INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/28

URUGUAY

2016 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

February 2017

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Uruguay, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on December 8, 2016, 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 December 21, 2016.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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February 1, 2017

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IMF Executive Board Concludes 2016 Article IV Consultation with Uruguay

On January 9, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Uruguay, and considered and endorsed the staff appraisal without a meeting.[2]

Uruguay is demonstrating resilience in the face of recessions in its large neighbors. The economic slowdown has bottomed out in 2016 and there are signs that the economy is on an incipient recovery path. Real growth is estimated at 1.2 percent in 2016 and projected to reach 1.4 percent in 2017, as the external environment strengthens, together with private consumption.

The peso appreciated against the U.S. dollar between April and October 2016, but depreciation pressures reemerged in November, following the U.S. elections. The current account deficit is expected to remain around 2¼ percent of GDP in 2016, and would edge up to 2½ percent in the medium-term as domestic demand recovers.

Despite the slowdown in activity, inflation remains at levels above the central bank's target range. Inflation is projected to slow and remain well below 9 percent in 2017, tapering to about 6 percent in the medium-term as the output gap gradually closes. Monetary policy remains relatively tight but its transmission has been constrained by the high dollarization and low level of peso credit in Uruguay.

Fiscal policy has remained broadly neutral in 2016 and the public sector deficit is estimated at 3.8 percent of GDP in 2016. In line with the government's objective to reach a 2.5 percent deficit by 2019, parliament has approved tax increases and expenditure cuts for 2017.

Risks to the outlook are both external and domestic, but tempered by Uruguay's strong liquidity buffers and flexible exchange rate. A slower than expected recovery in Argentina and Brazil, and weak growth in China would weigh on Uruguay's economy, while a tightening in global financial conditions could raise the cost of financing. Furthermore, given limited space for

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decision under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

countercyclical policies, slower than expected growth in 2017 would accentuate the tradeoff between the authorities' announced fiscal consolidation plans and avoiding an overly pro-cyclical stance that would exacerbate the slowdown. Nonetheless, Uruguay's strong liquidity buffers, high level of gross reserves, and flexible exchange rate regime would put the country in good stead to weather such shocks.

Financial stability risks are limited. Non-performing loans remain relatively low, at 3.5 percent of total loans, while provisions are high.

Executive Board Assessment

In concluding the 2016 Article IV consultation with Uruguay, Executive Directors endorsed staff's appraisal, as follows:

Uruguay is managing the deep recession in its large neighbors relatively well. After a marked slowdown, growth started to recover in the third quarter of 2016. Investment and consumption bottomed out through mid-2016, as inflation stabilized and the exchange rate stopped depreciating. The current account deficit has been cut in half since 2014, and international reserves have stabilized well above prudential norms. The real effective exchange rate appears aligned with fundamentals and desirable policy settings.

The external environment continues to present risks. Continued weakness in Argentina and Brazil, and a slowdown in global demand would adversely affect exports, while higher interest rates would raise funding costs and capital flow volatility would complicate the conduct of monetary policy. Uruguay's flexible exchange rate and strong liquidity buffers would, however, support an orderly adjustment to shocks.

The authorities have demonstrated a clear commitment to putting the public finances on a sustainable track. The widening of the fiscal deficit in 2016 was a helpful response to moderate the sharper-than-expected slowdown. At the same time, the government has locked in tax increases for 2017, sustaining its commitment to bring the fiscal deficit to 2.5 percent of GDP by 2019 which is projected to put debt on a downward trajectory. The fiscal consolidation effort is essential to safeguard Uruguay's hard-won credibility with international investors and face the long-term fiscal challenges of population aging. Automatic fiscal stabilizers should be allowed to operate along the structural consolidation path. The long-term credibility and countercyclicality of fiscal policy could also be enhanced through a well-designed and stronger fiscal anchor.

Future policies should protect the announced infrastructure investment increase. Public investment significantly decreased in 2015, and public-private partnerships are taking off slowly, whereas there is a clear need for infrastructure upgrades, in particular in transportation. Further improvements in the profitability of public enterprises and efforts to contain current public spending can create room for capital spending.

Lower inflation is a prerequisite for reducing dollarization. The high dollarization of deposits constrains the provision of peso credit and the effectiveness of monetary policy, and calls for higher scrutiny of banks' credit risk exposures. A commitment to low inflation, supported by regulatory incentives such as reserve requirements differentiated by currency and initiatives to deepen local currency capital markets, can encourage a gradual de-dollarization of the economy.

A tight monetary policy will be needed to help guide inflation toward the target range. Inflation has continuously surpassed the central bank's target range for the past 6 years, temporarily exceeding single digit levels in mid-2016. The stance of monetary policy should be tightened further if and when activity recovers during 2017, to help sustain the disinflation process.

A further reduction in inflation persistence, through the wage-setting process, will also be important. In this context, the ongoing move to wage increases that are stipulated in nominal terms is most helpful. Looking ahead, inflation inertia should be lowered further through steps toward the full elimination of backward inflation indexation.

Structural reforms in education and trade liberalization would help to deepen the social gains of the past decade and boost potential growth. Efforts to promote free trade within Mercosur, as well as to ensure market access to third countries are welcome. Education reform is also necessary to develop the skills that will strengthen Uruguay's competitiveness in international markets.

Uruguay: Selected Economic Indicators

	2011	2012	2013	2014	2015	Projections 2016	2017	2018	2019	2020	2021
Output, prices, and employment											
Real GDP (percent change)	5.2	3.5	4.6	3.2	1.0	1.2	1.4	2.6	3.4	3.3	3.1
GDP (US$ billions)	48.0	51.3	57.5	57.2	53.1	54.5	58.1	60.7	64.3	67.9	71.7
Unemployment (in percent, eop)	5.6	5.6	6.0	6.5	7.4	7.4	7.9	7.9	7.7	7.4	7.2
Output gap (percent of potential output)	4.1	2.9	3.3	2.7	0.8	-0.6	-1.7	-1.7	-0.9	-0.3	0.0
CPI inflation (in percent, average)	8.1	8.1	8.6	8.9	8.7	9.7	7.9	7.6	7.1	6.6	6.4
CPI inflation (in percent, end of period))	8.6	7.5	8.5	8.3	9.4	8.5	8.3	7.2	6.7	6.4	6.3
Exchange rate (UY$/US$, average)	19.3	20.3	20.5	23.2	27.5	…	…	…	…	…	…
Real effective exchange rate (percent change, eop)	2.4	4.4	7.7	-2.9	1.9	…	…	…	…	…	…
					(Percent change, unless otherwise specified)						
Monetary and banking indicators 1/											
Base money	17.3	26.7	12.9	1.4	7.2	…	…	…	…	…	…
Broader M1 (M1 plus savings deposits)	20.8	11.2	15.0	3.7	5.6	…	…	…	…	…	…
M2	22.1	10.3	13.7	6.4	9.0	…	…	…	…	…	…
Growth of credit to households (in real UY$)	2.1	7.3	9.9	4.7	6.3	…	…	…	…	…	…
Growth of credit to firms (in US$)	26.5	17.5	16.2	6.8	2.8	…	…	…	…	…	…
Bank assets (in percent of GDP)	59.3	57.1	60.8	63.6	72.3	…	…	…	…	…	…
Private credit (in percent of GDP) 2/	23.1	23.5	26.0	27.1	30.1	…	…	…	…	…	…
					(Percent of GDP, unless otherwise specified)						
Public sector indicators											
Revenue 3/	28.1	27.7	29.5	29.1	28.9	29.2	29.2	29.5	29.7	29.7	29.8
Non-interest expenditure 3/	26.4	28.0	29.1	29.5	28.7	29.4	29.3	29.0	28.9	28.9	28.9
Wage bill	4.9	5.0	4.9	5.0	5.0	5.1	5.2	5.1	5.0	5.0	5.0
Primary balance 4/	1.9	-0.2	0.4	-0.6	0.0	-0.4	-0.3	0.3	0.6	0.7	0.8
Structural primary balance 4/	0.7	0.0	-0.9	-1.4	-0.8	-0.6	0.2	0.8	0.9	0.8	0.8
Interest 4/	2.8	2.5	2.7	2.8	3.5	3.4	3.1	3.1	3.1	3.3	3.4
Overall balance 4/	-0.9	-2.7	-2.3	-3.5	-3.6	-3.8	-3.4	-2.9	-2.5	-2.6	-2.6
Gross public sector debt	58.1	58.0	60.2	61.4	64.3	61.1	63.5	64.7	64.3	64.1	64.0
Public sector debt net of liquid financial assets 5/	34.9	34.0	34.4	35.9	39.5	42.6	44.4	44.5	44.3	44.2	44.2
External indicators											
Merchandise exports, fob (US$ millions)	9,274	9,916	10,257	10,343	9,077	8,544	9,204	9,785	10,630	11,297	11,945
Merchandise imports, fob (US$ millions)	10,704	12,277	11,609	11,252	9,340	8,897	9,747	10,476	11,445	12,283	13,127
Terms of trade (percent change)	-0.1	6.4	-0.1	2.8	2.4	1.4	-1.5	-0.8	0.0	-0.1	0.0
Current account balance	-2.7	-5.1	-5.0	-4.5	-2.3	-2.2	-2.3	-2.3	-2.4	-2.5	-2.5
Foreign direct investment	5.2	4.9	5.3	3.8	2.4	2.1	2.2	2.2	2.3	2.3	2.3
Overall balance of payments (US$ millions)	2,564	3,287	2,923	1,360	-1,788	-2,000	420	900	980	950	990
Total external debt + non-resident deposits	39.4	45.0	48.5	51.5	58.3	53.9	54.5	54.9	54.8	54.5	54.8
Of which: External public debt	30.2	30.3	31.9	33.7	37.0	35.1	36.0	36.3	36.3	36.1	36.4
External debt service (in percent of exports of g&s)	21.6	15.7	26.4	22.8	37.5	34.9	30.3	22.4	25.2	25.1	24.4
Gross official reserves (US$ millions)	10,302	13,604	16,279	17,574	15,637	13,637	14,057	14,957	15,937	16,887	17,877
In months of imports of goods and services	9.7	11.1	13.2	14.6	15.7	14.1	13.4	13.2	12.8	12.6	12.4
In percent of:											
Short-term external (STE) debt	212.6	214.9	264.0	241.1	348.2	281.6	400.3	379.7	372.4	371.6	372.1
STE debt plus banks' non-resident deposits	126.2	135.1	158.6	152.9	176.9	151.7	180.9	177.8	176.9	177.3	178.0

Sources: Banco Central del Uruguay, Ministerio de Economia y Finanzas, Instituto Nacional de Estadistica, and Fund staff calculations.
1/ Percent change of end-of-year data on one year ago.
2/ Includes bank and non-bank credit.
3/ Non-financial public sector excluding local governments.
4/ Total public sector. Includes the non-financial public sector, local governments, Banco Central del Uruguay, and Banco de Seguros del Estado.
5/ Gross debt of the public sector minus liquid financial assets of the public sector. Liquid financial assets are given by deducting from total public sector assets the part of central bank reserves held as a counterpart to required reserves on foreign currency deposits.

INTERNATIONAL MONETARY FUND

URUGUAY

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

December 21, 2016

KEY ISSUES

Context. Prudent macroeconomic policies, strong institutions, and a commitment to diversify its markets and products have allowed Uruguay to show resilience in the face of sharp recessions in its large neighbors. Nevertheless, economic growth slowed down in 2015 and 2016 while inflation remains above target. In 2017, an improving regional environment is expected to contribute to a modest further recovery, while inflation should slowly converge towards the target range. Given rising debt and high inflation, the room for more expansionary fiscal or monetary policy is limited.

Main Policy Advice

- The fiscal consolidation package for 2017 will support the downward trajectory of net debt and underpin Uruguay's hard-won credibility with international investors. The package should be implemented in a manner that supports the nascent recovery, including by allowing automatic stabilizers to work and by supporting infrastructure investment.
- Over the medium term, stronger fiscal anchors could enhance the credibility of public finances, expanding the scope for counter-cyclical fiscal policy.
- Tight monetary conditions are important to support the disinflation effort. High dollarization currently saps monetary policy transmission, and de-dollarization will require progress in reducing inflation and deepening domestic currency capital markets. Steps to reduce wage indexation further could bolster the disinflation process.
- The flexible exchange rate remains key for absorbing external shocks.
- Key policies to guarantee continued sustainable and inclusive growth also include education reform, and further international integration.

Past advice. In recent Article IV consultations, there has been broad agreement between the authorities and Fund staff on the macroeconomic policy objectives. The authorities have sought to tackle inflation by reducing wage-price inertia in line with staff advice, and have generally maintained a tight monetary policy stance. The fiscal consolidation package follows long-standing staff advice to reverse the rise in public debt over the medium term. Broadly in line with staff recommendations on the importance of exchange rate flexibility, the authorities have allowed the exchange rate to adjust, albeit with some interventions to smooth movements in both directions.

Approved By
Cheng Hoon Lim (WHD) and Vikram Haksar (SPR)

Discussions took place in Montevideo during November 28–December 8, 2016. The staff team comprised Jan Kees Martijn (Head), Frederic Lambert, Diva Singh, Frederik Giancarlo Toscani, and Bengt Johan Petersson (all WHD). Jose Luis Saboin (WHD) provided research assistance. Staff met with Minister Astori, Minister Murro, Central Bank President Bergara, other senior government officials, as well as representatives of public enterprises, the private sector, unions, and civil society.

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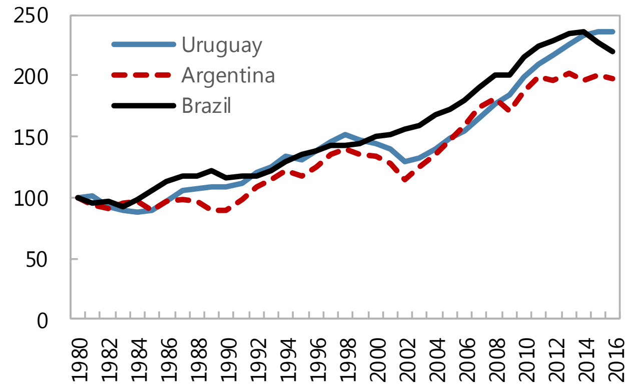
CONTEXT

1. Uruguay is demonstrating resilience in the face of sharp recessions in its large neighbors. With both Argentina and Brazil in deep recession in 2016, Uruguay's projected growth of 1.2 percent is a marked departure from yesteryears when growth remained close to the average of its two neighbors. Prudent macroeconomic policies, strong institutions, and a commitment to diversify its markets and products within the dominant agriculture and forestry sectors have increased Uruguay's ability to withstand regional shocks. Going forward, in order to safeguard and advance the socioeconomic gains of the past decade, including reduced poverty and inequality, it will be critical for Uruguay to invest in structural reforms that enhance its growth potential and to reinforce its record of macroeconomic stability, creating space for countercyclical policies over the medium term.

Real Gross Domestic Product
(Index number, 1980=100)



Source: *IMF, World Economic Outlook*.

RECENT DEVELOPMENTS

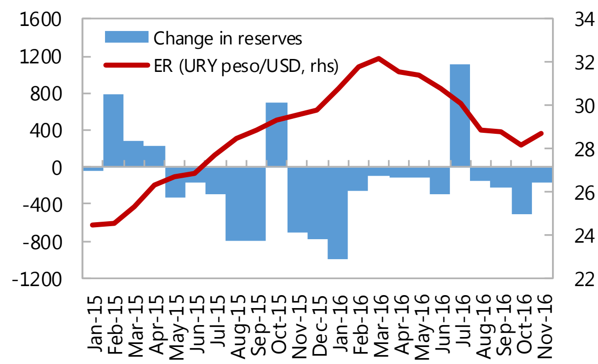
2. The economic slowdown has bottomed out in 2016 and there are signs that the economy is on an incipient recovery path. Following a decade of expansion, growth came to a near halt in the final quarter of 2015 and first half of 2016, on the back of a difficult environment in the immediate region. The downturn involved a decline in exports, a sharp decline in private and public investment throughout 2015, and continued weak consumption (as rising inflation and exchange rate depreciation eroded current and expected real wages, and regional problems undermined confidence further). The downturn was especially pronounced in manufacturing and construction, while severe floods disrupted agricultural production in April. On the other hand, electricity generation expanded strongly as renewable energy projects came on stream. Confidence and activity rebounded in the third-quarter, buoyed by an appreciating exchange rate and prospects of improvements in Argentina and Brazil. Unemployment peaked at 8.8 percent in July 2016—the highest level since 2008—before trending down, and a negative output gap has opened up, estimated at ½ percent.

3. After weakening further against the U.S. dollar in nominal terms in early 2016, the Uruguayan peso stabilized and reversed course from April through October, broadly in line with regional peers (see Figure 1). Following a 23 percent depreciation in 2015, the peso depreciated by 8 percent against the U.S. dollar between January and March 2016. The weakness of the currency was driven by portfolio capital outflows, both on the asset and the liability side. From May onwards, the currency reversed course, resulting in a 6 percent appreciation in the year through October. The real effective exchange rate depreciated 4.5 percent over the course of 2015, but appreciated by

6 percent through September 2016. Staff estimates based on the current account model of the EBA indicate that the REER remains in line with fundamentals and desirable policy settings (Annex 1). After the U.S. elections in November, nominal depreciation pressures reemerged, and Uruguay's EMBI spread widened. However, they have remained relatively compressed compared to those of regional peers.

4. The current account deficit is expected to remain around 2¼ percent of GDP in 2016. The deficit in 2015 was revised down from 3.5 percent of GDP to 2.3 percent, with a lower income balance (matched by lower FDI and other financial inflows). In 2016, the recession in Argentina and Brazil, and low prices of beef and wheat, have yielded a reduction in merchandise exports, but weak domestic consumption and investment have entailed an offsetting drop in merchandise and services imports. Meanwhile, overall terms of trade developments have been positive, largely due to lower oil prices. Faced with episodes of sharp exchange rate depreciation in early 2016, the central bank intervened in the FX market to support the peso, while purchasing foreign exchange in the face of strong appreciation pressures starting in August.[1] In July, the government successfully launched a dual-tranche reopening of its dollar-denominated bonds maturing in 2027 and 2050, raising U.S.$1.15 billion at historically low spreads (+205bp and +275bp respectively). In all, as of end-November, gross international reserves had fallen by U.S.$1.8 billion during the year-to-date, but remained well above prudential norms.

BCU interventions
(Millions of U.S. Dollars)



Sources: BCU and Fund staff calculations.

5. Despite the slowdown in activity, inflation persists at levels above the central bank's target range. Driven by one-off increases in administered prices, and the further depreciation at the start of 2016, inflation rose to a high of 11 percent (y-o-y) in May, well above the 3–7 percent range (see Box 1). The subsequent weakening of the U.S. dollar has helped bring down inflation to 8.1 percent (y-o-y) in November. With increased administrative prices, and a spike in fruit and vegetable prices, headline inflation exceeded core inflation for the first time since early 2014.

6. Monetary policy remains relatively tight but its transmission has been constrained by the high dollarization and low level of peso credit in Uruguay. Against the background of rising inflation and declining demand for peso liquidity (as the depreciation triggered further currency substitution), the central bank tightened reserve requirements in April 2016 and lowered its reference range for narrow money (M1+) growth.[2] This range was lowered again in July, to 1–3 percent. Short term (one month) interest rates have continued to fluctuate between 11 and 13 percent, after peaking at 15 percent in April.

