. The government will maintain the floating exchange rate policy.

6. The implementation of measures to reform the banking system is moving ahead.

- We have transferred all remaining assets of the three liquidation funds to the asset manager (end-October PC); and the asset manager has started operating and is expected to complete a business plan by end-November. A structural benchmark has been established for the asset manager to reach 700 payment agreements approved by its creditor committee by end-January 2005.

- The end-September PC on completion of the financial statements covering operations of the three liquidation funds since inception was missed and this measure is a prior action for completion of this review. The delay in these statements also resulted in the end-October PC on completion of financial audits of the funds to have been missed, and this PC is proposed to be reset for end-December 2004. Two of the three audits have been completed and we will be working on strengthening the financial records of the liquidation funds based on the auditor's findings.

- We have been transmitting monthly cash flow statements and estimates of the fund's assets and liabilities to the Ministry of Economy and Finance and the Central Bank; however, the monthly PC for September 20 and October 20 on submitting full financial statements have not been fully observed (and will not be observed for November 20 as well) as resource constraints in gearing for the audits complicated preparation of full balance sheets. Consistent with our laws, we will publish, semi-annually, audited financial statements of the liquidation funds starting in 2005. While monthly reporting on the liquidation funds will continue, in light of the coming publication of fully audited reports, we request eliminating the monthly PC under the program.

- The government has not increased its compensation plan for depositors and other creditors of the three liquidated banks beyond the exchange offer made in July, and we will continue to refrain from any such assistance.

- BROU is continuing to make good progress in its operational restructuring, and its asset management trust has already exceeded its recovery targets for the year. The transfer of all remaining nonperforming loans will be completed at end-December, as envisaged under the program (structural PC). In view of the bank's strong liquidity position and the good economic environment, we have decided to advance in a cautious manner the unfreezing of the third (and last) tranche of reprogrammed deposits (US$773 million), originally scheduled to start in August 2005. Between October 13 and November 5, US$113 million of deposits were unfrozen, with BROU retaining 94 percent of the deposits and 57 percent remaining in time deposits. In the rest of November, we will release another US$51 million, with the rest to be released over the period December 2004-April 2005. This will complete the return of all deposits frozen during the 2002 financial crisis.

- BHU's operational performance is satisfactory, and its note to BROU is being serviced on time (continuous structural PC). With the completion of the due diligence of BHU's investments and progress in the installation of its information systems, the World Bank disbursed US$50 million in October.

- We are continuing to take steps to improve governance at NBC, and have contracted an investment bank to seek a suitable majority partner.

- All remaining private claims against the liquidation fund of Banco de Crédito have been extinguished. Remaining nonperforming loans have been outsourced to an asset manager, and we are in the process of securitizing the performing portfolio.

- We are continuing to strengthen bank supervision and expect to increase the number of staff by 36 before the end of the year. Also, we are working to incorporate fully the information from the loan portfolio of the liquidation funds into the national credit registry, and this has been established as a structural performance criterion under the program for end-December 2004.

7. An investment treaty has been signed with the United States, and several major foreign direct investment projects have started or will begin next year. Legislation has been passed, consistent with international best practice, to strengthen the framework for combating money laundering and the financing of terrorism. Consistent with the safeguards recommendations, one (of four) supplementary external audit of the FSBS has been completed, and we are working to implement International Financing Reporting Standards in published financial statements.

8. Financing needs are covered through June 2005 and we intend to make repurchases to the Fund on an expectations basis through end-May 2005. We request the conversion of all remaining repurchase expectations in 2005 to an obligations basis, in light of the balance of payments need arising from the large repurchase obligations in the second half of the year.

