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INSTRUCCIONES DEL AÑO XIII

BCU

MINISTERIO DE ECONOMÍA Y FINANZAS
REPÚBLICA ORIENTAL DEL URUGUAY

June 6th, 2013.

Macroeconomic Coordination Committee

The Macroeconomic Coordination Committee analyzed the international and regional context and the performance of the Uruguayan economy.

Globally, there is a high degree of uncertainty about the economic developments in major world blocs. With regard to the Asian economies, China will continue to grow, albeit at a slower pace than in previous years, while Japan fails to show significant recovery yet.

On the other hand, the Euro zone continues in recession while unemployment remains at high levels and resolution of financial and tax issues does not seem to change in the short term. In the United States, activity exhibits incipient recovery while still maintaining high unemployment, despite the strong monetary expansion undertaken by the Federal Reserve.

In this global context, unusually expansionary monetary policies were implemented with very low levels of interest rates in developed countries, which have generated strong capital inflows to emerging markets.

In turn, Uruguay continues with its economic and social consolidation achieving the investment grade in April 2012 that it has deepened its attractiveness for domestic and foreign investment.

The combination of the international and local context has driven a significant increase in capital inflows for portfolio investments, which has caused significant distortions in both exchange and money markets, and greater fiscal cost associated with the maintenance of stability in such markets.

Concerns about the persistence of inflationary pressures and the need to keep the competitiveness level for the economy make necessary to continue balancing those objectives and also to review the combination of the instruments in order to face the circumstances in a more efficient way.

Maintain exchange rate flexibility and the inflation targeting regime becomes crucial to address the volatile and uncertain context surrounding the Uruguayan economy. Nevertheless, it is considered appropriate to change the instruments used to achieve economic and financial stability.

In this regard, the Macroeconomic Coordination Committee decided to keep the annual inflation target rate at 5% while increasing the tolerance of the target by 2%. Therefore, the target rate moves to 3%-7% since July 2014, extending to 24 months the monetary policy horizon for evaluating the effectiveness of it.

In this context, the Central Bank of Uruguay will replace the interest rate as the instrument of monetary policy for an indicative trajectory of monetary aggregates since July 2013. Operational issues will be set at the meeting of the Monetary Policy Committee to be held in the last week of June.

Additionally, the Ministry of Economy and Finance has decided to extend the reserve requirement to non-residents on the local securities issued by the Central Government, already operating for Central Bank securities. This measure seeks to curb the distorting effects mentioned above.

The Macroeconomic Coordination Committee believes that these measures will help to consolidate a virtuous path of growth.