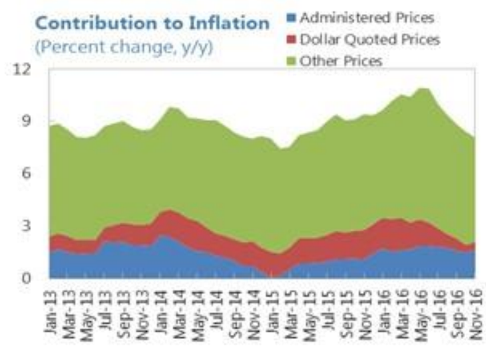
[1] In September, the central bank also stopped its policy of offering the repayment of maturing government securities in U.S. dollars.

[2] In April, reserve requirements were raised, leading to their equalization for peso and dollar deposits, at 28 percent, whereas previously requirements were lower for peso deposits than for dollar deposits.

Box 1. Uruguay: Explaining the Spike in Inflation

Administered prices and exchange-rate pass-through explain most of recent spike in inflation which peaked at 11 percent in May 2016 (y-o-y) before falling to 8.1 percent by November.

- Increases in administered prices (in particular, one-off increases for electricity and landline telephone services) accounted for roughly half the increase from the low point in February 2015, with a spike in always volatile fruit and vegetable prices and higher tobacco prices in early 2016 explaining the remainder. Administered prices comprise 23 percent of the CPI basket. After a decline to almost zero percent y-o-y in early 2015, inflation in administered prices is now similar to headline inflation again.



Source: IMF Staff Calculations.

Source: IMF Staff Calculations.

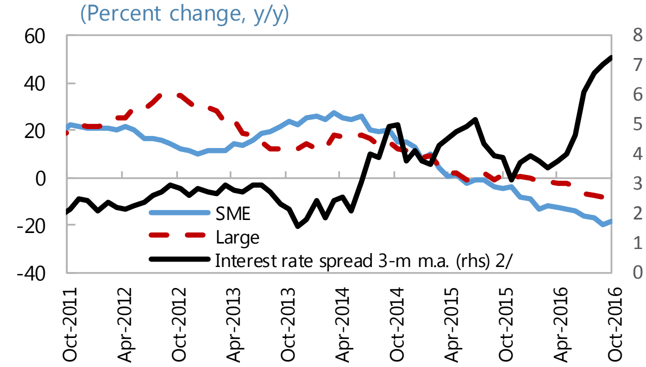
- The recent fall in inflation to below 10 percent, on the other hand, is largely due to the recent appreciation of the Peso against the US dollar. 13 percent of the CPI basket is made up of items which are (at least partly) quoted in dollars. Recent estimates of overall pass-through for Uruguay have been below 10 percent (see IMF, 2016), but for items quoted in U.S. dollars pass-through is fast and around 30 percent.

Source: IMF Staff Calculations.

	February 2015 - May 2016	May 2016 - November 2016
Total Change in Inflation	**3.6%**	**-2.9%**
Contribution of Administered Prices	1.7%	-0.2%
Contribution of US$ Quotes Prices	0.2%	-1.0%
Contribution of specific factors (eg Tobacco taxes and Fruit and Vegetable prices)	1.5%	-0.8%
Tobacco taxes	0.5%	-0.4%
Fruit and Vegetables	1.0%	-0.4%
Residual	0.2%	-0.9%

7. Weak credit growth has been the result of tepid demand as well as supply constraints in Uruguay's segmented financial market. While credit is already among the lowest in the region, at around 30 percent of GDP, real credit growth to both corporates and households has come to a virtual halt since 2015. SME credit, in particular, has been weak, with the real value of new loans contracting by 14 percent in the 12 months to June 2016, relative to a fall of 4 percent for larger corporates (chart).[3] Given that the bulk of deposits are very short-term and U.S. dollar-denominated, banks have limited capacity to extend peso credit, particularly at longer tenors, in order to control balance sheet mismatches (see Box 2).[4] The increase in reserve requirements and slowdown in the economy have exacerbated this trend, with currency substitution reducing banks' peso liquidity and banks becoming more cautious to maintain the quality of their lending portfolios.

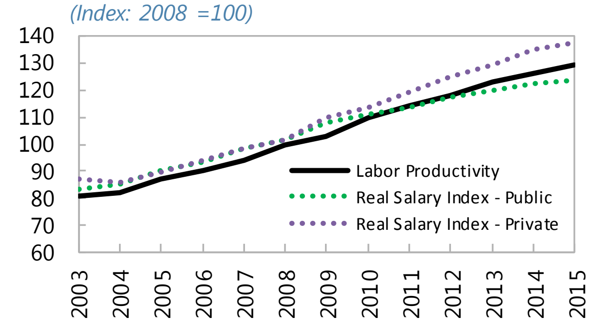
Real Credit Operations Growth 1/
(Percent change, y/y)



Sources: BCU and IMF staff calcularions.
1/ Monthly operated capital, including only operations of less than 367 days and excluding those for restructured loans and loans for prefinancing exports.
2/ Difference between the average peso interest rate for micro, small and medium company loans and the peso interest rate for loans to large corporates.

8. In the context of the sharp economic slowdown, fiscal policy has remained broadly neutral during 2016, after the structural primary balance improved by 0.6 percent of GDP in 2015.[5] The authorities have maintained capital expenditures below the level indicated in the budget, thereby limiting the deficit increase. The public sector deficit is projected to worsen by 0.2 percentage points to 3.8 percent of GDP in 2016. The authorities have reaffirmed their objective to reach a 2.5 percent deficit by 2019, as announced in last year's five-year budget. In line with this, parliament has approved tax increases and expenditure cuts for 2017, implying a 1 percent of GDP fiscal adjustment.

Labor Productivity and Real Salaries
(Index: 2008 =100)



Sources: SEDLAC, BCRU, and IMF staff calculations.
Note: Labor productivity refers to real GDP per employed person. Data for employment interpolated using averages in years with no household survev.

9. The sixth round of wage negotiations is proceeding largely in line with the government's guidelines. As of end-November 2016, negotiations for 57 percent of the multi-year wage contracts were completed, with 78 percent of these following the government's guidelines. In particular, the contracts now stipulate nominal base wage increases that vary with sectoral growth rather than inflation—a key departure from the past.

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[3] At a constant exchange rate. Both peso and dollar loans deflated using the monthly CPI.

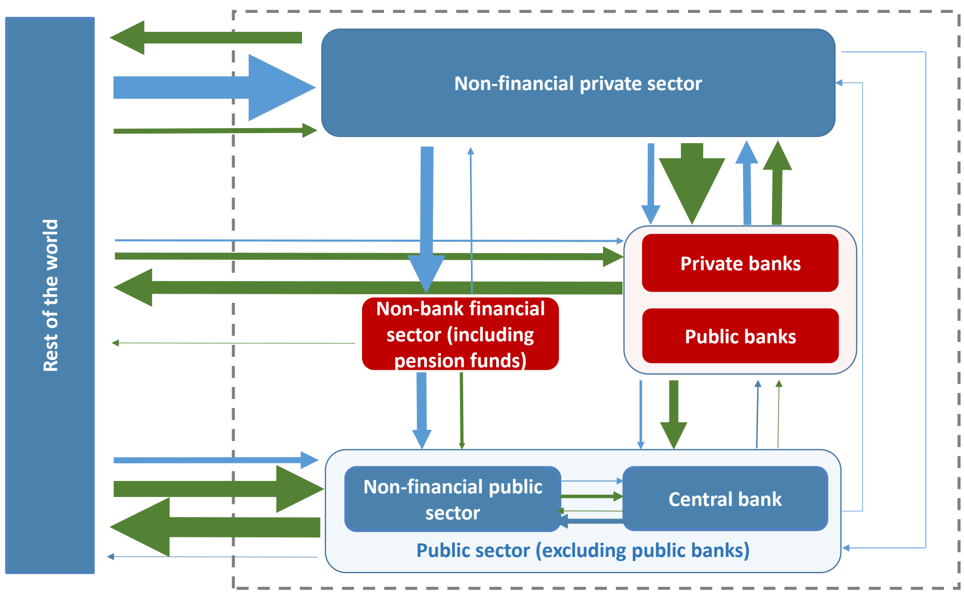
[4] See also "Bank Lending and Competition in the Banking Sector," Selected Issues Paper, IMF Country Report 16/63 (2016).

[5] The fiscal accounts cover the central government, nonfinancial public enterprises, and the central bank.

Box 2. Uruguay: Balance Sheet Analysis

Uruguay has a small, segmented and highly dollarized but stable financial system. Deposit and credit dollarization (80 and 56 percent, respectively) are structurally high, with the two public banks mainly lending to households in pesos and private banks lending to corporates in dollars (see Lambert and Singh, 2016). Banks are highly liquid and keep their excess dollars either in reserve deposits at the central bank or in high quality assets abroad. Furthermore, banks have only a limited exposure to non-financial public sector (NFPS) debt whereas pension funds are the main holders of local-currency government debt. Foreign currency debt of the NFPS (52 percent of total) is mainly held by non-residents. Overall, the high share of equity in foreign financing (41 percent), the large (gross) international reserves of the central bank (29 percent of GDP), the high liquidity of the banks (liquid FX assets cover 2.5 times non-resident deposits) and the long average maturity of NFPS debt (14 years) contribute to the stability of the system.

Pockets of vulnerability exist, however, largely due to the high level of dollarization. In particular, the NFPS and the public sector as a whole have a (small) net short foreign currency position. While banks' direct FX positions are well hedged, a number of corporate borrowers have net long FX positions, with around 30 percent of dollar lending going to non-tradable sectors. Lastly, households have a large net long FX position due to their preference for saving in dollars, exposing them to a peso appreciation risk. Exchange-rate pass through (notably for durable goods and real estate) provides a natural but only partial hedge.



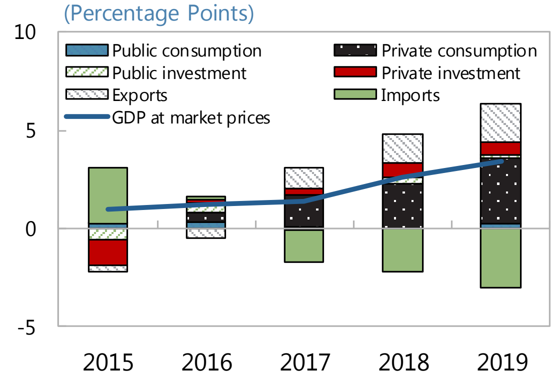
Note: Arrows are proportional to the size of the exposure at end-2015. Exposures below USD 100 million are not represented.
Exposure in peso   Exposure in USD

OUTLOOK AND RISKS

10. **GDP growth is projected to exhibit a modest further recovery to 1.4 percent of GDP in 2017, as Brazil and Argentina emerge from recession**. The external environment is expected to strengthen in 2017, together with private consumption (with the recovery of confidence). However, the planned contractionary fiscal stance may impose some drag on overall domestic demand, and production is expected to be dampened by extended oil refinery maintenance. Financial conditions are expected to remain broadly supportive, underpinned by accommodative global financial conditions, a stable banking system, and a small expansion in credit (though credit is not a principal source of financing and growth in Uruguay). Growth is projected to recover to a potential rate of 3 percent over the medium term, as domestic demand regains strength. Inflation is expected to slow and remain well below 9 percent in 2017, tapering to about 6 percent in the medium term, while the output gap gradually closes. The current account deficit is expected to remain at around 2¼ percent of GDP in 2017, with a pick-up in exports but higher oil prices, before edging up to 2½ percent in the medium-term as domestic demand recovers to match productive capacity.

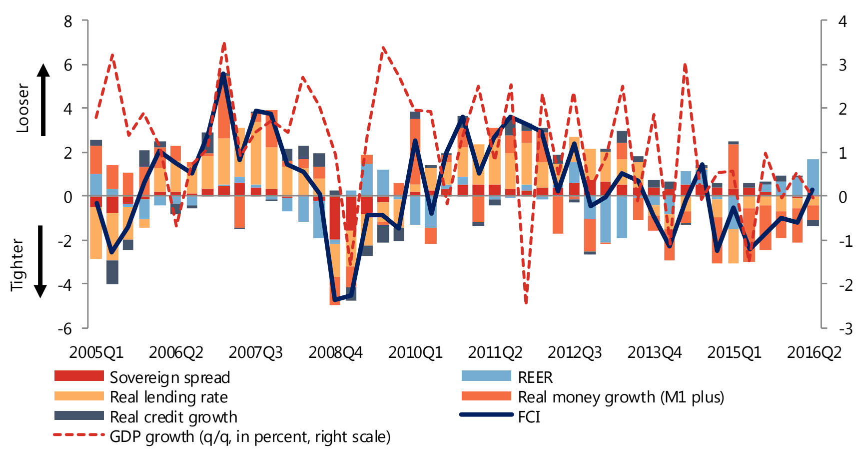
Contributions to Real GDP Growth

(Percentage Points)



Sources: BCU and IMF staff calculations.

Financial Conditions Index

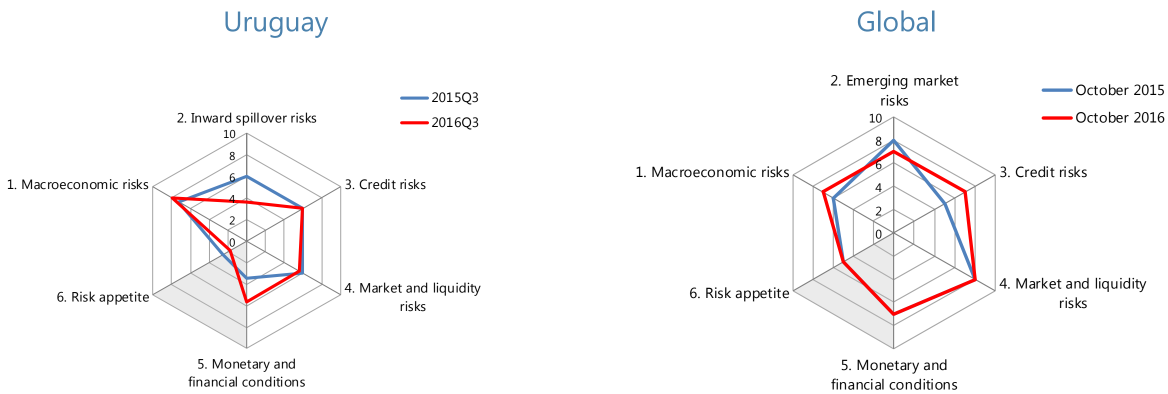


Source: IMF staff estimates.

Note: The financial condition index provides a summary measure of the effect of financial variables on economic activity. The computation follows IMF Country Report 13/220.

11. **Financial stability risks seem limited**. Staff stress tests confirm that credit and liquidity risks remain contained, and that the banking system could withstand even a large exchange rate shock that impaired loans to non-hedged borrowers. Non-performing loans, while historically very low, have doubled as a share of gross loans over the past two years when the economy weakened, but provisions for loan losses are high. After several years of decline, banks' capital adequacy ratio has stabilized and provides adequate loss-absorption capacity. High structural costs, including labor costs, and recent changes in taxation however weigh on banks' profitability. Banks' liquidity is ample, supported by a funding model that relies for more than 85 percent on deposits (with a diversified depositor base), high reserve requirements, and a low level of credit.

Financial Stability Map



Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

Note: Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.
Source: Global Financial Stability Report.

Table 1. Uruguay: Selected Financial Soundness Indicators

	2011	2012	2013	2014	2015	2016 1/
Currency composition						
Dollar loans in percent of total loans	58.5	57.9	59.6	59.0	60.5	57.0
Loan dollarization (constant exchange rate, January 2013) 2/	52.9	52.3	51.4	49.6	44.9	43.2
Dollar deposits in percent of total deposits	71.9	71.9	73.5	76.8	80.0	79.0
Deposit dollarization (constant exchange rate, January 2013) 2/	67.2	67.4	67.2	68.4	68.6	70.7
Credit cycle						
Private sector credit in percent of GDP 3/	19.8	21.6	22.6	24.7	26.8	29.5
Private sector credit growth in percent	24.0	16.3	17.3	8.8	1.5	5.9
Bank soundness						
Regulatory capital in percent of risk-weighted assets	13.7	12.8	11.7	11.8	11.3	12.9
Asset quality						
Non-performing loans in percent of total loans	1.3	1.5	1.3	1.5	2.1	3.5
Specific loan-loss provisions in percent of non-performing loans	71.1	69.0	56.2	65.2	63.1	54.3
Implicit exchange rate risk 3/ 4/	29.0	33.0	33.1	31.7	30.0	29.5
Profitability						
Return on assets	0.8	1.0	1.6	0.9	1.0	0.1
Return on equity	7.9	12.6	19.7	11.4	11.8	0.3
Operating costs in percent of gross income	83.4	81.0	83.1	86.0	86.0	80.5
Liquidity						
Liquidity ratio 5/	47.8	52.6	52.6	54.8	56.0	56.3
Non-resident deposits in percent of total deposits	14.6	15.2	15.0	14.7	15.8	14.2
Deposits/Loans ratio in national currency 2/	1.0	1.1	1.0	0.9	0.8	0.7
Deposits/Loans ratio in foreign currency 2/	2.2	2.3	2.0	2.0	2.0	2.5

Sources: Banco Central del Uruguay, IMF Global Financial Stability Report, and Fund staff calculations.
1/ Latest available data (September, unless otherwise specified).
2/ For 2016, latest available data (August)
3/ For 2016, latest available data (2016Q2).
4/ Foreign currency bank credit to borrowers without natural hedges as a share of total bank loans to the private sector.
5/ Liquid assets with maturity up to 30 days in percent of total liabilities expiring within the same period.

12. The risks to the outlook are both external and domestic.

- **External risks**. Although Uruguay's regional economic ties have lessened, a slower-than-expected recovery in Argentina and Brazil could weigh on the economy, as could weaker-than-projected growth in China, which has become the most important destination for Uruguay's merchandise exports. Non-resident deposits (mostly from Argentina) have declined to about 15 percent of total deposits, making a potential rapid withdrawal manageable in light of banks' plentiful foreign currency liquidity. A tightening in global financial conditions could raise Uruguay's cost of financing. The share of nonresident holdings of Uruguay's public debt increased in 2015, mostly because of valuation effects, and at almost 58 percent, could also pose some external risk, although maturities are long.

- **Domestic risks**. If the recovery in 2017 were weaker than expected, adhering to the planned fiscal consolidation plan would risk intensifying the slowdown, while a more expansionary fiscal stance would pose risks for debt. On the positive side, a potential large foreign investment (about 7 percent of GDP) in a third pulp mill presents upside risk to growth.

13. Uruguay's strong liquidity buffers and the flexible exchange rate should enable an orderly adjustment to shocks.

- Public sector financing risks are limited by sizeable liquid financial assets (about 6 percent of GDP) sufficient to cover debt service for 18 months, buttressed by the government's access to contingent credit lines at international financial institutions of 4½ percent of GDP.

- The authorities' willingness to allow the exchange rate to adjust in response to shifts in economic fundamentals has been key to absorbing external shocks.

- The BCU's gross reserves are ample relative to standard prudential benchmarks, and stand at 140 percent of the upper bound of the ARA metric range for Uruguay, and could help cushion severe external shocks (see Annex I).

14. The authorities emphasized the high degree of uncertainty in the international environment. They considered that Uruguay had managed the regional and global volatility well, as evidenced by ongoing economic growth and the continued positive differentiation of Uruguay relative to other emerging economies in financial markets. They noted that economic confidence had increased in recent months, supported by the government's fiscal adjustment package and the fall of unemployment to its lowest level in a year in October. Looking ahead, they stressed the prospects fro a third paper pulp mill, which would entail the largest investment in the country's history, as well as the positive outlook for increased investment via PPPs. In addition, Uruguay's strong financial buffers would support the authorities in navigating possible further shocks.