9. We are confident that the policies we have set out will ensure the continuing success of the program and justify the requested waivers and completion of the review. In support of its program, the government requests: (i) completion of the sixth review under the Stand-By Arrangement, with availability of a purchase equivalent to SDR 139.8 million; (ii) waivers of applicability for the fiscal and debt PCs for end-September, for which data would not be available by the time of the Board meeting; and (iii) waivers for the nonobservance of the end-September structural performance criterion on the completion of financial statements of the liquidation funds since their inception, the end-October structural performance criterion on completion of external financial audits of the funds, and the monthly structural performance criteria on the submission of financial statements of the liquidation funds to the Central Bank and Ministry of Finance. The waivers of nonobservance are requested on the basis that the financial statements of the funds' since inception have been completed as a prior action for this review, audits for two of three funds have been completed and the third should be completed by the end of the year (completion of all three audits we request to reset as an end-December 2004 PC), and future semi-annual financial reports, beginning with end-December 2004, will be audited and published. The government stands ready, in consultation with the Fund, to take additional measures necessary to ensure the success of the program.

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

Attachment:
Technical Memorandum of Understanding

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

	Base	March 31, 2004				June 30, 2004			
	Dec. 2003	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**

	September 30, 2004				Target
	Target	Adj. Target	Prel.	Margin (+)	Dec. 31
A. Quantitative performance criteria					
		(In millions of Uruguayan pesos)			
1. Combined public sector primary balance	10,238	...	...	**...**	12,525
2. General government noninterest expenditure	30,592	30,700	29,908	**792**	41,525
3. Change in the net domestic assets of the BCU	-550	1,000	-7,552	**8,552**	-3,830
		(In millions of U.S. dollars)			
4. Net international reserves of the BCU (- decrease) (cumulative floor) 2/ 5/	50	0	187	**187**	180
5. Nonfinancial public sector gross debt (ceiling) 3/ 6/	9,035	...	...	**...**	9,040
B. Indicative targets					
		(In millions of Uruguayan pesos)			
1. Combined public sector overall balance (cumulative floor) 2/ 3/ 7/	-9,040	...	...	**...**	-11,384
2. Change in the monetary base (ceiling) 8/	1,000	1,000	-1,755	**2,755**	1,750

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
A. Prior actions	
Completion of financial statements covering the operations of the liquidation funds since inception.	
B. Structural performance criteria	
Completion of external financial audits of the liquidation funds.	December 31, 2004
Completion of the transfer to the BROU fiduciary trust of all new and remaining Category 4 and 5 loans.	December 31, 2004
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
Complete semiannual financial reports of the liquidation funds for end-December 2004 for auditing and publication.	January 31, 2005
Government to ensure timely service of BHU note to BROU.	Continuous
C. Structural benchmarks	
Establishment of a Large Taxpayers Unit at the Tax Administration Department (DGI).	December 31, 2004
Approval by Congress of the reform of the pension funds for the police and the military.	December 31, 2004
Approval by Congress of the reform of the pension funds for bank employees.	December 31, 2004
Asset manager to reach 700 payment agreements approved by its creditor committee.	January 31, 2005

1/ As defined in the Technical Memorandum of Understanding.

TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum presents the definitions of the variables included in the performance criteria and benchmarks annexed to the Memorandum of Economic and Financial Policies.

1. **Cumulative primary balance of the combined public sector.** The combined public sector comprises the central administration (including as defined in "Article 220" of the Constitution, *Salto Grande*, and the funds managed directly in the ministries (*Fondos de Libre Disponibilidad*), the social security system (*Banco de Previsión Social, Caja Militar,* and *Caja Policial*), the local governments (*Intendencias*), the public enterprises (ANCAP, ANTEL, UTE, OSE, AFE, ANP, INC, and ANCO), and the quasifiscal balance of the Central Bank (BCU). The public sector primary balance, excluding valuation adjustments, will be calculated as the overall balance measured from below the line *minus* interest payments measured from above the line.

- The below the line overall balance will be measured on the basis of information provided by the BCU on: (i) the change in the nonfinancial public sector debt (defined below), including all short term debt, in foreign currency and pesos; (ii) change in net bank credit to the nonfinancial public sector in foreign currency and pesos; (iii) other nonbank financing including privatization; and (iv) the quasi-fiscal balance of the BCU (defined below). All upfront payments relating to future concessions, including the sale of mobile phone licenses, will be treated below the line.

- The floor on the primary balance of the combined public sector will be adjusted *downward* (*upward*) by the amount by which the actual social security contributions transferred to the private pension system exceeds (falls short of) the projected amounts in the program, specified in Schedule A.

