International Monetary Fund

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Statement by IMF 2010 Article IV Mission to Uruguay

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An International Monetary Fund (IMF) Article IV mission headed by Ulric Erickson von Allmen, advisor in the IMF's Western Hemisphere Department, issued the following statement today at the end of its discussions in Montevideo:

"Uruguay's economic growth performance during the last seven years has been impressive, capping a remarkable recovery from the country's crisis in 2002. Domestic and external factors have contributed to this economic result, not least years of consistent implementation of prudent policies and major reforms.

"Though not immune to the global crisis when it hit emerging markets in 2009, Uruguay's rebound has been quick and strong with vigorous growth in exports and domestic demand. Unemployment has fallen to record lows, some sectors of the economy are experiencing shortages, in particular of skilled labor, and inflationary pressures are rising. Staff projects real gross domestic product (GDP) growth at 8-8½ percent in 2010 and a moderation to 5 percent in 2011 and 4 percent thereafter.

"The most immediate policy challenge is to ensure conditions for this soft landing of the economy. At the same time, there is a risk of a worse global or regional economic outlook. The medium term task is to ensure that Uruguay enjoys rapid, sustained growth with less volatility than in the past.

"The macroeconomic policy requirements to deal with these challenges go in the same direction. They involve fiscal and monetary policies to temper domestic demand growth to steer the economy away from a boom/bust path

and to create policy space (lower debt and inflation) to respond to future shocks. Sustaining growth at 4 percent a year over the medium term will require investments to overcome infrastructure gaps and enhance the skills of the labor force. The authorities' policy agenda reflects these priorities and challenges.

"Against this background the staff welcomes the 2010–14 budget's focus on reducing the public debt, its broad spending priorities (infrastructure, education), and the creation of a fund to shield the budget from weather-induced fluctuations in the cost of producing electricity. In staff's view, a more conservative fiscal stance in 2011–14 staff's view, a more conservative fiscal stance in 2011–14 —via slower growth in current expenditures—would be feasible and would help moderate domestic demand further, reduce real exchange rate appreciation pressures, and reinforce the government's objective of reducing the public debt.

"The increase in the monetary policy rate last September by 25 basis points to 6.5 percent was a welcome step. Booming domestic demand and the risk of inflation expectations becoming entrenched above official targets call for a continued measured normalization of interest rates.

"Staff welcomes the various initiatives to boost Uruguay's long term growth prospects. The planned infrastructure investments focus on key areas of energy and transportation. The government's plan to use public-private partnerships (PPP) for some investments is welcome. It can be a good way to take advantage of current global conditions and harness capital inflows into productive investment. But it will be important to maintain a fair balance of risks between the government and the private sector, establish limits on the stock and flow of the PPP-related liabilities, and ensure proper and transparent recording. To maintain a vibrant economy, keep inflation in check, and avoid erosion in export competitiveness, the mission would also like to highlight the importance of a dynamic labor market and prudent wage agreements."

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