Risk Assessment Matrix

Sources of Risk	Likelihood	Impact if Realized	Policy Response
Significant slowdown in China.	**Low/Medium**	**Low/Medium (↓)** • A sharp slowdown in global demand could trigger a further decline in Uruguay's export prices, as two-thirds of exports are agricultural.	• Pass-through lower oil import prices as a buffer • Use exchange rate as a shock absorber. • Allow automatic fiscal stabilizers to operate.
Sharp rise in risk premia with flight to safety.	**Medium/High**	**Medium (↓)** • A withdrawal of investors from EMs and portfolio capital outflows could raise Uruguay's cost of financing and weaken growth across the region.	• Maintain flexible exchange rate as an automatic stabilizer. • Use liquidity buffers if necessary.
Structurally weak growth in neighboring economies.	**High/Medium**	**High (↓)** • Continued weakness in Argentina and Brazil would have adverse impacts through exports, tourism, and FDI (averaging 5 percent of GDP from 2003–14; one-third from these neighbors).	• Maintain flexible exchange rate. • Allow automatic fiscal stabilizers to operate. • Step up structural reforms.
Significant portfolio capital inflows.	**Medium**	**Medium (↓)** • A sharp appreciation of the peso, with limited room to lower interest rates given high inflation.	• Allow exchange rate to adjust (absent disorderly market conditions). • In certain circumstances, CFMs can be useful to manage the risks associated with large and volatile capital flows. They should not, however, substitute for warranted macroeconomic adjustment.
Geopolitical risks, leading to increased volatility in oil prices.	**High**	**Low (↓)** • A sharp rise in oil prices would raise import and fiscal costs (as pass-through would likely be limited). The recent investment boom in renewable energy would temper the impact.	• The new oil price hedge would shield the budget. • Pass through oil price changes over the medium term
Persistently low oil prices.	**High**	**Medium/Low (↑)** • Uruguay imports all its oil (20 percent of imports); a drop in oil prices would lower the import bill and have a positive fiscal and macro impact.	• Avoid pro-cyclical policies. • Pass through lower oil import prices to help reduce inflation.

POLICY DISCUSSIONS

15. While the authorities avoided an overly contractionary policy stance in 2016, the room for countercyclical policies is limited. The fiscal package to reduce the general government's deficit in 2017 is, by itself, projected to be procyclical, as output remains below potential.[6] But delaying the structural fiscal consolidation could undercut the downward trajectory of net debt, jeopardize Uruguay's hard-won credibility with international investors, and potentially force an even more pro-cyclical tightening down the line. Given the weak economy and announced fiscal plans, the current monetary policy stance seems appropriate. However, with inflation still well above the upper-end of the target range, the authorities should stand ready to further tighten the monetary stance in 2017 as needed to safeguard the incipient reduction in inflation.

16. A key challenge is to solidify the economic and social achievements of the past decade. Several key prerequisites are in place for boosting diversified and inclusive growth over the medium term, including a trusted public sector and a high degree of social stability. In other areas, however, more progress is needed. The government has started addressing gaps in transportation infrastructure. Skills formation needs to be fostered through education reform. And the provision of credit for private sector investment could be enhanced. In addition, while the current fiscal plans are sustainable, there is less clarity beyond the government term. Longer-term anchors would strengthen the credibility of economic policies, with positive effects on confidence, investment and growth.

A. Implementing Fiscal Consolidation

17. The authorities' fiscal consolidation path would put net debt on a downward trajectory. The government is expected to have avoided an overly pro-cyclical fiscal stance in 2016 by allowing the fiscal deficit to widen, while locking in the fiscal adjustment for 2017. This course of action was in line with earlier staff advice, that a strong commitment to the structural adjustment path for the primary balance would provide room for automatic fiscal stabilizers. The announced measures are expected to have a lasting effect on the primary balance. However, as the economy has slowed more than expected, fiscal settings have tightened more than originally expected. As growth rebounds, staff projects the primary surplus to exceed 0.5 percent of GDP in 2019, allowing for a gradual reduction in gross and net public debt.

18. The focus on fiscal consolidation is appropriate, although there is some space to respond to unanticipated shocks. Debt levels have risen sizably in recent years. As such, financial markets are keeping a close watch on the implementation of the fiscal adjustment aimed at ensuring fiscal sustainability.[7] Moreover, the shares of foreign-currency denominated debt and debt

[6] This assessment is based on the change in the cyclically-adjusted fiscal balance and does not take into account investment expenditures through PPPs, which are outside the consolidated public sector, nor possible positive effects from improvements in consumer and business confidence owing to the fiscal package.

[7] The inclusion of the central bank in the public accounts, including in the debt data, implies a higher level of recorded public debt and higher financing needs. Uruguay is one of the few countries in the world using this presentation.

held by non-residents exceed the standard benchmarks for debt profile risk indicators (Annex III). The announced structural consolidation, reducing the overall deficit to 2.5 percent of GDP by 2019, will help maintain strong financial buffers. Moreover, the magnitude of the planned fiscal adjustment to stabilize and trim public debt relative to GDP appears realistic and, as fiscal credibility is preserved, there is space to allow fiscal stabilizers to operate. Looking beyond the government term (which runs through 2019), population aging will hit Uruguay before other countries in the region. The annual deficit of the defined-benefit pillar of the pension system (excluding special regimes) is projected to grow from around 0.7 percent of GDP in 2015 to more than 2 percent in 2050 and will require further reforms, including to limit the deficit of special pension regimes and reduce the risks coming from the indexation mismatch in the balance sheet of the public insurance company.[8]

19. Improvements in the management and profitability of public companies are essential to strengthening the fiscal balance. Given the extensive role of public enterprises in Uruguay, improvements in their management and coordination are vital. The recent recapitalization of the state-owned oil distribution company, ANCAP, has strengthened its liquidity position. The government has contracted a hedge to limit the financial risk from a large oil price increase in world markets. The scope for passing through such increases into (administered) domestic fuel prices may be constrained in the near term, given the limited pass through of the prior decline in oil prices, which supports the restoration of ANCAP's financial soundness. However, staff advised that, it would be useful to allow retail fuel prices to fully adjust with international oil prices as soon as feasible. Basing this on a transparent formula, would remove the risks to the budget inherent to the stabilization of domestic fuel prices and promote efficient fuel usage. Consideration could be given to implementing such an approach once the current oil price hedges expire to continue to ward off a re-emergence of quasi-fiscal risks.

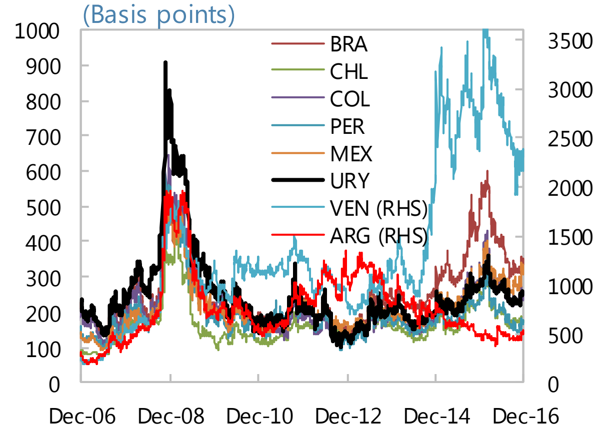
20. Fiscal adjustment should be implemented in a manner that fosters economic growth as much as possible, which hinges on the execution of planned infrastructure investment. The 2017 tax package is expected to have a limited adverse effect on consumption, with an increase in personal income tax rates for middle-to-high-income earners, partly offset by lower VAT rates for electronic payments. On the expenditure side, a rationalization of the public wage bill and public enterprises' expenditures will be important to ensure a durable consolidation, and would create space for higher multiplier spending on public investment. In particular, regional comparisons of infrastructure quality show a clear need for transportation infrastructure upgrades. Yet, while as part of the fiscal adjustment, public investment was lowered by 0.9 percent of GDP in 2015, PPPs are only slowly taking off. The recent creation of a U.S.$ 350 million fund for infrastructure projects represents a promising step toward mobilizing financial resources for PPPs. According to the budget, between a fourth and a third of road and railroad infrastructure projects for the period

[8] For defined-contribution pensions, this company bears the risk of any divergence between the wage growth (to which pensions are indexed) and the nominal interest rate.

2015–19 are to be financed through PPPs. PPPs can alleviate the initial cost of investment to the budget, but will require effective monitoring and oversight, as well as strong control of explicit and contingent liabilities. Beyond 2017, the authorities should assess the possible need for additional measures, on top of the built-in expenditure rationalization, to ensure the achievement of their medium-term fiscal targets.

LA6: Emerging Market Bond Indices

(Basis points)



Source: J.P. Morgan.

21. Active debt management remains important to reduce financial vulnerabilities and interest payments. Financial markets have acknowledged Uruguay's prudent debt management strategy that has lengthened the maturity of the debt, smoothed the redemption profile, and reduced interest cost by taking advantage of low international interest rates via successful dollar issuances and a recent interest rate swap operation (into Japanese Yen) with the World Bank. However, the share of debt denominated in foreign currency has increased again since 2013 as demand for peso assets weakened. Building on the recently created Public Debt Management Committee, the fiscal and monetary authorities could usefully foster the development of a more liquid and accessible local-currency bond market which would help lower the dollarization of public debt and further reduce external vulnerabilities. Useful steps could include the establishment of benchmarks for long-term peso debt instruments.

22. Stronger anchors could enhance the long-term credibility and counter-cyclicality of fiscal policy. The current rule, which limits the annual increase in net debt, has accommodated a strong increase in net debt during recent years.[9] An overall debt limit could become part of the rule, as a reference for determining the annual limit on the increase in net debt. This would prevent the debt from reaching uncomfortable levels and strengthen confidence in the sustainability of Uruguay's public finances. Furthermore, the annual limits on debt increases could adjust to the economic cycle, to permit the operation of fiscal stabilizers.

23. The authorities confirmed their determination to lower the fiscal deficit to 2½ percent of GDP by 2019 to underpin fiscal sustainability. They expected that the fiscal package for 2017 would be sufficient to reach this target, in part because of its careful design to support economic growth. Indeed, they considered that overall fiscal policy would be supportive of growth in 2017 when taking into account all elements - the targeting of tax increases at higher income levels, the forthcoming expansion of infrastructure investments, including through PPPs, and the positive confidence effects of the adjustment.

[9] In particular, under the rule's escape clauses, which were invoked in five of the past eight years.

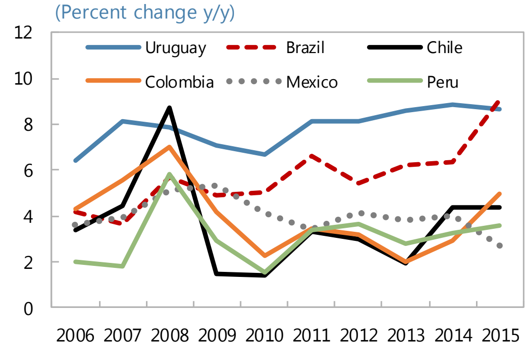
B. Making Monetary Policy More Effective in Curbing Inflation

24. Inflation is projected to decline gradually, supported by a negative output gap and the ongoing wage discussions. The new wage agreements offer a valuable opportunity to achieve a lasting reduction in inflation, as they are set in nominal terms, which should reduce inflation persistence, and as they include nominal wage increases that are lower for each subsequent year, gradually reducing cost pressures. Current projections foresee inflation moving into the 3–7 percent target range by 2019.

25. Nonetheless, confronting inflation remains a priority, and is a precondition for de-dollarization which would support the transmission of monetary policy. Inflation in Uruguay has remained stubbornly high and above the level in other LA-6 countries. Lower inflation would protect the purchasing power of low-income households and increase scope to use monetary policy as a countercyclical tool. Moreover, securing the expected gradual decline in inflation would be especially important at this juncture, as surprise inflation could jeopardize sustained progress in reshaping the wage regime. Successfully bringing down inflation would also promote de-dollarization that would in turn improve the transmission of monetary policy and facilitate a virtuous cycle of improved inflation performance. Experience in other countries shows that incentives to internalize the risks of dollarization, the development of capital markets in local currency, and the de-dollarization of deposits would all contribute to a decline in credit dollarization.[10] The government's ongoing financial market initiatives (see below) can further support progress in these directions.

26. Bringing inflation back to within the BCU's target range requires an appropriately tight monetary policy. The change in the monetary policy framework in 2013—switching to an operational reference range for M1+ growth—and the progressive reduction in this reference range led to a rise in the interest rates and an overall tightening of monetary and financial conditions. In the face of inflation well above the central bank's target, monetary conditions remained generally tight in 2016, aided by the appreciation of the exchange rate. Interest rates at maturities longer than three months stayed fairly stable, while short-term interest rates edged lower in the third quarter, and are below the level implied by a calibrated Taylor rule (Figure 3) and also below estimates of the neutral interest rate (see Box 3). Given a weak recovery and the procyclical fiscal tightening in 2017, the monetary stance remains sufficiently supportive of the disinflation effort. However, to bolster price stability and the credibility of monetary policy, the authorities should be ready to further tighten monetary conditions in 2017 if and when demand pressures pick up.

Inflation in LA6
(Percent change y/y)



Source: *IMF, World Economic Outlook*.

[10] See M. García-Escribano and S. Sosa, "What is Driving Financial De-Dollarization in Latin America," IMF Working Paper 11/10 (2010) and L.A.V Catão and M.E. Terrones, "Financial De-Dollarization: A global Perspective and the Peruvian Experience," IMF Working Paper 16/97 (2016).

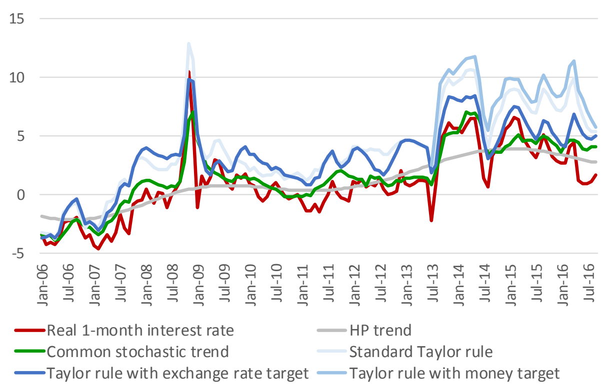
Box 3. Uruguay: Estimates of the Neutral Interest Rate

The neutral real interest rate (NRIR) can be defined as the interest rate that is consistent with a closed output gap and stable inflation. This rate is not observable and can move over time, given changes in domestic and global macroeconomic conditions. Estimates of the neutral interest rate provide a benchmark to assess the stance of monetary policy, the gap between the neutral rate and the actual short-term real interest rate measuring the degree to which monetary policy is stimulating or contracting the economy.

The estimates of the NRIR presented in this box are derived from the estimation of state-space models where the neutral rate is an unobserved state variable (see Williams and Laubach, 2003, and Magud and Tsounta, 2012). In particular, the Kalman filter is used to estimate a model assuming a common stochastic trend between short term and longer term nominal interest rates (Basdevant and others, 2004) as well as various forms of the Taylor rule.

The model estimates for the NRIR range from 4 to 5½ percent. These levels have exceeded actual interest rates reflecting the persistence of inflation above the target range. However, the results need to be interpreted with caution since they closely depend on the underlying model used in the estimation. The movements in the estimates are also influenced strongly by those of the short-term rates.

Uruguay: Neutral Real Interest Rates Estimates



Sources: BCU, BEVSA, INE, and staff estimates.

Neutral Interest Rate Estimates for Uruguay

Method	NRIR Estimates (in percent)
Common stochastic trend	4.1
Standard Taylor rule	5.4
Augmented Taylor rule with stable exchange rate target	5.0
Augmented Taylor with money target	5.7

Sources: BCU, BEVSA, INE, and staff estimates.

27. There is scope to enhance the effectiveness of monetary policy in the medium term.

- **Reduce inflation persistence further.** New wage agreements typically include backward indexation after 12 months or more to offset possible real wage losses.[11] While a longer adjustment delay would be helpful in avoiding indexation in response to temporary price shocks (as the decline in inflation is expected to be gradual and irregular), staff recommended the full elimination of indexation provisions as expeditiously as possible.

- **Strengthening the policy framework**. Since 2013, the monetary authorities have applied the monetary framework in a flexible manner, repeatedly adjusting the reference range, and allowing interest rates to rise to higher levels. However, money demand has proven difficult to predict, and the growth rate for M1+ has undershot the reference range in eight out of the thirteen quarters of implementation. Staff reiterated its advice to closely monitor changes in money demand implied by the changes in deposit dollarization, in particular to avoid an unduly relaxed policy stance. The authorities could also usefully explore options to reduce the volatility of short-term interest rates, for example by using standing facilities to create an interest rate corridor, as a more stable short-term yield curve could strengthen the policy signal and serve as a reference for developing peso debt instruments and derivatives, lowering transaction costs and enhancing market liquidity.

28. The flexible exchange rate should remain the key mechanism to absorb external shocks. Exchange rate movements since early 2015 helped cushion the downturn and support competitiveness, as neighboring countries experienced similar depreciation pressures. Interventions in the exchange market should be used parsimoniously to counter disorderly market conditions, and not to counter trends driven by fundamentals.[12]

29. The authorities emphasized that monetary policy had been kept tight, and that inflation had declined significantly since mid-2016. In particular, they noted that across the yield curve, real interest rates had remained strongly positive, including at short maturities. They explained that the monetary policy tightening in the first half of the year reflected a strong response to the rise in inflation and also responded to investors' shift from pesos into U.S. dollars. In recent months, the BCU had accommodated the reversal in the demand for pesos. The authorities saw the evolution of the exchange rate as the main driver of inflation, and noted that the moderate real wages increases embedded in the new wage agreements, combined with the partial abandon of wage indexation on past inflation, was expected to support the decline in inflation over the coming years. The authorities saw the increased volatility of short-term interest rates as a natural

[11] Unless inflation breaches 12 percent in any given month, in which case the correction is immediate.

[12] The high degree of wage-price inertia bolsters the case for countering disorderly exchange market conditions, that feed into sustained inflationary pressures. See M. Airaudo, E.F. Buffie, and L-F Zanna, "Inflation Targeting and Exchange Rate Management in Less Developed Countries," IMF Working Paper 16/55 (2016) on how the combination of currency substitution and strong effects of exchange rate changes on inflation can offer a case for interventions to counter unwarranted exchange rate movements directly, within an inflation targeting regime.

consequence of the change in operational framework in 2013, and stressed that the BCU was careful to avoid stresses in the market for peso liquidity.

C. Promoting Financial Development and Maintaining Stability

30. The ongoing steadfast implementation of the 2014 Financial Inclusion Law promises to help increase peso deposits and competition in the peso market. In particular, the law requires employees to choose and designate a bank account on which their wage is paid, whereas that choice was previously made by the employer. Private banks can take advantage of the generalization of those payroll deposit accounts and financial incentives (lower VAT) for using electronic means of payment to increase their funding in peso. The development of the peso credit market—supported by such peso funding—could offer new income opportunities for banks, while the increased competition with the dominant public bank would lead to greater efficiency.

31. Market deepening and prudential policies to discourage foreign currency deposits and loans could support de-dollarization. The financing of public infrastructure projects could be designed to foster the development of new capital market instruments in peso, for example by marketing part of the securities issues by dedicated investments funds or trusts to retail investors. On the regulatory side, reinstating differentiated reserve requirements on peso and foreign-currency deposits and introducing asymmetric liquidity requirements between peso and foreign currency liabilities could encourage banks to favor peso deposits.[13]

32. Supervision should remain alert to closely monitor banks' exposures and contain stability risks. This monitoring will be facilitated by the implementation of the new International Financial Reporting Standards (IFRS) in 2017, while the implementation of Basel III will strengthen the resilience of the system, through for instance the imposition of capital surcharges to the five domestic systemically important banks. The creation of new saving vehicles in peso would need to be accompanied by strong investor protection and efforts to improve financial education.