Schedule A (In millions of Uruguay pesos, cumulative basis)				
	Mar-04	Jun-04	Sep-04	Dec-04
Projected social security contributions	824	1,573	2,641	3,417

Cumulative balance of the combined public sector (indicative target). The combined public sector balance is calculated as the sum of the primary balance of the combined public sector described in 1 and interest payments. Interest payments are defined to exclude commissions and fees.

The quasi-fiscal balance of the BCU is defined as interest earnings on gross international reserves, as defined below, and other earnings including those on other foreign and domestic assets minus operating expenses, commissions paid, and interest paid on domestic and foreign debt administered by the BCU.

Cumulative ceiling on general government expenditure applies to total (current and capital) noninterest expenditure of the central administration (includes *Fondos de Libre Disponibilidad* but excludes transfers to the social security system, automatic transfers to the private pension funds (AFAPs), and earmarked revenue) and the social security system (BPS). The ceiling on general government expenditure will be adjusted downward for any expenses arising from pension adjustments which exceed the increase in the legal minimum adjustment. The ceiling on general government expenditure will be adjusted *upward* (*downward*) by the amount by which the actual revenues from the *Fondos de Libre Disponibildad* (FLD) *exceeds* (*falls short of*) the projected amounts in the program, specified in Schedule B.

Schedule B (In millions of Uruguayan pesos, cumulative basis)				
	Mar-04	Jun-04	Sep-04	Dec-04
Projected revenues from the FLD	...	...	3,910	5,258

Cumulative changes in net domestic assets (NDA) of the BCU is defined as the difference between end-of-period monetary base and net international reserves (NIR) of the BCU as defined in paragraphs 6 and 7 below. The flow of NIR will be valued at the accounting exchange rate of Ur$31 pesos per US$1. The limit on the change in the NDA will be adjusted by the difference between actual program loan disbursements by the World Bank and IDB and scheduled loan disbursements as reflected in Schedule C:

- The NDA ceiling at end-March, end-June, end-September, and end-December will be adjusted *upward* in the event of shortfalls compared with projected program loan disbursements, up to a limit of US$50 million.

- The NDA ceiling will be adjusted *downward* in the event of excesses over projected program loan disbursements by their full amount.

Schedule C (In millions of U.S. dollars, cumulative basis)				
	Mar-04	Jun-04	Sep-04	Dec-04
Total program disbursements	110	110	160	160
World Bank	50	50	100	100
IDB	60	60	60	60

Monetary base (indicative target) is defined as the sum of (i) currency issue; (ii) nonremunerated and remunerated peso sight deposits of BROU, BHU, private banks, and other institutions defined below at the BCU; and (iii) call deposits of BROU, BHU, private banks, and other institutions at the BCU. Other institutions include pension funds (AFAPs),

local governments, public enterprises, trust funds of the liquidated banks (FRPB), investment funds, offshore institutions (IFEs), insurance companies, exchange houses, stock brokers, and the nonfinancial private sector. The monetary base excludes central government deposits held at BROU subject to a 100 percent reserve requirement. The indicative target is defined as the cumulative change calculated using the monthly averages relative to the base month average.

Cumulative changes in net international reserves (NIR) of the BCU. NIR is defined as the difference between the gross international reserves and BCU reserve liabilities. Gross international reserves include all foreign exchange assets that are in the direct effective control of the BCU and are readily available for such purposes of the BCU as intervention or direct financing of payment imbalances. Such assets may be in any of the following forms, provided that they meet the test of effective control and ready availability for use: currency, bank deposits in nonresident institutions and government securities and other bonds and notes issued by nonresidents (with a rating not below "A" in the classification of Fitch and IBCA and Standard and Poor's or "A2" in the classification of Moody's). In addition, holdings of SDRs or of monetary gold would be included under gross international reserves (provided they meet the test of effective control and ready availability of use) as would the reserve position in the IMF.