33. The authorities expressed satisfaction with the functioning of the financial system, advances in the supervisory framework, and the ongoing progress in financial inclusion. They agreed that, in principle, it was helpful for reserve requirements on foreign currency deposits to exceed those on domestic currency deposits, and saw the equalization of requirements on peso and foreign currency deposits, that had resulted with a tightening of monetary policy, as temporary.

[13] Such differentiated reserve requirements would not be intended as a capital flow management measure, but a structural tool to limit dollarization and enhance financial stability.

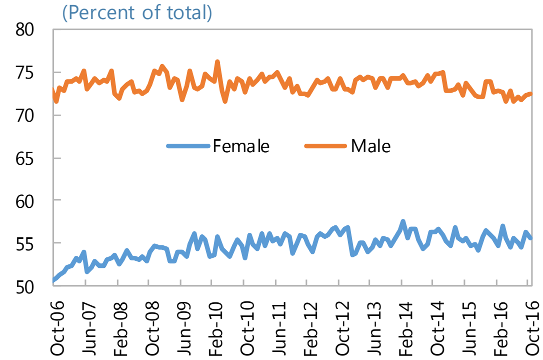
D. Supporting Inclusive Growth

34. Social policies and transfers have played a significant role in reducing poverty and inequality. While income dispersion has decreased across Latin America over the last decade, Uruguay stands out as the country with the largest drop in the Gini coefficient between 2009 and 2014. This reflects both government guidelines to bolster low wages, and increased redistribution through income taxes and transfers. Recent IMF studies indicate that more equality can add to the long term growth potential.[14] However, looking ahead, further redistributive policies may be constrained by their fiscal costs, and should also be designed with careful consideration for their potential impact on labor supply and incentives to seek training and enter the labor market. For example, the declining trend in the skill premium, especially between high and medium skilled workers, might reduce incentives toward human capital development—critical for productivity and innovation.

35. Education reform is essential to sustain strong and inclusive growth. Despite a clearly higher teacher-to-student ratio, education outcomes are only marginally better than regional averages (Figure 6), leaving room for improving the efficiency of education spending. Education reform should aim at improving PISA scores and reducing the high dependence of student performance on socioeconomic conditions.

36. Further increasing female labor force participation could help tackle the challenges from population aging. At around 55 percent, female labor force participation is fairly high in Uruguay compared to other Latin American countries. Nonetheless, it has remained about 17 percentage points below male participation. Women's higher educational level would buttress the positive impact of raising female labor force participation. In addition to increasing the supply of affordable public child care, extending paternity leave could also help reduce the gender gap.

Labor Force Participation Ratio
(Percent of total)



Sources: INE and Fund staff calculations.

37. New free trade agreements and progress in international integration can contribute to potential growth. As Uruguay's export markets have diversified—reducing the share destined for Mercosur from 55 percent in 1998 to 21 percent by 2015—and given its focus on highly regulated and protected agricultural products, ensuring beneficial market access is critical. The recent trade agreement with Chile, which complements the 1996 agreement between Chile and Mercosur, and the conclusion of trade negotiations between Mercosur and the European Union should benefit Uruguay's exports. Further trade and financial integration with countries inside and outside the Latin American region can also facilitate the financing of critical infrastructure projects and inward investment. The creation of a national system

[14] "Redistribution, Inequality and Growth", IMF Staff Discussion Note, February 2014, and "Causes and Consequences of Income Inequality: A Global Perspective", IMF Staff Discussion Note, June 2015.

of competitiveness and accompanying reforms to promote an innovation-friendly business environment, announced in 2015, could offer a useful vehicle for reform.

38. The authorities mentioned education reform and the financial inclusion process as priorities to support inclusive growth over the medium term. They noted the criticality of making further progress to strengthen the education system. The authorities saw trade integration as an important complement to the country's successful diversification of its export destinations.

STAFF APPRAISAL

39. Uruguay is managing the deep recession in its large neighbors relatively well. After a marked slowdown, growth started to recover in the third quarter of 2016. Investment and consumption bottomed out through mid-2016, as inflation stabilized and the exchange rate stopped depreciating. The current account deficit has been cut in half since 2014, and international reserves have stabilized well above prudential norms. The real effective exchange rate appears aligned with fundamentals and desirable policy settings.

40. The external environment continues to present risks. Continued weakness in Argentina and Brazil, and a slowdown in global demand would adversely affect exports, while higher interest rates would raise funding costs and capital flow volatility would complicate the conduct of monetary policy. Uruguay's flexible exchange rate and strong liquidity buffers would, however, support an orderly adjustment to shocks.

41. The authorities have demonstrated a clear commitment to putting the public finances on a sustainable track. The widening of the fiscal deficit in 2016 was a helpful response to moderate the sharper-than-expected slowdown. At the same time, the government has locked in tax increases for 2017, sustaining its commitment to bring the fiscal deficit to 2.5 percent of GDP by 2019 which is projected to put debt on a downward trajectory. The fiscal consolidation effort is essential to safeguard Uruguay's hard-won credibility with international investors and face the long-term fiscal challenges of population aging. Automatic fiscal stabilizers should be allowed to operate along the structural consolidation path. The long-term credibility and countercyclicality of fiscal policy could also be enhanced through a well-designed and stronger fiscal anchor.

42. Future policies should protect the announced infrastructure investment increase. Public investment significantly decreased in 2015, and public-private partnerships are taking off slowly, whereas there is a clear need for infrastructure upgrades, in particular in transportation. Further improvements in the profitability of public enterprises and efforts to contain current public spending can create room for capital spending.

43. Lower inflation is a prerequisite for reducing dollarization. The high dollarization of deposits constrains the provision of peso credit and the effectiveness of monetary policy, and calls for higher scrutiny of banks' credit risk exposures. A commitment to low inflation, supported by regulatory incentives such as reserve requirements differentiated by currency and initiatives to deepen local currency capital markets, can encourage a gradual de-dollarization of the economy.

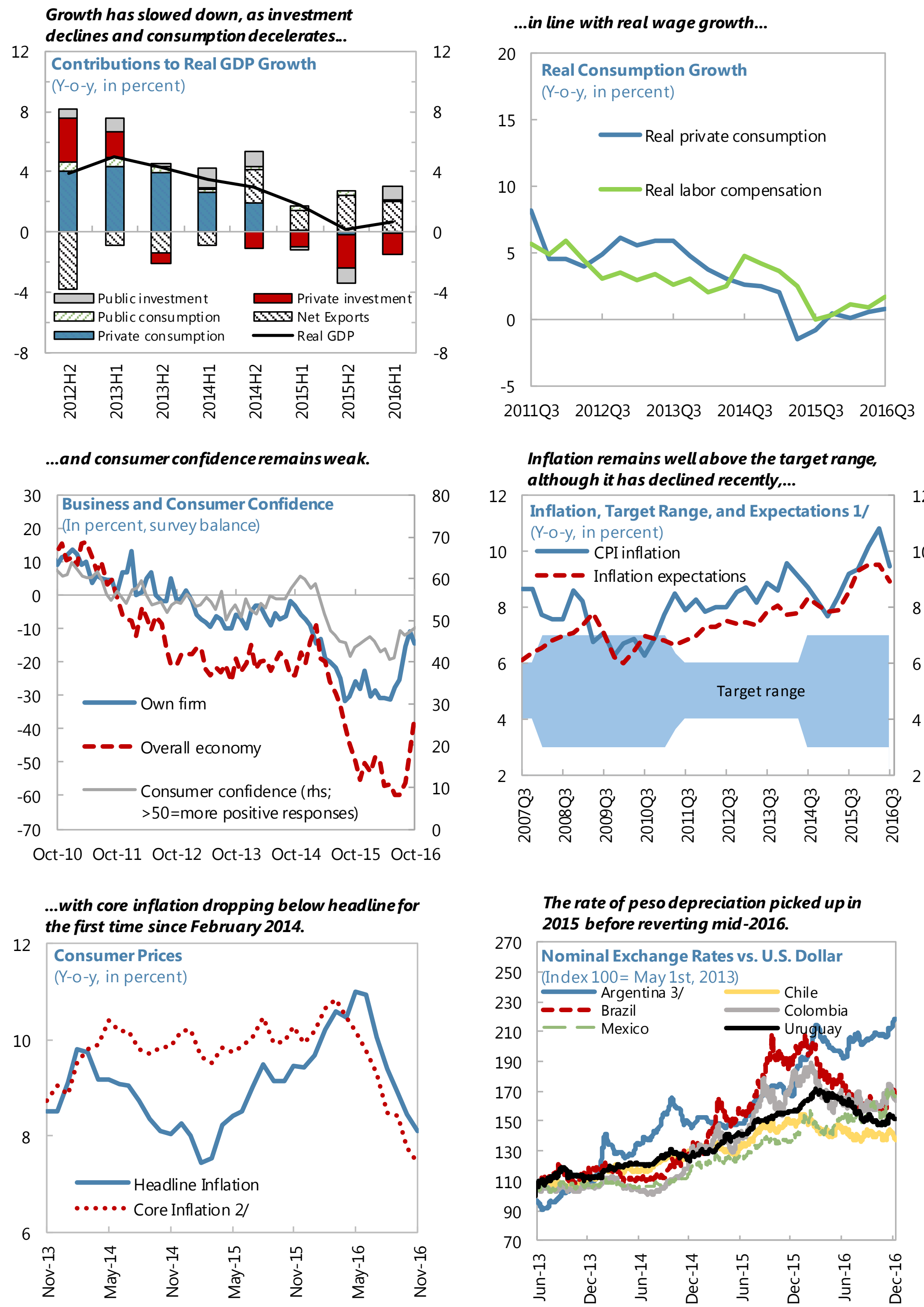
44. A tight monetary policy will be needed to help guide inflation toward the target range. Inflation has continuously surpassed the central bank's target range for the past 6 years, temporarily exceeding single digit levels in mid-2016. The stance of monetary policy should be tightened further if and when activity recovers during 2017, to help sustain the disinflation process.

45. A further reduction in inflation persistence, through the wage-setting process, will also be important. In this context, the ongoing move to wage increases that are stipulated in nominal terms is most helpful. Looking ahead, inflation inertia should be lowered further through steps toward the full elimination of backward inflation indexation.

46. Structural reforms in education and trade liberalization would help to deepen the social gains of the past decade and boost potential growth. Efforts to promote free trade within Mercosur, as well as to ensure market access to third countries are welcome. Education reform is also necessary to develop the skills that will strengthen Uruguay's competitiveness in international markets.

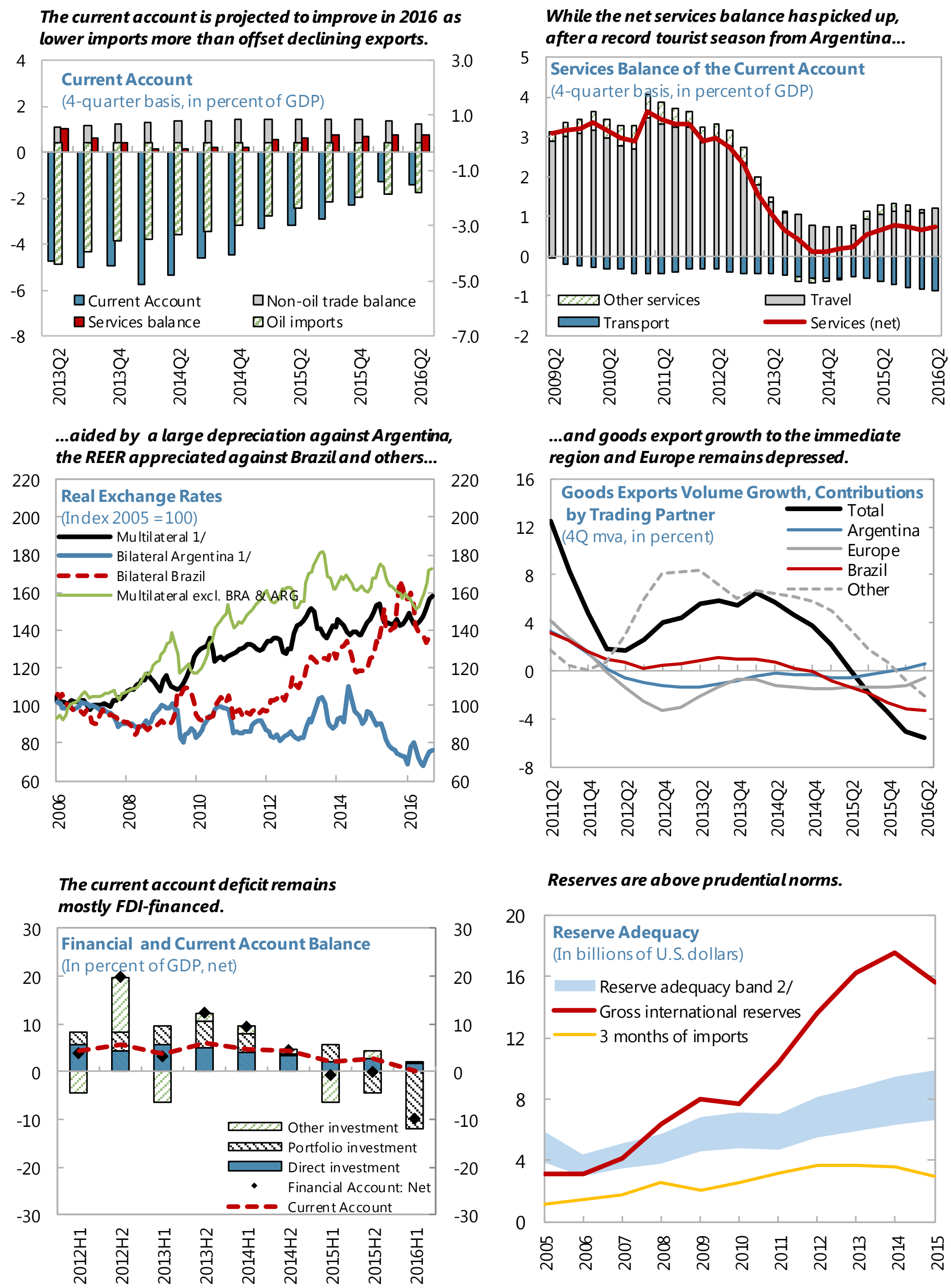
47. Staff proposes that Uruguay remains on the 12-month Article IV consultation cycle.

Figure 1. Uruguay: Real Sector and Inflation



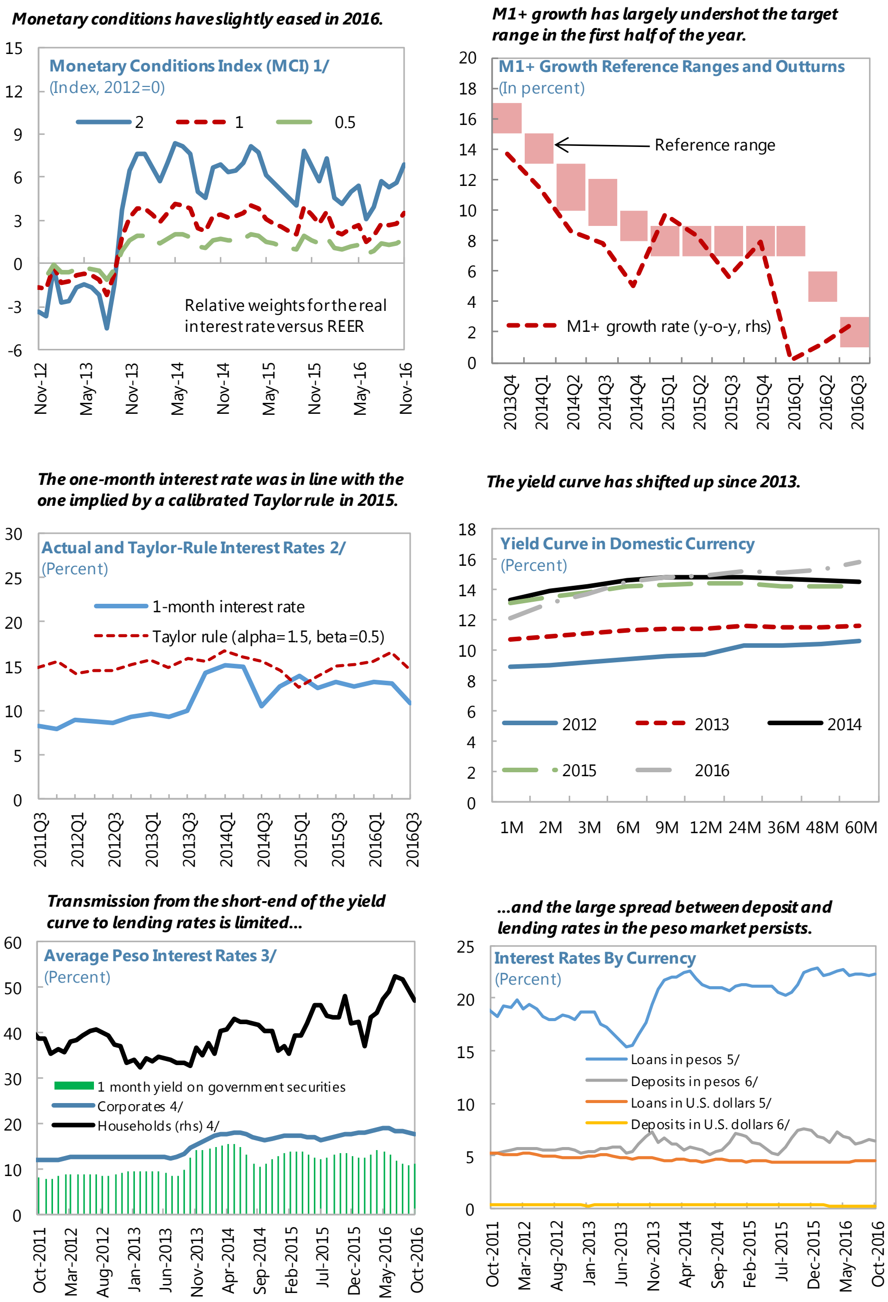
Sources: World Economic Outlook, Haver Analytics, Banco Central del Uruguay (BCU), Instituto Nacional de Estadistica, Bloomberg L.P., and Fund staff estimates and calculations.
1/ BCU survey, median of expected inflation for the 12 months ahead.
2/ The definition of Core Inflation follows BCU's definition and excludes administered prices, fruits and vegetables, and tobacco.
3/ Simple weekly average of official and informal market rates.

Figure 2. Uruguay: External Accounts



Sources: Banco Central de Uruguay (BCU), World Economic Outlook, Instituto Nacional de Estadistica data, Haver Analytics, and Fund staff calculations.
1/ The real exchange rate against Argentina is calculated using the unofficial CPI for Argentina and the average of the unofficial and official exchange rates for the Argentine peso.
2/ Band spans 100 to 150 percent of the Fund's reserve adequacy metric.

Figure 3. Uruguay: Monetary Policy



Sources: IMF, World Economic Outlook; Banco Central del Uruguay (BCU); and Fund staff estimates and calculations.

1/ The MCI is a weighted average of the changes in the real interest rate of 12-month Central Bank securities and the real effective exchange rate (REER) relative to their values in a base period, January 2012.

2/ A standard Taylor Rule was calibrated $i_t = c + \alpha(\pi_t - \pi^*) + \beta(y_t - y_t^*)$, where c is the nominal neutral rate calculated as the sum of the mid-point of the official inflation target range and the real potential growth rate; π* is the mid-point of the official inflation target range; (y-y*) is the estimated output gap.

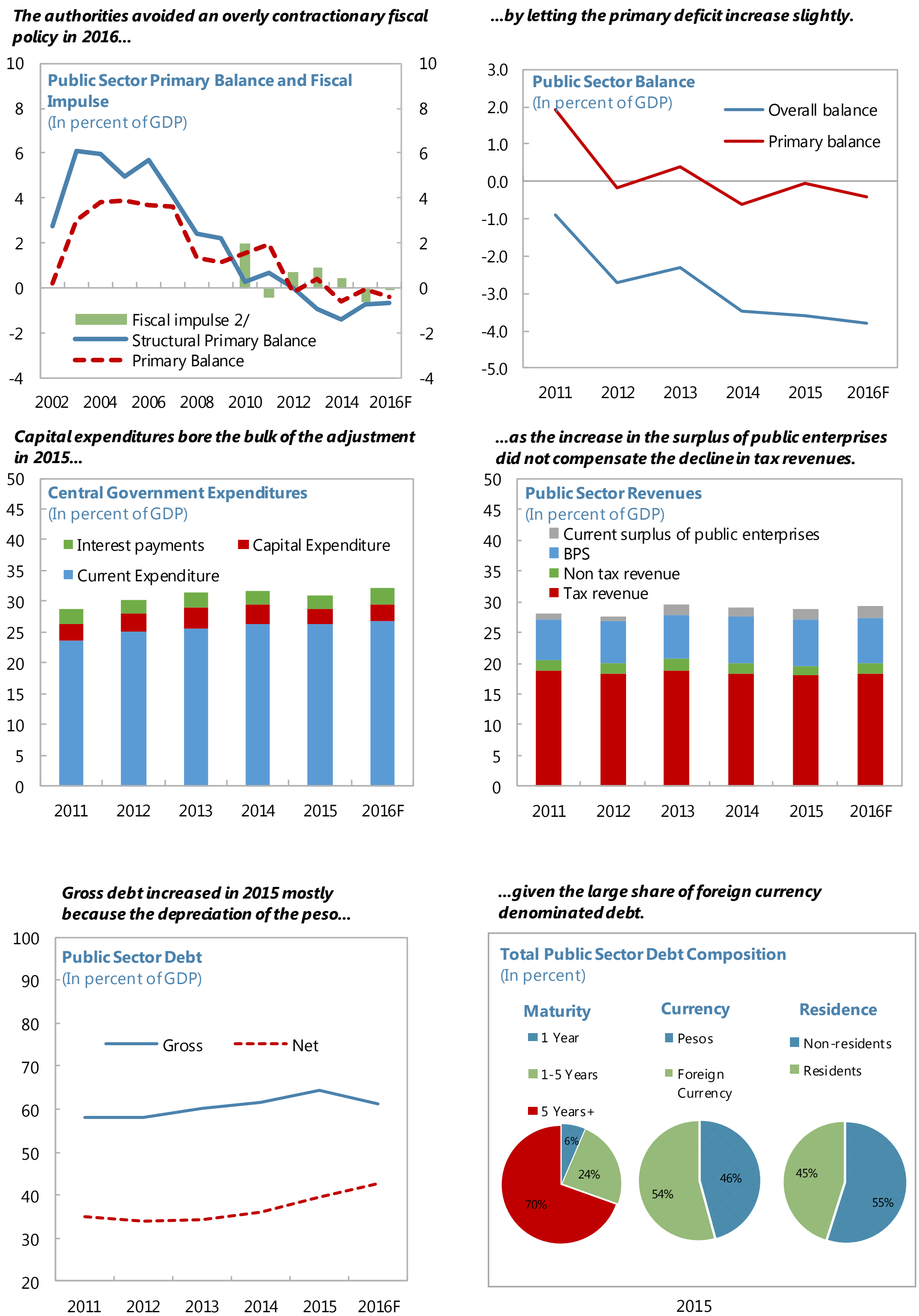
3/ 3-month moving average.

4/ Average interest rates on new peso loans of up to one year.

5/ Annual effective interest rates, monthly weighted average, excluding restructured operations.

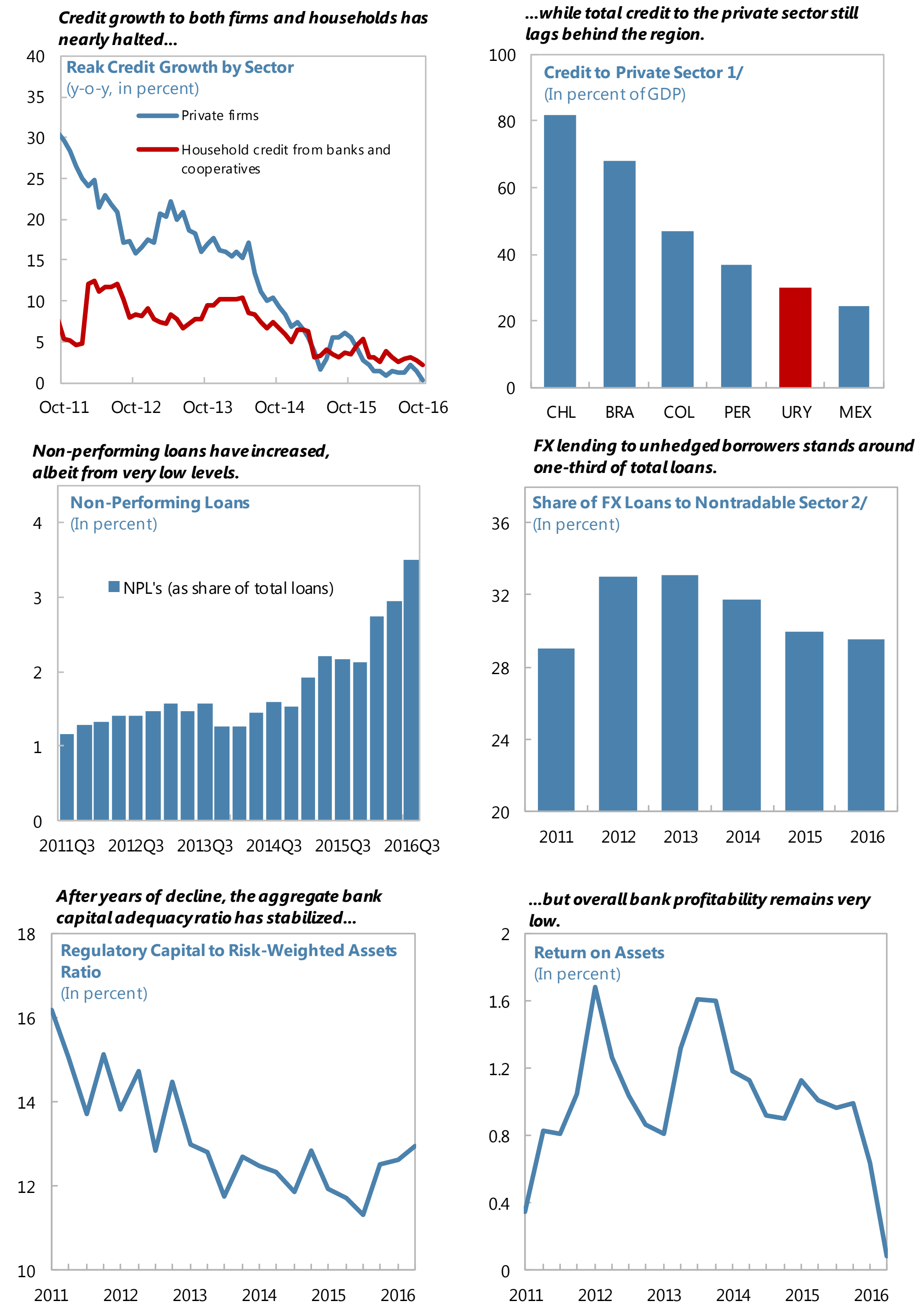
6/ Weighted average rate on totality of fixed term deposits.

Figure 4. Uruguay: Fiscal Developments



Sources: World Economic Outlook, Banco Central del Uruguay, Haver Analytics, and Fund staff calculations.

Figure 5. Uruguay: Credit and Banking



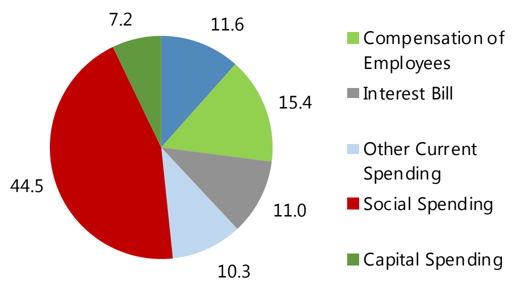
Sources: IMF, *World Economic Outlook*; Banco Central del Uruguay (BCU); and Fund staff estimates and calculations.

1/ End 2015.

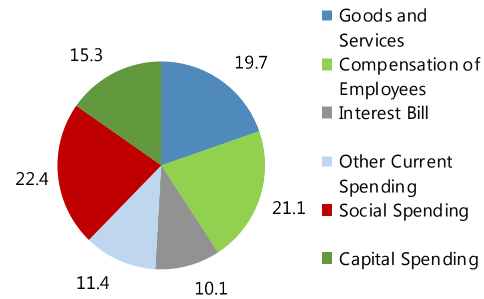
2/ Share of FX Loans to borrowers in the nontradable sector; data is through 2016Q2.

Figure 6. Uruguay: Structural Indicators

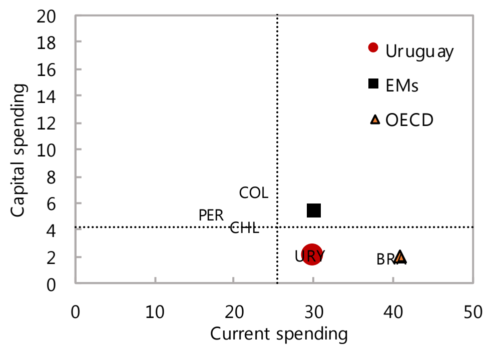
Uruguay -- Economic Classification of Expenditures, 2015 1/
(Percent of GDP)



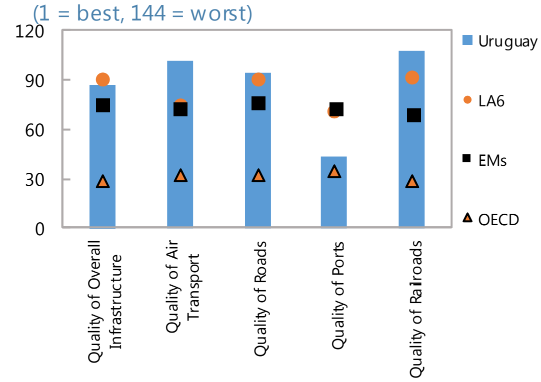
LA6 -- Economic Classification of Expenditures, 2015 1/
(Percent of GDP)



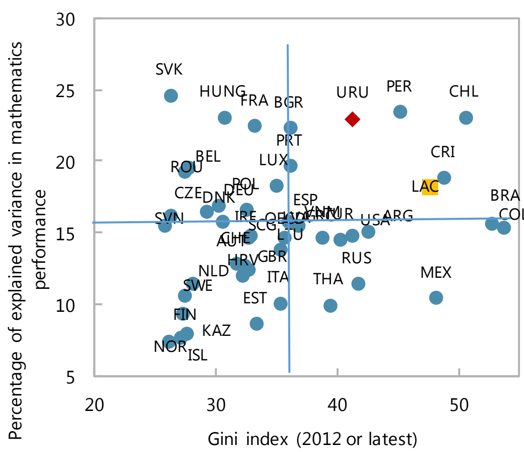
Public Current and Capital Spending, 2015 1/
(Percent of GDP)



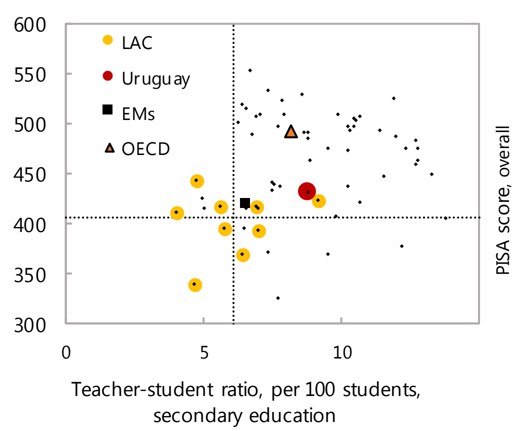
Infrastructure Quality, Latest value available
(1 = best, 144 = worst)



Income inequality and Socio-Economic Background and Performance



Teachers and Outcome, Secondary Education, Latest Value Available



Source: IMF, FAD Expenditure Assessment Tool (EAT); OECD, Pisa 2012 and 2015 databases; and World Bank WDI database.
1/ Coverage refers to general government as per World Economic Outlook metadata.

Table 2. Uruguay: Selected Economic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Projections					
Output, prices, and employment											
Real GDP (percent change)	5.2	3.5	4.6	3.2	1.0	1.2	1.4	2.6	3.4	3.3	3.1
GDP (US$ billions)	48.0	51.3	57.5	57.2	53.1	54.5	58.1	60.7	64.3	67.9	71.7
Unemployment (in percent, eop)	5.6	5.6	6.0	6.5	7.4	7.4	7.9	7.9	7.7	7.4	7.2
Output gap (percent of potential output)	4.1	2.9	3.3	2.7	0.8	-0.6	-1.7	-1.7	-0.9	-0.3	0.0
CPI inflation (in percent, average)	8.1	8.1	8.6	8.9	8.7	9.7	7.9	7.6	7.1	6.6	6.4
CPI inflation (in percent, end of period))	8.6	7.5	8.5	8.3	9.4	8.5	8.3	7.2	6.7	6.4	6.3
Exchange rate (UY$/US$, average)	19.3	20.3	20.5	23.2	27.5	…	…	…	…	…	…
Real effective exchange rate (percent change, eop)	2.4	4.4	7.7	-2.9	1.9	…	…	…	…	…	…
					(Percent change, unless otherwise specified)						
Monetary and banking indicators 1/											
Base money	17.3	26.7	12.9	1.4	7.2	…	…	…	…	…	…
Broader M1 (M1 plus savings deposits)	20.8	11.2	15.0	3.7	5.6	…	…	…	…	…	…
M2	22.1	10.3	13.7	6.4	9.0	…	…	…	…	…	…
Growth of credit to households (in real UY$)	2.1	7.3	9.9	4.7	6.3	…	…	…	…	…	…
Growth of credit to firms (in US$)	26.5	17.5	16.2	6.8	2.8	…	…	…	…	…	…
Bank assets (in percent of GDP)	59.3	57.1	60.8	63.6	72.3	…	…	…	…	…	…
Private credit (in percent of GDP) 2/	23.1	23.5	26.0	27.1	30.1	…	…	…	…	…	…
					(Percent of GDP, unless otherwise specified)						
Public sector indicators											
Revenue 3/	28.1	27.7	29.5	29.1	28.9	29.2	29.2	29.5	29.7	29.7	29.8
Non-interest expenditure 3/	26.4	28.0	29.1	29.5	28.7	29.4	29.3	29.0	28.9	28.9	28.9
Wage bill	4.9	5.0	4.9	5.0	5.0	5.1	5.2	5.1	5.0	5.0	5.0
Primary balance 4/	1.9	-0.2	0.4	-0.6	0.0	-0.4	-0.3	0.3	0.6	0.7	0.8
Structural primary balance 4/	0.7	0.0	-0.9	-1.4	-0.8	-0.6	0.2	0.8	0.9	0.8	0.8
Interest 4/	2.8	2.5	2.7	2.8	3.5	3.4	3.1	3.1	3.1	3.3	3.4
Overall balance 4/	-0.9	-2.7	-2.3	-3.5	-3.6	-3.8	-3.4	-2.9	-2.5	-2.6	-2.6
Gross public sector debt	58.1	58.0	60.2	61.4	64.3	61.1	63.5	64.7	64.3	64.1	64.0
Public sector debt net of liquid financial assets 5/	34.9	34.0	34.4	35.9	39.5	42.6	44.4	44.5	44.3	44.2	44.2
External indicators											
Merchandise exports, fob (US$ millions)	9,274	9,916	10,257	10,343	9,077	8,544	9,204	9,785	10,630	11,297	11,945
Merchandise imports, fob (US$ millions)	10,704	12,277	11,609	11,252	9,340	8,897	9,747	10,476	11,445	12,283	13,127
Terms of trade (percent change)	-0.1	6.4	-0.1	2.8	2.4	1.4	-1.5	-0.8	0.0	-0.1	0.0
Current account balance	-2.7	-5.1	-5.0	-4.5	-2.3	-2.2	-2.3	-2.3	-2.4	-2.5	-2.5
Foreign direct investment	5.2	4.9	5.3	3.8	2.4	2.1	2.2	2.2	2.3	2.3	2.3
Overall balance of payments (US$ millions)	2,564	3,287	2,923	1,360	-1,788	-2,000	420	900	980	950	990
Total external debt + non-resident deposits	39.4	45.0	48.5	51.5	58.3	53.9	54.5	54.9	54.8	54.5	54.8
Of which: External public debt	30.2	30.3	31.9	33.7	37.0	35.1	36.0	36.3	36.3	36.1	36.4
External debt service (in percent of exports of g&s)	21.6	15.7	26.4	22.8	37.5	34.9	30.3	22.4	25.2	25.1	24.4
Gross official reserves (US$ millions)	10,302	13,604	16,279	17,574	15,637	13,637	14,057	14,957	15,937	16,887	17,877
In months of imports of goods and services	9.7	11.1	13.2	14.6	15.7	14.1	13.4	13.2	12.8	12.6	12.4
In percent of:											
Short-term external (STE) debt	212.6	214.9	264.0	241.1	348.2	281.6	400.3	379.7	372.4	371.6	372.1
STE debt plus banks' non-resident deposits	126.2	135.1	158.6	152.9	176.9	151.7	180.9	177.8	176.9	177.3	178.0

Sources: Banco Central del Uruguay, Ministerio de Economia y Finanzas, Instituto Nacional de Estadistica, and Fund staff calculations.

1/ Percent change of end-of-year data on one year ago.

2/ Includes bank and non-bank credit.

3/ Non-financial public sector excluding local governments.

4/ Total public sector. Includes the non-financial public sector, local governments, Banco Central del Uruguay, and Banco de Seguros

5/ Gross debt of the public sector minus liquid financial assets of the public sector. Liquid financial assets are given by deducting from total public sector assets the part of central bank reserves held as a counterpart to required reserves on foreign currency deposits.