- Excluded from gross international reserves are all foreign currency claims arising from off-balance sheet transactions (such as derivatives instruments), claims on residents, capital subscriptions to international financial institutions, any assets in nonconvertible currencies, claims on any nonresident Uruguay-owned institutions, or any amounts (in all components of assets, including gold) that have been pledged in a direct or contingent way. Also excluded are certificates of deposit used to constitute reserve requirements at the BCU.

- Also excluded from gross international reserves are foreign exchange assets in the escrow account at the BCU created to provide backing to sight and savings deposits at the public banks and the closed domestic banks (the escrow account at the BCU). Funds not used to support banks will be invested in highly liquid and secure international assets to be reported daily to the IMF and will be subject to periodic special audits.

- BCU reserve liabilities include all foreign currency-denominated liabilities of the BCU with original maturity of one year or less to residents and nonresidents, all certificates of deposit used to constitute reserve requirements against bank deposits, the use of Fund resources, any net position on foreign exchange derivatives with either residents or nonresidents undertaken directly by the BCU or by other financial institutions on behalf of the BCU.

- For the purpose of the NIR calculation, (i) the gold holdings of the BCU will be valued at the accounting rate of US$42 per troy ounce; (ii) liabilities to the IMF will be valued at the rate of US$1.395 per SDR; (iii) gains or losses from gold swaps and other operations will be excluded; and (iv) non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollars at the market exchange rates of the respective currencies as of December 31, 2003.

The NIR floor will be adjusted by the difference between actual program loan disbursements by the World Bank and IDB, and scheduled loan disbursements by the World Bank and IDB as reflected in Schedule C, in the following manner:

- The NIR floor at end-March, end-June, end-September, and end-December will be adjusted *downward* in the event of shortfalls compared with projected program loan disbursements, up to a limit of US$50 million.

- The NIR floor will be adjusted *upward* in the event of excesses over projected program loan disbursements by their full amount.

The nonfinancial public sector gross debt refers to the outstanding stock of gross debt in domestic and foreign currency owed or guaranteed by the nonfinancial public sector, excluding the BCU.[1] Debt in the form of leases will be calculated as the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.[2] The nonfinancial public sector debt ceiling will exclude the government guaranteed BHU note (estimated at US$610 million at end-December 2003) and the government guarantee covering notes issued by the fiduciary trust associated with the transfer of BROU's NPLs (estimated at US$370 million at end-December 2003). It will include debt issued by the *Megaconcesión* that has a guarantee of the government.

The overall nonfinancial public sector debt ceiling will be adjusted *upward* (*downward*) by (i) the upward (downward) revisions made to the actual nonfinancial public sector gross debt stock at end-2003; (ii) the difference between the actual and projected amount of social security contributions that are transferred to private pension funds according to Schedule A, i.e., the debt ceiling will be adjusted upward (downward) by the amount that social security contributions exceed (fall short of) those specified in Schedule A; (iii) the difference between the actual and projected interest payments, specified in Schedule D for end-March, end-June, and end-September, and end-December, i.e. the debt ceiling would be adjusted upward (downward) by the amount that interest payments exceed (fall short of) those specified in Schedule D; (iv) the difference between actual and scheduled program disbursements by the World Bank and IDB as reflected in Schedule C above, i.e., the debt ceiling will be adjusted upward (downward) by the amount that program loan disbursements exceed (fall short of) those in Schedule C, and any downward adjustment will be limited to US$50 million; (v) the

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[1] The term "debt" has the meaning set forth in point No. 9 of the Fund's Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 6230-(79/140, August 3, 1979), as amended).

[2] The suppliers' contracts of ANTEL with equipment providers Ericsson and NEC, which predate the Fund's consideration of lease contracts for programming purposes, are expensed under goods and services as rental outlays and, therefore, excluded from the definition of nonfinancial public sector gross debt for program purposes.

amount of the government guarantee on the BHU note that is called in 2004, excluding the clearance of existing arrears of BHU to BROU, i.e., the debt ceiling will be adjusted upward by the amount of new debt issued by the government to cover its guarantee (principal plus interest) on the BHU note; and (vi) the amount of the government guarantee on the transfer of BROU's NPLs to the fiduciary trust that is called in 2004, i.e., the debt ceiling will be adjusted upward by the amount of new debt issued by the government to cover its guarantee on the schedule of principal and interest payments owed by the trust to BROU; and (vii) the debt ceiling will be adjusted upward to reflect overperformance with respect to the targets on the BCU's net international reserves up to a limit of US$250 million.