Table 3. Balance of Payments and External Sector Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Projections					
(In millions of U.S. dollars, unless otherwise indicated)											
Balance of Payments											
Current account	-1,315	-2,593	-2,861	-2,580	-1,241	-1,194	-1,310	-1,382	-1,538	-1,666	-1,791
Trade balance	-1,431	-2,361	-1,352	-909	-264	-353	-544	-690	-815	-986	-1,183
Exports, f.o.b.	9,274	9,916	10,257	10,343	9,077	8,544	9,204	9,785	10,630	11,297	11,945
Imports, f.o.b.	10,704	12,277	11,609	11,252	9,340	8,897	9,747	10,476	11,445	12,283	13,127
Of which: Fuel products	2,011	2,851	2,055	1,722	1,031	874	1,066	1,176	1,311	1,451	1,564
Of which: Non-fuel products	8,694	9,426	9,554	9,530	8,310	8,023	8,681	9,299	10,134	10,832	11,563
Services balance	1,592	1,189	241	139	394	593	755	893	1,002	1,170	1,356
Exports, f.o.b.	3,642	3,601	3,481	3,345	2,997	3,343	3,640	4,035	4,490	4,992	5,545
Imports, f.o.b.	2,050	2,411	3,240	3,206	2,603	2,750	2,886	3,142	3,487	3,822	4,189
Income balance (net)	-1,631	-1,536	-1,881	-1,941	-1,495	-1,557	-1,645	-1,709	-1,850	-1,973	-2,088
Transfers (net)	156	115	130	131	124	124	124	124	124	124	124
Financial and capital account	4,190	6,286	4,721	4,035	-56	-1,112	1,730	2,282	2,518	2,616	2,780
Foreign direct investment	2,504	2,536	3,032	2,188	1,279	1,170	1,287	1,353	1,476	1,576	1,683
Portfolio investment	1,976	1,643	2,770	1,125	-190	-954	503	802	936	1,003	1,116
Other capital flows (net)	-297	2,064	-1,277	749	-1,317	-1,342	-74	112	92	22	-35
Errors and omissions	-311	-406	1,064	-95	-491	306	0	0	0	0	1
Overall balance	2,564	3,287	2,923	1,360	-1,788	-2,000	420	900	980	950	990
Reserve assets (- increase)	-2,564	-3,287	-2,923	-1,360	1,788	2,000	-420	-900	-980	-950	-990
Reserve Adequacy and External Indicators											
Gross official reserves (stock)	10,302	13,604	16,279	17,574	15,637	13,637	14,057	14,957	15,937	16,887	17,877
In months of imports of goods and services	9.7	11.1	13.2	14.6	15.7	14.1	13.4	13.2	12.8	12.6	12.4
In percent of short-term debt	212.6	214.9	264.0	241.1	348.2	281.6	400.3	379.7	372.4	371.6	372.1
(As percent of GDP)											
Balance of Payments											
Current account	-2.7	-5.1	-5.0	-4.5	-2.3	-2.2	-2.3	-2.3	-2.4	-2.5	-2.5
Trade balance	-3.0	-4.6	-2.4	-1.6	-0.5	-0.6	-0.9	-1.1	-1.3	-1.5	-1.6
Exports of goods	19.3	19.3	17.8	18.1	17.1	15.7	15.8	16.1	16.5	16.6	16.7
Imports of goods	22.3	23.9	20.2	19.7	17.6	16.3	16.8	17.2	17.8	18.1	18.3
Of which: Fuel products	4.2	5.6	3.6	3.0	1.9	1.6	1.8	1.9	2.0	2.1	2.2
Of which: Non-fuel products	18.1	18.4	16.6	16.6	15.6	14.7	14.9	15.3	15.8	15.9	16.1
Services balance	3.3	2.3	0.4	0.2	0.7	1.1	1.3	1.5	1.6	1.7	1.9
Exports	7.6	7.0	6.1	5.8	5.6	6.1	6.3	6.6	7.0	7.4	7.7
Imports	4.3	4.7	5.6	5.6	4.9	5.0	5.0	5.2	5.4	5.6	5.8
Financial and capital account	8.7	12.3	8.2	7.0	-0.1	-2.0	3.0	3.8	3.9	3.9	3.9
Foreign direct investment	5.2	4.9	5.3	3.8	2.4	2.1	2.2	2.2	2.3	2.3	2.3
Portfolio investment (net)	4.1	3.2	4.8	2.0	-0.4	-1.8	0.9	1.3	1.5	1.5	1.6
Other capital flows (net)	-0.6	4.0	-2.2	1.3	-2.5	-2.5	-0.1	0.2	0.1	0.0	0.0
Reserve assets (- increase)	-5.3	-6.4	-5.1	-2.4	3.4	3.7	-0.7	-1.5	-1.5	-1.4	-1.4
Total external debt + non-resident deposits	39.4	45.0	48.5	51.5	58.3	53.9	54.5	54.9	54.8	54.5	54.8
Of which: Short-term debt (residual maturity)	10.1	12.3	10.7	12.7	8.5	8.9	6.0	6.5	6.7	6.7	6.7
Of which: External public debt	30.2	30.3	31.9	33.7	37.0	35.1	36.0	36.3	36.3	36.1	36.4
(As percent of annual exports of goods and services)											
External Debt											
Total external debt (including non-resident deposits)	142.0	178.8	194.3	205.3	235.6	248.7	239.5	236.3	228.5	223.0	220.3
Debt service	21.6	15.7	26.4	22.8	37.5	34.9	30.3	22.4	25.2	25.1	24.4
Of which: Interest payments	6.7	5.4	6.6	6.3	6.7	5.2	6.1	2.4	4.2	3.9	3.3
(Annual percent changes)											
External Trade											
Exports of goods in US$	15.5	6.9	3.4	0.8	-12.2	-5.9	7.7	6.3	8.6	6.3	5.7
Imports of goods in US$	25.1	14.7	-5.4	-3.1	-17.0	-4.7	9.6	7.5	9.3	7.3	6.9
Export prices in US$	12.9	5.1	-1.4	0.4	-9.7	-2.8	2.4	0.4	1.0	1.0	0.9
Import prices in US$	13.0	-1.2	-1.2	-2.4	-11.9	-4.2	4.0	1.2	1.0	1.1	0.5
Terms of trade for goods	-0.1	6.4	-0.1	2.8	2.4	1.4	-1.5	-0.8	0.0	-0.1	0.0
Export volume (goods and non-factor services)	6.7	-0.4	0.4	-2.7	-7.1	-1.6	3.8	5.2	6.5	5.0	4.7
Import volume (goods and non-factor services)	12.5	16.0	1.9	-1.2	-9.0	-0.6	4.8	6.2	8.2	6.4	6.6
Export volume (goods)	2.3	1.7	4.9	0.4	-2.8	-3.2	5.2	5.9	7.5	5.2	4.8
Import volume (goods)	10.7	16.1	-4.3	-0.7	-5.8	-0.6	5.4	6.2	8.2	6.2	6.4
Of which: Non-fuel products	13.4	-1.4	12.2	2.6	-7.1	-0.8	5.9	6.2	8.2	5.9	6.2
Of which: Fuel products	-4.1	40.4	-27.3	-9.4	13.4	0.2	3.5	5.2	8.7	7.1	5.2

Sources: Banco Central del Uruguay and Fund staff calculations and projections.

Table 4. Uruguay: Main Fiscal Aggregates

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Projections					
	(In billions of pesos, unless otherwise indicated)										
I. Primary balance of the non-financial public sector (A+B+C)	18.6	-1.3	5.4	-7.3	0.9	-5.2	-3.3	6.9	14.9	18.1	22.0
A. Primary balance of central government, BPS and NFPE 1/ 2/	16.1	-2.4	4.4	-4.6	3.2	-3.0	-1.0	8.6	16.8	20.2	24.4
Revenues	260.2	288.6	347.4	387.2	422.3	472.9	515.9	572.1	635.3	699.1	769.1
Taxes	175.0	191.3	222.5	244.2	263.3	297.4	334.6	368.6	407.1	447.8	493.4
Non tax	15.5	16.2	20.9	21.6	23.4	25.4	27.6	30.4	33.5	36.7	40.2
Social security	59.9	72.6	86.0	101.0	108.7	121.3	130.3	144.3	159.4	175.2	192.2
NFPE operating balance 2/	9.8	8.5	18.0	20.4	26.8	28.8	23.3	28.7	35.4	39.4	43.4
Primary expenditures	244.1	291.0	343.1	391.9	419.1	475.8	516.9	563.5	618.5	678.9	744.8
Current	219.5	261.9	302.6	348.9	385.4	435.4	474.5	514.9	565.0	620.1	680.3
Capital	24.6	29.1	40.4	43.0	33.7	40.5	42.3	48.5	53.5	58.8	64.5
B. Primary balance of local governments	0.9	-0.8	-0.8	-2.0	1.7	1.0	1.1	1.2	1.3	1.4	1.5
C. Primary balance of BSE 3/	1.6	1.9	1.8	-0.6	-4.0	-3.2	-3.4	-2.9	-3.2	-3.5	-3.9
II. Primary balance of the BCU 4/	-0.8	-0.4	-0.8	-1.0	-1.4	-1.5	-1.6	-1.7	-1.9	-2.1	-2.3
III. Primary balance of the public sector (I+II)	17.8	-1.8	4.6	-8.2	-0.5	-6.7	-4.9	5.1	13.0	16.0	19.7
IV. Interest	26.2	26.4	31.9	37.9	51.8	55.0	55.6	60.5	66.3	76.4	87.3
of which: BCU 4/	4.2	3.0	4.4	7.4	18.4	11.7	8.1	7.6	7.6	9.3	10.6
V. Overall balance of the public sector (III-IV)	-8.4	-28.1	-27.4	-46.1	-52.3	-61.6	-60.4	-55.4	-53.3	-60.4	-67.6
	(In percent of GDP, unless otherwise indicated)										
I. Primary balance of the non-financial public sector (A+B+C)	2.0	-0.1	0.5	-0.5	0.1	-0.3	-0.2	0.4	0.7	0.8	0.9
A. Primary balance of central government, BPS and NFPE 1/ 2/	1.7	-0.2	0.4	-0.3	0.2	-0.2	-0.1	0.4	0.8	0.9	0.9
Revenues	28.1	27.7	29.5	29.1	28.9	29.2	29.2	29.5	29.7	29.7	29.8
Taxes	18.9	18.4	18.9	18.4	18.0	18.4	19.0	19.0	19.0	19.0	19.1
Non tax	1.7	1.6	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Social security	6.5	7.0	7.3	7.6	7.4	7.5	7.4	7.4	7.4	7.5	7.5
NFPE operating balance 2/	1.1	0.8	1.5	1.5	1.8	1.8	1.3	1.5	1.7	1.7	1.7
Primary expenditures	26.4	28.0	29.1	29.5	28.7	29.4	29.3	29.0	28.9	28.9	28.9
Current	23.7	25.2	25.7	26.2	26.4	26.9	26.9	26.5	26.4	26.4	26.4
Capital	2.7	2.8	3.4	3.2	2.3	2.5	2.4	2.5	2.5	2.5	2.5
B. Primary balance of local governments	0.1	-0.1	-0.1	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
C. Primary balance of BSE 3/	0.2	0.2	0.2	0.0	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2
II. Primary balance of BCU 4/	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
III. Primary balance of the public sector (I+II)	1.9	-0.2	0.4	-0.6	0.0	-0.4	-0.3	0.3	0.6	0.7	0.8
IV. Interest	2.8	2.5	2.7	2.8	3.5	3.4	3.1	3.1	3.1	3.3	3.4
Of which: BCU 4/	0.5	0.3	0.4	0.6	1.3	0.7	0.5	0.4	0.4	0.4	0.4
V. Overall balance of the public sector (III-IV)	-0.9	-2.7	-2.3	-3.5	-3.6	-3.8	-3.4	-2.9	-2.5	-2.6	-2.6
Memorandum Items:											
GDP (in billions of pesos)	926	1,041	1,178	1,331	1,460	1,618	1,764	1,940	2,142	2,351	2,579

Sources: Ministerio de Economia y Finanzas, Banco Central del Uruguay, and Fund staff calculations.
1/ Banco de Prevision Social (BPS).
2/ Non-financial public enterprises (NFPE).
3/ Banco de Seguros del Estado (BSE).
4/ Banco Central del Uruguay (BCU).

Table 5. Public Sector Debt and Assets 1/

	2011	2012	2013	2014	2015	2016	2017	2019	2020	2021
						Projections				
	(In billions of U.S. dollars, unless otherwise indicated)									
Public Sector Debt										
Gross debt of the public sector	27.0	31.1	33.1	33.5	31.4	33.5	35.8	40.5	42.7	45.0
of which:										
Non-financial public sector debt	20.8	23.5	23.8	24.5	25.6	28.1	29.7	32.9	34.5	36.3
Central bank debt	6.2	7.7	9.3	9.1	5.8	5.5	6.1	7.6	8.2	8.7
External debt of the public sector	14.1	16.2	17.6	18.4	18.1	19.2	20.3	22.9	24.1	25.6
Domestic debt of the public sector	13.0	14.9	15.5	15.1	13.3	14.3	15.5	17.7	18.7	19.4
Public Sector Assets										
Gross assets of the public sector	13.6	17.2	19.8	21.0	18.9	16.9	17.2	19.3	20.3	21.3
of which:										
Financial assets of the non-financial public sector	2.5	2.8	2.7	2.5	2.3	2.3	2.3	2.4	2.5	2.5
Reserve assets of the central bank	11.2	14.4	17.1	18.5	16.6	14.6	15.0	16.9	17.8	18.8
Liquid reserve assets of the central bank	8.3	10.1	11.5	11.4	9.8	7.9	8.5	10.2	10.8	11.4
Liquid assets of the public sector 2/	10.8	12.9	14.2	13.9	12.1	10.2	10.8	12.6	13.3	13.9
Net Public Sector Debt										
Gross debt minus liquid financial assets 2/	16.2	18.3	18.9	19.6	19.3	23.3	25.1	27.9	29.5	31.1
Authorities' definition 3/	13.4	13.9	13.3	12.5	12.5	16.7	18.6	21.3	22.5	23.7
	(In percent of GDP, unless otherwise indicated) 1/									
Public Sector Debt										
Gross debt of the public sector	58.1	58.0	60.2	61.4	64.3	61.1	63.5	64.3	64.1	64.0
of which:										
Non-financial public sector debt	44.7	43.7	43.3	44.8	52.4	51.2	52.7	52.2	51.8	51.6
Central bank debt	13.4	14.3	16.9	16.6	11.9	9.9	10.8	12.1	12.3	12.4
External debt of the public sector	30.2	30.3	31.9	33.7	37.0	35.1	36.0	36.3	36.1	36.4
Domestic debt of the public sector	27.9	27.7	28.3	27.7	27.3	26.0	27.5	28.0	28.0	27.5
Public Sector Assets										
Gross financial assets of the public sector	29.3	32.1	36.0	38.5	38.6	30.7	30.5	30.5	30.4	30.3
of which:										
Financial assets of the non-financial public sector	5.3	5.2	4.8	4.7	4.7	4.2	4.0	3.8	3.7	3.6
Liquid assets of the public sector 2/	23.2	24.0	25.7	25.5	24.7	18.5	19.1	20.0	19.9	19.8
Net Public Sector Debt										
Gross debt minus liquid financial assets 2/	34.9	34.0	34.4	35.9	39.5	42.6	44.4	44.3	44.2	44.2
Authorities' definition 3/	28.8	25.9	24.2	22.9	25.6	30.4	32.9	33.7	33.7	33.7
Memorandum Items										
Real revenues growth (in percent)	3.6	8.1	6.8	4.8	4.3	3.3	3.3	3.3	3.3	3.3
Real primary spending growth (in percent)	3.0	11.1	5.3	4.8	4.0	3.4	3.4	3.4	3.4	3.4
GDP (in billions of pesos)	926	1,041	1,178	1,331	1,460	1,618	1,764	2,142	2,351	2,579

Sources: Ministerio de Economia y Finanzas, Banco Central del Uruguay, and Fund staff calculations.

1/ Stocks are converted into pesos using the end of period exchange rate and divided by GDP.

2/ Liquid financial assets are given by deducting from total public sector assets the part of central bank reserves held as a counterpart to required reserves on foreign

3/ Gross debt minus total financial assets of the public sector.

Table 6. Statement of Operations of the Central Government 1/

	2010	2011	2012	2013	2014	2015
	(In percent of GDP, based on the 2001 GFS Manual)					
Revenue	29.9	30.0	30.0	31.1	28.9	30.3
Taxes	18.9	19.1	18.8	19.0	18.6	18.5
Social contributions	8.9	9.1	9.7	10.1	8.5	10.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.1	1.8	1.5	2.0	1.8	1.5
Expense	29.4	29.1	30.5	31.2	29.8	31.8
Compensation of employees	6.8	6.9	7.1	7.2	7.4	7.3
Use of goods and services	3.7	3.4	3.5	3.7	3.7	3.4
Consumption of fixed capital 2/	....	....	....	0	0	0
Interest	2.4	2.4	2.3	2.4	2.3	2.2
Subsidies	0.2	0.2	0.3	0.2	0.2	0.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	13.4	13.4	14.2	14.5	13.3	15.2
Other expenses	2.9	2.7	3.1	3.2	2.9	3.3
Net acquisition of nonfinancial assets	1.4	1.5	1.4	1.4	1.4	1.2
Gross operating balance	0.5	0.9	-0.6	-0.1	-0.9	-1.5
Net operating balance 2/	....	....	....	-0.1	-0.9	-1.5
Net lending (+) borrowing (-)	-0.9	-0.6	-2.0	-1.5	-2.3	-2.7
Net acquisition of financial assets	-2.3	3.5	0.7	-0.3	0.2	2.1
By instrument						
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-2.1	3.2	0.2	-0.9	0.7	1.8
Debt securities	0.1	0.3	0.0	-0.1	0.0	-0.1
Loans	-0.3	-0.1	0.4	0.8	-0.4	0.4
Equity and shares	0.0	0.0	0.0	0.0	0.0	0.0
By residency						
Domestic	-2.3	3.2	0.2	-0.3	0.2	2.1
External	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-1.2	4.1	2.7	1.3	2.5	5.1
By instrument						
SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	4.6	2.2	2.1	2.3	4.9
Loans	-1.1	-0.5	0.5	-0.8	0.2	0.2
Equity and shares	0.0	0.0	0.0	0.0	0.0	0.0
By residency						
Domestic	-0.8	4.3	0.6	-1.4	0.1	3.0
External	-0.4	-0.2	2.1	2.7	2.5	2.1
Memorandum items:						
Public sector net lending (+) borrowing (-)	-1.4	-0.9	-2.7	-2.3	-3.5	-3.6
Public sector primary balance	1.5	1.9	-0.2	0.4	-0.6	0.0

Sources: Banco Central del Uruguay, and Fund staff calculations.

1/ Central government and Social Security Bank. Collection of above the line data for municipalities is not feasible at this moment. 2013, 2014 and 2015 below the line data is not consolidated.

2/ Not compiled by the authorities until 2013.

Table 7. Central Government Stock Positions 1/

	2010	2011	2012	2013	2014	2015
	(In percent of GDP, based on the 2001 GFS Manual)					
Net financial worth	-35.6	-35.0	-33.5	-33.8	-35.3	-41.6
Financial assets	8.6	10.4	9.9	8.9	9.1	9.5
By instrument						
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	4.4	6.8	6.6	4.7	5.3	5.8
Debt securities	2.0	2.5	2.5	2.2	2.2	2.1
Loans	1.6	0.6	0.5	1.7	1.2	1.3
Equity and shares	0.6	0.5	0.4	0.3	0.3	0.3
By residency						
Domestic	8.6	10.3	9.9	8.9	9.1	9.5
External	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	44.2	45.4	43.4	42.7	44.4	51.0
By instrument						
SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	32.5	34.6	34.3	35.1	37.0	44.1
Loans	11.7	10.7	9.1	7.6	7.4	6.9
Equity and shares	0.0	0.0	0.0	0.0	0.0	0.0
By residency						
Domestic	17.9	21.0	19.4	16.9	16.9	19.4
External	26.3	24.3	24.0	25.9	27.5	31.7

Sources: Banco Central del Uruguay, and Fund staff calculations.

1/ Central government and Social Security Bank. 2013, 2014 and 2015 data is not consolidated.

Table 8. Monetary Survey

	2011	2012	2013	2014	2015	2016 1/
	(End of period, in billions of pesos)					
Banco Central del Uruguay (BCU)						
Net foreign assets	205.4	254.4	330.6	407.8	458.1	413.7
Net international reserves 2/	205.0	263.9	348.2	427.2	467.0	410.9
Other net foreign assets	0.4	-9.5	-17.6	-19.4	-8.9	2.8
Net domestic assets	-123.7	-155.0	-211.7	-288.7	-354.6	-318.2
Net credit to the public sector	22.2	43.0	75.6	70.8	31.4	41.5
Net credit to the financial system	-51.8	-82.5	-128.9	-192.2	-250.5	-232.3
Credit to the private sector	0.3	0.3	0.3	0.5	0.6	0.6
Securities issued by the BCU	-120.5	-155.2	-202.4	-202.0	-126.4	-110.4
Other	27.5	36.8	28.2	8.5	-50.5	-54.7
Peso monetary liabilities 3/	81.7	99.4	118.9	119.1	103.5	95.5
Public and Private Banks 4/						
Net foreign assets	94.8	70.9	64.7	74.2	144.5	189.2
Net domestic assets	287.3	346.2	438.3	530.6	615.2	596.8
Net credit to the public sector	25.8	25.1	19.9	33.3	37.7	33.9
Net credit to the financial system	110.8	148.6	190.2	231.7	251.3	252.4
Credit to the private sector	213.4	243.9	305.9	359.3	437.8	422.7
Other	-62.7	-71.4	-77.7	-93.6	-111.7	-112.1
Liabilities to the private sector (residents)	382.1	417.1	503.0	604.8	759.6	786.0
Public banks	3.5	4.2	4.4	4.2	3.6	...
Local currency	70.5	82.0	94.0	101.3	107.7	...
Foreign currency	121.1	131.6	163.2	210.1	270.9	...
Private banks	2.9	3.0	3.1	3.0	2.9	...
Local currency	57.2	59.1	66.5	72.4	86.8	...
Foreign currency	133.3	144.4	179.2	221.0	294.2	...
Banking System (Central, Private, and Public Banks)						
Net foreign assets	300.2	325.3	395.3	482.0	602.6	602.9
Net domestic assets	102.8	115.0	133.8	148.4	177.3	240.1
Credit to the public sector	48.0	68.1	95.5	104.1	69.1	75.4
Credit to the rest of financial system	-62.2	-77.7	-118.9	-138.7	-134.6	-115.2
Credit to the private sector	213.7	244.2	306.7	360.3	439.0	423.3
Other	-96.7	-119.6	-149.6	-177.3	-196.2	-143.3
Broad money (M-3)	403.0	440.4	529.1	630.3	780.0	796.1
	(In percent of total private credit) 5/					
Composition of Credit						
Credit to firms	55.1	56.8	57.4	59.3	61.3	59.8
Credit to households	44.9	43.2	42.6	40.7	38.7	40.2
Consumption	62.1	63.7	63.1	61.8	61.2	60.0
Car loans	0.6	0.7	1.0	1.3	1.4	1.7
Mortgages	37.3	35.6	35.9	36.9	37.5	38.4
	(Percentage change) 6/					
Memorandum Items:						
Base money	17.3	26.7	12.9	1.4	7.2	9.3
M-1	19.2	9.2	13.1	1.0	5.2	4.6
Broader M-1 (M1 plus savings deposits)	20.8	11.2	15.0	3.7	5.6	5.7
M-2	22.1	10.3	13.7	6.4	9.0	14.8
M-3	18.0	10.0	19.2	19.3	23.7	6.5
Credit to firms (in US$)	26.5	17.5	16.2	6.8	2.8	0.2
Credit to households (in real UY$) 6/	2.1	7.3	9.9	4.7	6.3	2.6

Source: Banco Central del Uruguay.

1/ Latest available data (September 2016).

2/ Includes all outstanding liabilities to the IMF, but excludes liabilities to resident financial institutions.

3/ Peso monetary liabilities include base money and non-liquid liabilities.

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

4/ Includes credit to households from banks and credit cooperatives.

5/ For 2016, latest available data (October 2016).

6/ Percent change since one year ago. In pesos, unless indicated otherwise. Credit data at end-October 2016.

Table 9. Medium-Term Macroeconomic Framework

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Projections					
	(Annual percent change, unless otherwise indicated)										
National Accounts											
Real GDP	5.2	3.5	4.6	3.2	1.0	1.2	1.4	2.6	3.4	3.3	3.1
Total domestic demand	7.4	6.9	5.3	2.3	-1.4	1.4	1.8	3.1	4.2	3.9	3.9
Final consumption expenditure	6.7	5.0	5.5	2.9	0.3	1.0	2.0	2.7	4.2	3.8	3.6
Private final consumption expenditure	7.2	4.9	5.5	3.0	0.0	0.7	2.2	3.1	4.4	3.9	3.6
Public final consumption expenditure	3.7	6.0	4.9	2.5	2.6	2.9	1.2	-0.2	2.4	3.6	3.9
Gross capital formation	9.9	14.5	4.8	0.0	-7.7	3.0	1.1	4.8	4.0	4.2	5.0
Gross fixed capital formation	7.0	18.2	3.8	2.4	-8.2	3.0	1.1	4.8	4.0	4.2	5.0
Private fixed capital formation	11.5	21.9	2.1	-2.8	-7.0	1.0	2.0	4.2	4.2	4.5	5.5
Public fixed capital formation	-9.9	0.5	13.6	28.7	-12.5	11.3	-2.4	6.9	3.4	3.3	3.2
Change in inventories (contribution to growth)	0.6	-0.6	0.2	-0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth)	-2.4	-3.8	-1.1	0.7	2.5	-0.2	-0.6	-0.7	-1.1	-0.9	-1.1
Consumer Prices											
CPI inflation (average)	8.1	8.1	8.6	8.9	8.7	9.7	7.9	7.6	7.1	6.6	6.4
CPI inflation (end of period)	8.6	7.5	8.5	8.3	9.4	8.5	8.3	7.2	6.7	6.4	6.3
Core CPI inflation (average)						...	...	...	...	...	...
Balance of Payments											
Current account balance (percent of GDP)	-2.7	-5.1	-5.0	-4.5	-2.3	-2.2	-2.3	-2.3	-2.4	-2.5	-2.5
Exports of goods and services (volume)	5.8	3.6	-0.1	3.5	-1.2	-1.6	3.8	5.2	6.5	5.0	4.7
Export of goods (volume)	2.3	1.7	4.9	0.4	-2.8	-3.2	5.2	5.9	7.5	5.2	4.8
Imports of goods and services (volume)	12.5	16.0	1.9	-1.2	-9.0	-0.6	4.8	6.2	8.2	6.4	6.6
Imports of goods (volume)	10.7	16.1	-4.3	-0.7	-5.8	-0.6	5.4	6.2	8.2	6.2	6.4
Terms of trade (goods)	94.1	100.2	100.0	102.8	105.3	106.9	105.3	104.4	104.5	104.4	104.8
	(In percent of GDP, unless otherwise indicated)										
Public Sector Finance											
Primary balance 1/	1.9	-0.2	0.4	-0.6	0.0	-0.4	-0.3	0.3	0.6	0.7	0.8
Revenue 2/	28.1	27.7	29.5	29.1	28.9	29.2	29.2	29.5	29.7	29.7	29.8
Primary expenditure 2/	26.4	28.0	29.1	29.5	28.7	29.4	29.3	29.0	28.9	28.9	28.9
Structural primary balance	0.7	0.0	-0.9	-1.4	-0.8	-0.6	0.2	0.8	0.9	0.8	0.8
Overall balance	-0.9	-2.7	-2.3	-3.5	-3.6	-3.8	-3.4	-2.9	-2.5	-2.6	-2.6
Public sector gross debt	58.1	58.0	60.2	61.4	64.3	61.1	63.5	64.7	64.3	64.1	64.0
Gross Debt (NFPS)	44.7	43.7	43.3	44.8	52.4	51.2	52.7	52.8	52.2	51.8	51.6
Assets of the public sector	29.3	32.1	36.0	38.5	38.6	30.7	30.5	30.6	30.5	30.4	30.3
Liquid assets of the public sector 3/	23.2	24.0	25.7	25.5	24.7	18.5	19.1	20.2	20.0	19.9	19.8
Net public sector debt (gross debt minus liquid assets)	34.9	34.0	34.4	35.9	39.5	42.6	44.4	44.5	44.3	44.2	44.2
External Debt											
Gross external debt	39.4	45.0	48.5	51.5	58.3	53.9	54.5	54.9	54.8	54.5	54.8
Public sector gross external debt	31.0	31.0	32.8	34.7	38.8	36.7	37.3	37.8	37.6	37.4	37.6
Gross international reserves (US$ billions)	10.3	13.6	16.3	17.6	15.6	13.6	14.1	15.0	15.9	16.9	17.9
Saving and Investment											
Gross domestic investment	20.9	22.9	22.5	21.2	19.8	20.1	19.8	20.1	20.1	20.2	20.4
Public sector gross investment	3.6	3.8	4.2	4.9	4.5	4.9	4.7	4.9	4.9	4.9	4.9
Private sector gross investment	17.3	19.1	18.3	16.3	15.3	15.2	15.1	15.2	15.2	15.3	15.5
Gross national saving	18.1	17.9	17.5	16.7	17.5	17.9	17.6	17.8	17.7	17.7	17.9
Public sector gross saving	1.8	0.1	1.1	-0.2	-1.3	-1.3	-1.0	-0.4	0.0	-0.1	-0.1
Private sector gross saving	16.4	17.8	16.4	16.9	18.8	19.2	18.6	18.2	17.7	17.8	18.0
Unemployment and Output Gap											
Unemployment rate (percent)	6.3	6.3	6.5	6.6	7.5	7.5	8.0	8.0	7.7	7.4	7.2
Output gap (percent of potential output)	4.1	2.9	3.3	2.7	0.8	-0.6	-1.7	-1.7	-0.9	-0.3	0.0

Sources: Banco Central del Uruguay, Haver Analytics and Fund staff calculations.
1/ Total public sector. Includes the non-financial public sector, local governments, Banco Central del Uruguay, and Banco de Seguros del Estado.
2/ Non-financial public sector excluding local governments.
3/ Liquid financial assets are given by deducting from total public sector assets the part of central bank reserves held as a counterpart to required reserves on foreign currency deposits.

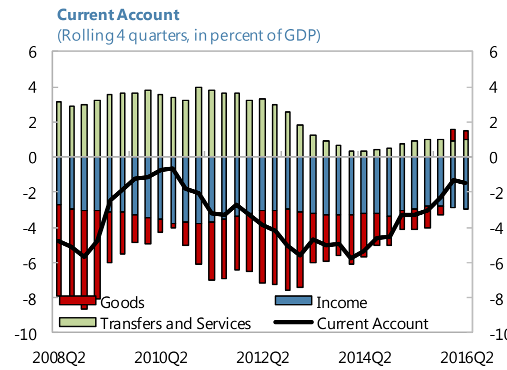
Annex I. Uruguay—External Stability Assessment

Uruguay's current account deficit (CAD) has narrowed in 2015–16 on the back of slowing domestic demand and low oil prices, which overshadowed lower export receipts on account of the ongoing difficult external environment. The current account deficit improved by 2 percentage points of GDP, to 2.3 percent, in 2015 as the economy cooled down after several years of high growth, low fuel prices reduced the oil import bill, and the Montes del Plata pulp mill launched its first full year of production, supporting exports amidst the regional slowdown. The external services balance picked up slightly in 2015, albeit remaining far from the 3 percent of GDP average surpluses of 2009–12, as the surge of Uruguayan tourist spending in Argentina abated in the face of the economic slowdown and significant nominal depreciation of the Uruguayan peso against the U.S. dollar, while the latter prompted an uptick in Argentine visitors to Uruguay. In 2016, the CAD is estimated to have remained at about 2.2 percent of GDP, as the persistence of low international oil prices and further slowdown in domestic demand have lowered the import bill more than enough to offset the fall in exports from low commodity export prices and the recession in Argentina and Brazil. Furthermore, a record summer tourist season from Argentinians visiting Uruguay, and a further reduction in Uruguayan cross-border travelers, drew in net tourism receipts of ¾ percent of GDP in the first quarter of 2016—almost equivalent to total net receipts in 2015. Staff projects the CAD will remain at about 2.3 percent of GDP in 2017, as favorable terms of trade and a projected recovery in regional trade partners counteracts an expected pickup in domestic activity and oil prices.

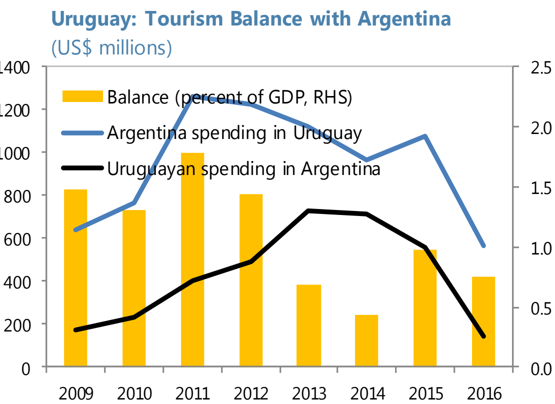
Uruguay: Merchandise Trade Balance

	2012	2013	2014	2015	2016 1/
	(in percent of GDP)				
Trade balance	-4.6	-2.4	-1.6	-0.5	0.5
Exports	19.3	17.8	18.1	17.0	16.8
Imports	23.9	20.2	19.7	17.5	16.3
Fuel	7.2	3.5	2.6	1.6	1.2
Non-fuel	16.8	16.7	17.1	15.8	15.1
Capital	3.0	3.4	3.7	3.4	3.1
Consumptior	5.2	4.9	5.1	5.0	5.0
Intermediary	8.6	8.4	8.2	7.4	7.0

Sources: Banco Central del Uruguay and Fund staff calculations.
1/ 4 quarters through 2016Q2



Sources: Haver Analytics, Central Bank data, and Fund staff calculations.



Sources: Banco Central del Uruguay

FDI inflows have slowed since 2014, but continue to fully finance Uruguay's current account deficit, while portfolio and other financial flows turned negative in 2015 and through mid-2106. Despite a late downward revision to inward FDI in 2015 (matched by a commensurate decrease in current account income payments), inflows of 2.4 percent of GDP were sufficient to fully finance the CAD. In the first half of 2016, despite slowing relative to 2015, FDI inflows were eight times the amount of the CAD. On the other hand, portfolio investment flows recorded a fifth consecutive quarter of net outflows in the second quarter of 2016, with non-resident sales of Uruguayan assets and resident purchases of foreign assets yielding net outflows of US$ 2.9 billion in the first half. This trend has reversed in the second half of 2016, with the Uruguayan Treasury's issuance of a US$ 1.2 billion global bond, and significant portfolio capital inflows putting upward pressure on the peso. Other capital flows have been more volatile, with asset and liability outflows in the first quarter of 2016 followed by inflows of the same in the second, as the peso stabilized and reversed course.

After depreciating by 23 percent against the U.S. dollar in 2015, the peso fell another 8 percent in the first three months of 2016 in conjunction with the portfolio and other capital outflows mentioned above, and in line with the trend among emerging markets (EMs). From April onwards, however, the currency stabilized and has reversed course, wiping out the depreciation of early 2016, and recording a year-to-date appreciation of 6 percent as of end October. The central bank of Uruguay intervened in the foreign exchange market to buy pesos in early 2016, and thereafter to buy U.S. dollars, with the aim of curbing excessive volatility and disorderly market conditions in the relatively small domestic foreign exchange market.

Staff estimates that the real effective exchange rate remains in line with fundamentals. The REER appreciated by 6 percent during January–September, 2016 (masking a real appreciation of 12 percent against Argentina, and a real depreciation of 11 percent against Brazil). The exchange rate is close to its estimated norm. The EBA current account model (based on results from October 2016) indicated a cyclically-adjusted current account norm of -3.6 percent of GDP, larger than the -2.1 percent of GDP cyclically-adjusted current account deficit (CAD) estimated for 2016, suggesting a 3½ percent undervaluation. The contribution of policy variables to the gap between the projected cyclically adjusted CAD and the norm was minimal, with the bulk owing to an unexplained residual.[1] This large residual may partly be due to an underestimation by the model of the cyclical impact on Uruguay of a recession in its two large neighbors, Argentina and Brazil, causing an overestimation of the cyclically adjusted current account deficit norm. Calculations based on the EBA external stability approach, on the other hand, suggest a 2.8 percent overvaluation, as a CAD of -1.3 percent of GDP would be required to stabilize Uruguay's net foreign assets to GDP ratio in the medium term, while staff's medium-term CAD projection currently stands at -2½ percent of GDP.

Uruguay: Exchange Rate Assessment

	Deviation from equilibrium (in percent) 1/	CA norm	CA projection	Difference
I. EBA - Current Account Model 2/ 4/	-3.6	-3.6 5/	-2.1 5/	1.5
II. External Sustainability (ES) approach 3/ 4/	2.8	-1.3 6/	-2.5 7/	-1.2

Source: Fund staff calculations
1/ Positive values indicate overvaluation.
2/ Based on the October 2016 EBA results.
3/ Desk calculations based on the EBA ES approach.
4/ Using a CA elasticity of 0.415 (see IMF Country Report No. 15/81).
5/ Cyclically-adjusted.
6/ CAD required to stabilize NFA in the medium-term.
7/ 2021 CAD projection.

External stability risks for Uruguay remain contained. As of end-October, gross reserves had declined by US$ 1.6 billion since the start of 2016 to US$ 13.97 billion. Despite this, reserves remain well above the upper bound of the IMF reserve adequacy metric range, and various other prudential benchmarks. The sum of the foreign assets of the central bank and commercial banks far exceeds

[1] The total contribution of identified policy gaps was -0.1, while the gap between the projected CA and norm was 1.5, yielding an unexplained residual of 1.6.

the sum of non-resident deposits and short-term external debt, and is also sufficient to fully cover the sum of foreign currency denominated bank deposits (resident and non-resident) and short-term external debt. Furthermore, gross reserves excluding commercial banks' reserves held at the BCU amount to US$ 7.5 billion, still within the adequacy range for total gross reserves. Given the solid level of reserves, and the financing of the CAD through relatively stable FDI inflows, external stability risks remain contained. Finally, although the net international investment position has worsened since 2007–11, this has primarily been due to an increase in FDI liabilities.

Uruguay: Gross International Reserves

In billions of U.S. dollars (October 31, 2016)	14.0
In months of imports (2016)	14.8
In percent of:	
GDP (2016) 1/	25.2
Short-term external (STE) debt (2016)	193.7
STE debt and foreign currency deposits (2016)	52.8
STE debt and nonresident deposits (2016)	115.9
M2 (latest)	203.0
M3 (latest)	52.2
Memo items:	
IMF's new reserve adequacy metric range in US$, billions (2015 Q4) 2/	6.6 to 9.9
Banks' gross foreign assets (US$, billions, 2016)	12.3
Ratio of gross reserves plus banks' foreign assets to STE debt and foreign currency deposits (percent)	99.2

Sources: Banco Central del Uruguay and Fund staff calculations.

1/ Reserves-to-GDP ratio calculated after converting GDP to U.S. dollars.

2/ Reserve adequacy metric range is the minimum reserve adequacy to 1.5 times the minimum.

Annex II. Uruguay—Public Sector Debt Sustainability Analysis (DSA)

Uruguay is one of very few countries to report debt figures on a consolidated basis for the whole public sector, excluding public commercial banks but including the central bank. This broad institutional coverage yields public gross financing needs and debt ratios that are higher than the DSA benchmarks for higher scrutiny countries.[1] *Under the baseline scenario, gross debt of Uruguay's public sector is projected to stabilize around 64 percent of GDP in 2021. The long average maturity and favorable currency composition of the debt, as well as the high level of liquid financial assets of the public sector—24.8 percent of GDP at end-2015—mitigate short-term financing risks.*

The gross debt of the public sector has a wide coverage. It includes:[2]

- *Central government debt*, which stood at 47 percent of GDP at end-2015. The average maturity of central government debt exceeds 14 years. Because of valuation effects and a large issuance in U.S. dollar in October 2015, the share of local currency denominated debt decreased from 52 to 45 percent in 2015.
- *Central bank debt*, which declined from 17 to 12 percent of GDP in 2015, as the BCU used the proceeds of sales of reserves to reduce its debt. The debt of the central bank mostly consists of short-term securities issued to manage liquidity. About 63 percent of central bank debt is denominated in local currency.
- *Public enterprises' debt*, which stood at 4 percent of GDP at end-2015.
- *And the debt of local governments and other public sector entities (such as Banco de Seguros del Estado)*, which represented less than one percent of GDP at end-2015.