Schedule D
(In millions of Uruguayan pesos, cumulative basis)

	Mar-04	Jun-04	Sep-04	Dec-04
Projected interest payments	7,068	11,454	19,278	23,909

The data for assessing observance of the quantitative performance criterion on net international reserves will be provided by the BCU no later than one week after each test date. The data for the assessment of all other quantitative performance criteria and indicative targets will be provided by the BCU no later than two months after each test date.

Data, reports, and other relevant information for assessing progress on bank restructuring will be provided to staff in a timely manner; in particular, financial audits and associated management letters will be shared with the Fund.

The structural performance criteria for the transfer of BROU's Category 4 and 5 loans (end-June and end-December 2004 performance criteria) are defined to mean the transfer of nonperforming Category 4 and 5 loans.

Statement by the IMF Staff Representative
November 29, 2004

Since issuance of the staff report, additional information on the preparation of historical financial statements and audits of the bank liquidation funds' finances has become available. This information does not alter the thrust of the staff appraisal.

1. **Prior action**. The prior action on the preparation of financial statements of the three liquidation funds since their inception was completed on November 17, 2004.[1]

2. **Audits of the financial statements**. As noted in the staff report, the audits were delayed and the authorities have requested a waiver for nonobservance of the respective end-October performance criterion (PC). The authorities initially proposed that the PC be reset for end-December 2004; however, all three audits have now been completed and, therefore, it is no longer necessary to reset the PC. The main concerns identified in the audits are:

- **Missing credit files**. The completed audits found that somewhat less than half of the credit files on nonperforming loans (NPLs) transferred to the liquidation funds were missing. The authorities explained that the missing credit files account for less than 10 percent of the total transferred loan portfolio (over 90 percent of the missing loan files were for less than US$10,000) and most had been fully provisioned. Nevertheless, the authorities are investigating and continuing to search for the missing files.

- **Missing cash**. The audit of one of the funds found about US$450,000 of cash missing, and the authorities are investigating as to whether this is the result of unrecorded but legitimate transactions or fraudulent activities.

- **Absence of audit opinion of the financial situation of the liquidation funds**. The auditors did not issue an audit opinion because of a lack of audited opening balances and the need for accounting adjustments. Staff recommended, and the authorities agreed, to adjust the end-2004 financial statements for accounting differences found by the auditors, so that future semi-annual financial statements (structural PC for end-January) can be audited in line with international standards and published with a corresponding opinion letter.

Staff assessment. Staff considers that the audit process for the liquidation funds has been carried out with appropriate care and diligence, and has helped the authorities to identify any potential areas of concern in the administration and governance of the funds. The authorities are taking appropriate follow up action to address these concerns, and staff will continue to monitor closely developments in this area.

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[1] The three funds are for the liquidated banks *Banco Caja Obrera, Banco Montevideo*, and *Banco Comercial.*

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
November 29, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under Uruguay's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) completed today the sixth review under the SDR 1.99 billion (US$3.02 billion) Stand-By Arrangement for Uruguay. Completion of the review makes SDR 139.8 million (about US$212.3 million) immediately available to Uruguay. In completing the review, the Board granted waivers for the nonobservance of three structural performance criteria and waivers of applicability of two quantitative performance criteria for which data were not available.

The Stand-By Arrangement was approved on March 25, 2002 in an amount equivalent to SDR 594.1 million (about US$902.2 million) for a 24-month period (see Press Release No. 02/14) and was augmented by SDR 1.16 billion (about US$1.76 billion) on June 25, 2002 (see News Brief. No. 02/54), and by SDR 376 million (about US$571 million) on August 8, 2002 (see News Brief. No. 02/87).

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

"Uruguay's performance under the Stand-By Arrangement has been solid. The economic recovery has been stronger than expected, with a strengthened outlook for debt sustainability, much improved financial indicators, and sound prospects for 2005, which reflect the authorities' strong policy implementation under the program, as well as relatively favorable external conditions.

"The authorities have reaffirmed their commitment to preserving the stabilization and reform gains through the political transition. In particular, they are committed to achieving a higher-than-programmed primary fiscal surplus this year, and to pursuing vigorously their successful reform agenda in the banking sector. The strong fiscal outcome expected for 2004 will facilitate the achievement of fiscal targets next year. To further strengthen the outlook for medium-term public debt sustainability, steps are being taken to strengthen revenue administration and the institutional budgetary framework. It will be important that these and other pending fiscal reforms, such as tax and pension reform, be taken forward by the next government.

"Monetary policy is being conducted in a prudent manner, appropriately aiming at gradually reducing inflation further. The central bank should take advantage of the strong balance-of-

payments situation to bolster its international reserves further, in anticipation of the large medium-term debt service obligations coming due over the next few years.

“Bank restructuring and asset disposals are moving forward. BROU’s restructuring plan is advancing, with the bank showing profits and reduced operating costs. The BHU is also making progress in strengthening its operations, but important underlying weaknesses remain, and timely implementation of the reform program being supported by the World Bank is essential. The liquidation of the assets of the failed banks is under way, and steps are being taken to ensure transparency and good governance of the liquidation funds. The authorities should continue to refrain from granting any further compensation schemes to bondholders and large depositors of the liquidated banks,” Mr. Carstens said.

Statement by Hector Torres, Executive Director for Uruguay
and David Vogel, Advisor to Executive Director
November 29, 2004

Background

1. The Uruguayan economy has continued to show a strong performance, resulting from effective macroeconomic policies and several structural reforms. Distant from previous projections (5 percent in early 2004, and 7 percent in the revised projection presented in August), real GDP will grow slightly more than 11 percent by end year, supported by a significant boost in exports, private investment, and consumption. This has been achieved in a relatively negative external environment that has resulted especially from a very negative impact of the huge rise of oil prices and shortfalls in backup energy supplies that largely more than offset the increase of Uruguay's export commodity prices.

2. The latest data presents a substantial rise of exports (32 percent) in the January-August 2004 period (compared to the same period last year), and an increasing trend, with August's exports growing at an even higher rate. In the last two years, exports have risen 55 percent in dollar, 36 percent in volume terms, with an increasingly market diversification. Meanwhile, as shown in the staff report, investment contribution to growth has gone from the 0.8 percent projected in August to 2.9 percent, which, among other aspects, mirrors the significant investment established by many small and medium-size companies. Furthermore, several large-scale investment projects are being planned for the next years. These developments have led to increase consumer confidence, which has substantially contributed to boost private consumption, all of which show a broad-based recovery.

3. The electoral period and the transition so far have not resulted in reversals over the positive trends that the financial indicators have shown this year. Among other positive signs, sovereign spreads have been under 430 basis points (nearly 200 bps below those of November 2003), while Moody's recently raised its sovereign ratings outlook from negative to stable, which added to the upgrade of Uruguay's foreign currency debt rating given by other two international credit-rating companies.

Macroeconomic Policies and Structural Reforms

4. We have heard and noted many times at the IMF Board that a country's structural reform process should be assessed with due consideration to its social and political constraints, and the particular circumstances of the country. In this regard, we would like to note that whereas the authorities have done their best to finish some reforms, including the ones at revenue administration, tax system and the specialized pension funds, this has not been possible due to the particular and complex constraints imposed by the deep social and economic crisis that followed the collapse of Argentina's economy in 2001. In this regard, the crisis was considered by the government as a real window of opportunity to undertake critical and most urgent reforms. Beyond the well-known reforms on the public banks, significant structural reforms have been implemented in many areas over the last two years. These include the opening-up of activities to competition, seaport policies, concessions of

basic infrastructure to the private sector, a further reduction of trade barriers this year, etc, which have been crucial in overcoming the crisis and diminishing obstacles for future growth. In other cases, as it occurred during the nineties, most of the Uruguayan population voted against some reforms promoted by the government (i.e. the recent approval of a constitutional amendment related to concessions to water and sanitation private industries).

5. Prudent management of fiscal accounts, which establishes a very good precedent in an electoral year, constitutes a key element for attaining a smooth transition. In this regard, according to the authorities' projections, the primary surplus would end this year at 3.9 percent of GDP, 0.5 percent above the authorities' target. While the economic recovery has led to a strong revenue performance, expenditure remained under strict control, which is reflected in the noninterest expenditure figure of 24.7 percent of GDP that is seven and a half percentage points below the one in 2001. These fiscal improvements contribute to a significant reduction of the nonfinancial public sector debt—included the Central Bank's obligations to the IMF—relative to GDP, expected to decline from 105.3 percent in 2003 to 91.7 percent by the end 2004, which, under cautious assumptions, would continue decreasing to below 50 percent by 2012, according to the updated Public Debt Sustainability, published in the current Staff Report. Moreover, financing needs are already covered through June 2005.

6. For the first time since it was implemented, the BCU's monthly survey shows inflation expectations below 10 percent for 12-month inflation through October 2005. Although decreasing, these expectations are somewhat above the Central Bank's target range for September 2005 of 6-8 percent, thus the authorities have continued with a cautious stance on monetary policy. At the same time, the authorities have continued making efforts to improve the maturity profile of short-term debt. Meanwhile, the authorities have contracted a recognized international consulting firm for advice on institutional matters, such as the organizational design for a central bank that carries out an active monetary policy, the roles of financial supervision entities, and the functioning of bank depositors' protection, including a deposit insurance scheme. The results of these assessments could prompt institutional improvements that, on top of the intrinsic benefits entailed in potential reforms could facilitate, over the medium-term, the reduction of the level of dollarization.

7. Regarding the BCU's involvement in promoting a market in forward foreign exchange, the authorities consider that this could be an important mechanism to reduce some uncertainties of private sector companies. Whereas the authorities do not believe that the BCU should continue with this mechanism once the private market for it is developed, they think that the institution has an important role as a market maker to spur this kind of market and to encourage investor education.

8. The restructuring of BROU is presenting significant progress. Profits continue to exceed the business plan and operational costs are lower than programmed. For instance, of the 108 BROU's branches, only five – all of them of a small size – are now presenting operating losses. Furthermore, while client evaluation and monitoring have been improved, NPL ratio has decreased sharply. This enhanced situation, particularly in liquidity terms, led BROU's authorities to start unfreezing the third (and last) tranche of reprogrammed deposits,

which has been handled with caution. This decision will allow the Bank to eliminate the interest payments for these deposits, which currently are serviced at an interest rate above that of the market. Moreover, the remaining nonperforming loans will be transferred to the BROU's asset management company, as scheduled. With regard to BHU, the transformation to a nonbank mortgage institution establishes a milestone, considering that it has frequently been an important source of perverse incentives through amnesties to debtors and, thus, socialization of private losses. Beyond these critical advances, the authorities are fully aware that more efforts are needed to strengthen the institution's fundamentals.

9. Following firm decisions made by the authorities to start the bank resolution process of the liquidation funds, all of the assets of these funds were transferred to the private company recently contracted to manage the assets. At the same time, the authorities have continued taking the needed actions to minimize governance risks, even though they have had to deal with substantial obstacles in this area.

10. In conclusion, the prudent macroeconomic policies in place and the expectations that there will be broad continuity in these policies within an orderly democratic transition of the administration are allowing Uruguay to enjoy a positive evaluation by markets, as proved by the continued decline in sovereign spreads. Furthermore, the authorities have been in close contact with those who have been designated by the incoming government to provide them all of the needed information and analysis. Moreover, the authorities will make repurchases to the Fund on an expectation basis through end-May 2005, which will allow the country to have a more balanced repayment schedule. Since, as noted in the staff report, gross reserves need to be bolstered further, and capacity to repay the Fund on expectation basis in 2005 is limited, the authorities are requesting the conversion of the remaining repurchase expectations in 2005 to an obligations basis, which will facilitate Uruguay in having a smooth political transition.