Overall, close to 46 percent of the debt of the public sector at end-2015 was in local currency, 66 percent of which was in CPI-indexed units.

The public sector holds sizable gross financial assets (including international reserves), amounting to 38.7 percent of GDP at end-2015. In addition, the government has access to contingent credit lines from multilateral institutions which represented 4.4 percent of GDP in 2015.

- *The total financial assets of the central bank (including foreign reserve assets, at 32 percent of GDP)* reached close to 34 percent of GDP at end-2015. About 14 percentage points of GDP in reserves were the counterpart to reserve requirements on foreign currency bank deposits.
- *The financial assets of the non-financial public sector* amounted to 4.7 percent of GDP at end-2015, most of which held in liquid instruments (e.g., securities and deposits), in line with the government's prefunding policy of holding enough liquid assets to cover at least 12 months of debt service.

[1] See IMF, *Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries*, May, 9 2013.

[2] The numbers for the debt and assets of various components of the public sector are pre-consolidated and exclude debt and assets vis-à-vis other public sector entities.

The net debt of the public sector, defined as gross debt minus liquid assets, stood at 39.5 percent of GDP at the end of 2015. The stock of liquid assets of the public sector is computed as total gross public sector assets minus the reserves held by banks at the BCU against foreign currency deposits. This stock stood at 24.8 percent of GDP at end-2015.

Baseline scenario

Despite the slowdown, the low level of real interest rates implies a negative interest rate/growth differential in 2016, contributing to a decrease in the gross debt of the public sector. The appreciation of the peso vis-à-vis the U.S. dollar in the second-half of 2016 is also expected to reduce gross debt. Net debt is however projected to increase in 2016, as the central bank's reserves decrease and banks' reserves at the BCU remain stable. Both gross and net debts increase again in 2017 and 2018, before stabilizing since the primary balance improves , as a result of the fiscal adjustment. Public gross financing needs decrease in 2017 before temporarily rising again over the medium term, as global interest rates increase and gross debt rises.

Assuming that real GDP growth, real interest rates, and other identified debt-creating flows remain at the level projected for 2021, the debt-stabilizing primary balance is estimated at about ½ percent of GDP, below the projected medium term level of the primary balance.

The baseline assumptions are broadly plausible. Staff forecast track record is not systematically biased, as reflected in projection errors generally not being consistently on one side. Although inflation forecasts have recently tended to underestimate actual inflation and growth forecasts have been slightly optimistic in the past two years, the median forecast errors over the period 2007–15 are broadly in line with those observed in other countries. The projected fiscal adjustment is consistent with experiences across surveillance countries.

The fan charts show limited uncertainty around the baseline. The width of the symmetric fan chart, estimated at around 15 percent of GDP, illustrates a certain degree of confidence for equal-probability upside and downside shocks.

Alternative scenario

A "historical" scenario, assuming that the key macroeconomic variables behave as in the last decade, yields a downward-sloping debt path, since Uruguay experienced high growth rates and exchange rate appreciation as it recovered from the 2002 financial crisis.

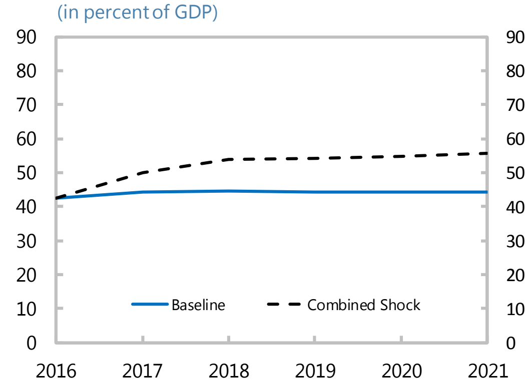
Vulnerability of the financing profile

Public sector's financing needs do not imply near-term vulnerabilities, although they exceeded the benchmark level of 15 percent of GDP in 2015. The elevated gross public financing needs reflect primarily the mostly short-term maturity of the central bank's debt, which has declined sharply since then. The share of public sector debt held by non-residents and total external financing needs are slightly above their respective benchmarks, but refinancing risks are limited by the presence of high liquidity buffers, including the sizable liquid financial assets of the public sector and the access to contingent credit lines. These considerations also apply to the assessment of external debt sustainability (Annex IV). The share of short-term debt in total public debt increased by 2.1 percent in 2015, in part as the result of valuation effects, but the level of short term remains very low at 5.5 percent of GDP.

Stress tests

Debt dynamics are moderately sensitive to shocks. In a stylized downside scenario that combines a permanent 20 percent exchange rate depreciation (relative to the baseline) with a temporary drop in growth and primary balances, and a permanent increase in real interest rates, the gross debt ratio rises by about 18 percentage points over the five-year forecast horizon. Net debt rises by 13 percentage points in the same scenario. The sensitivity of net debt to exchange rate shocks is lower than that of gross debt, as the valuation effects on assets from exchange rate changes partially offset the valuation effects on foreign-currency denominated debt. Fan charts of the projected debt distribution confirm that debt dynamics are generally manageable under statistical distributions of combined shocks. Gross public debt would remain below 72 percent of GDP in 90 percent of the cases, while net public debt would remain below 56 percent of GDP under the combined shock scenario previously described.

Dynamics of Net Public Debt
(in percent of GDP)



Source: Fund staff calculations.
Note: Combined shock as described in the text.

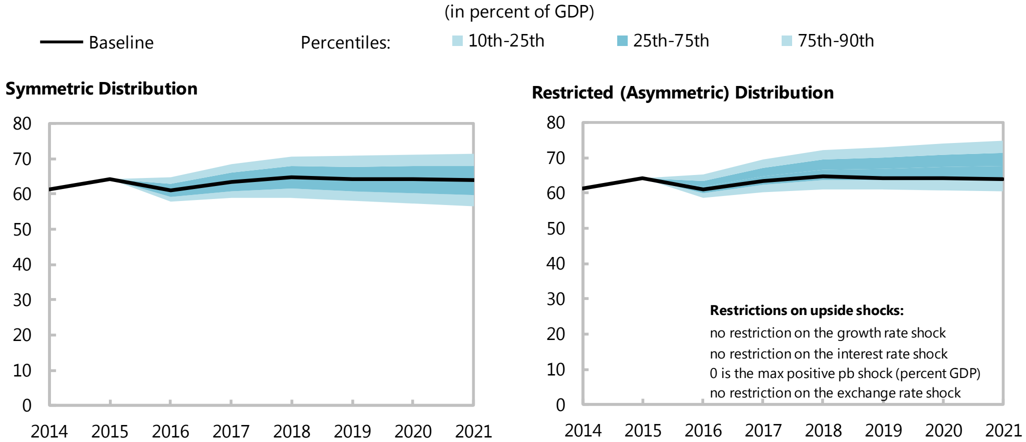
Uruguay Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/ 4/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

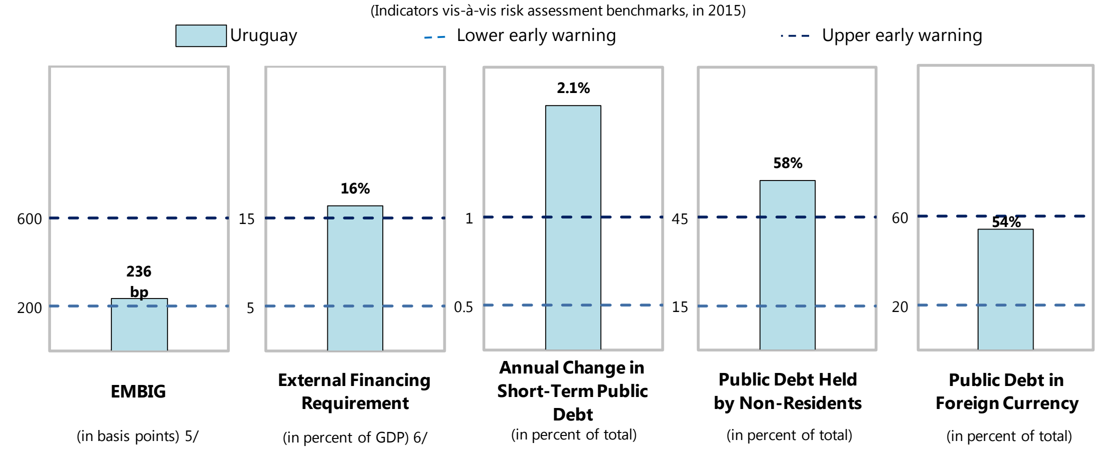
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The debt profile indicators are based on data for 2015 (except for the market perception indicators; see footnote 5).

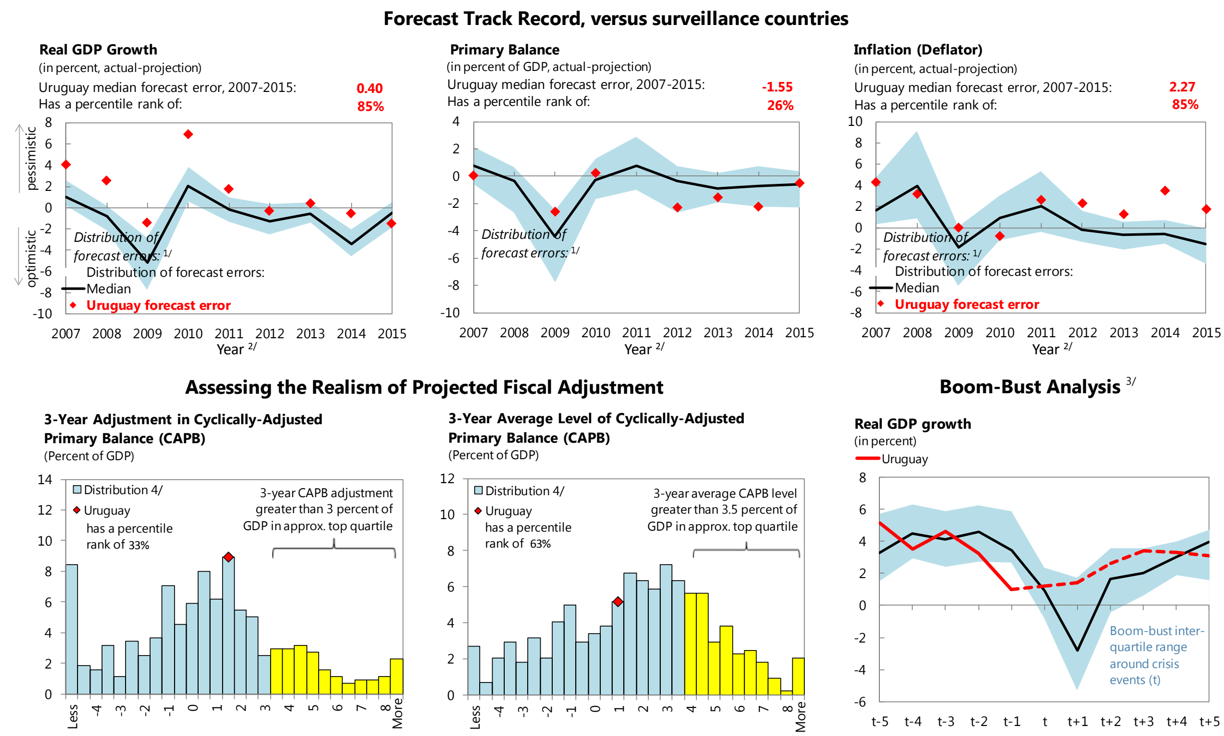
4/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

5/ EMBIG, an average over the last 3 months, 08-Sep-16 through 07-Dec-16.

6/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Uruguay Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Uruguay has had a positive output gap for 3 consecutive years, 2013-2015. For Uruguay, t corresponds to 2016; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Uruguay Public Sector DSA—Baseline Scenario

(in percent of GDP unless otherwise indicated)

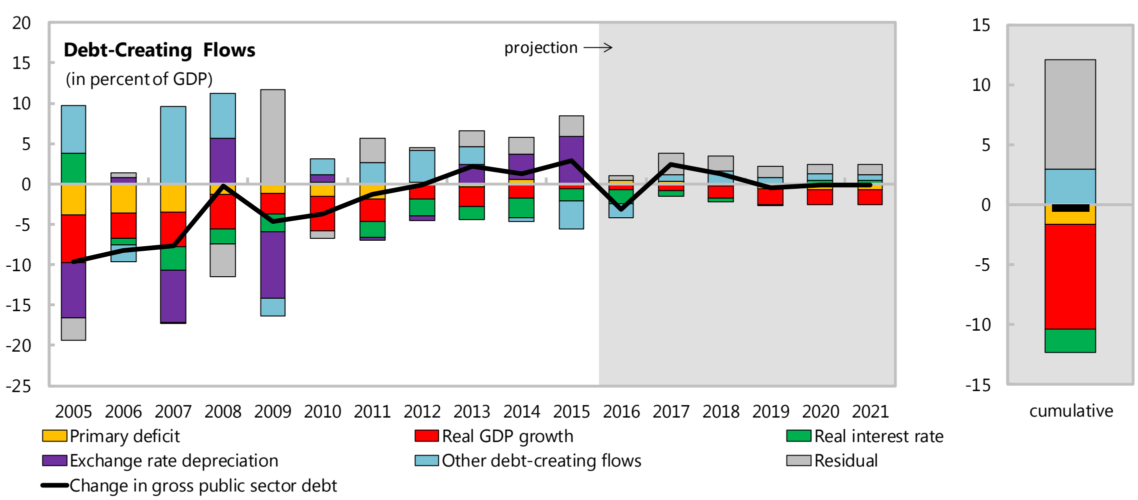
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	66.0	61.4	64.3	61.1	63.5	64.7	64.3	64.1	64.0
Public gross financing needs	11.2	14.7	19.6	13.9	12.3	12.1	14.0	15.4	15.2
Net public debt	38.4	35.9	39.5	42.6	44.4	44.5	44.3	44.2	44.2
Real GDP growth (in percent)	5.6	3.2	1.0	1.2	1.4	2.6	3.4	3.3	3.1
Inflation (GDP deflator, in percent)	7.1	9.4	8.7	9.5	7.5	7.2	6.7	6.3	6.4
Nominal GDP growth (in percent)	13.0	12.9	9.8	10.8	9.0	10.0	10.4	9.8	9.7
Effective interest rate (in percent) [4/]	5.2	5.3	6.3	6.5	6.5	6.8	7.0	7.3	7.6

As of December 07, 2016		
Sovereign Spreads		
EMBIG (bp) 3/	250	
5Y CDS (bp)	130	
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB	BBB
Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-3.7	1.2	2.9	-3.2	2.4	1.3	-0.5	-0.1	-0.1	-0.3	
Identified debt-creating flows	-4.8	-0.9	0.3	-3.8	-0.4	-0.5	-1.8	-1.4	-1.4	-9.4	
Primary deficit	-1.9	0.6	0.0	0.4	0.3	-0.3	-0.6	-0.7	-0.8	-1.6	0.6
Primary (noninterest) revenue and gra	28.2	29.1	28.9	29.2	29.2	29.5	29.7	29.7	29.8	177.2	
Primary (noninterest) expenditure	26.3	29.7	29.0	29.6	29.5	29.2	29.1	29.1	29.1	175.6	
Automatic debt dynamics [5/]	-6.0	-1.1	3.7	-2.5	-1.5	-1.9	-2.0	-1.5	-1.3	-10.7	
Interest rate/growth differential [6/]	-4.5	-4.2	-2.1	-2.5	-1.5	-1.9	-2.0	-1.5	-1.3	-10.7	
Of which: real interest rate	-1.1	-2.5	-1.6	-1.8	-0.7	-0.4	0.0	0.5	0.5	-2.0	
Of which: real GDP growth	-3.5	-1.7	-0.5	-0.7	-0.8	-1.5	-2.0	-1.9	-1.8	-8.7	
Exchange rate depreciation [7/]	-1.4	3.1	5.9	…	…	…	…	…	…	…	
Other identified debt-creating flows	3.1	-0.4	-3.4	-1.8	0.8	1.6	0.8	0.8	0.7	3.0	
Net privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt flows (incl. asset purchas	3.1	-0.4	-3.4	-1.8	0.8	1.6	0.8	0.8	0.7	3.0	
Residual [8/]	1.1	2.1	2.5	0.6	2.8	1.8	1.4	1.2	1.2	9.1	



Source: IMF staff.

1/ Public sector is defined as consolidated public sector.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

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

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes valuation changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

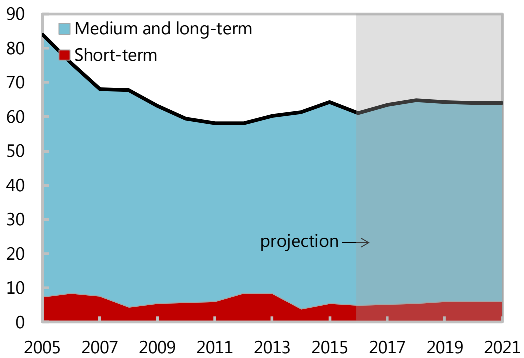
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Uruguay Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

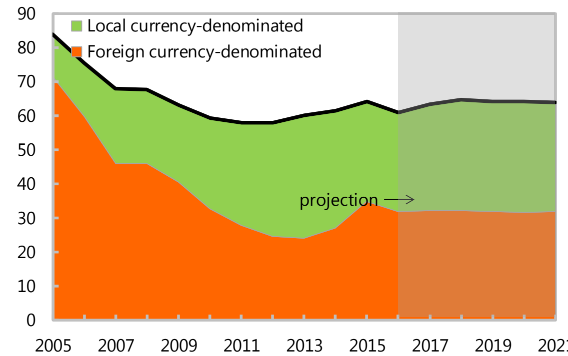
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

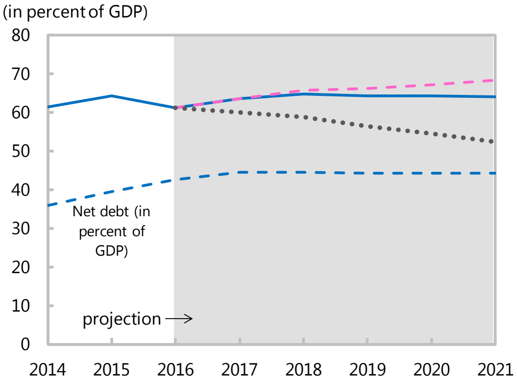


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

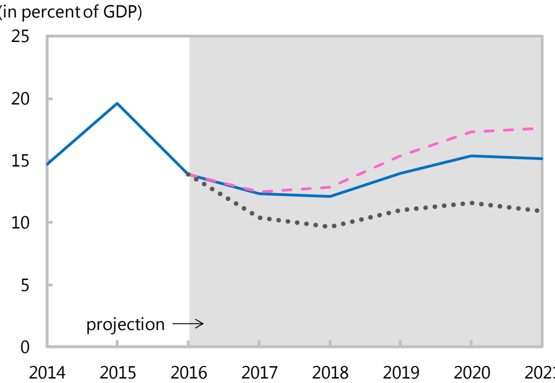
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

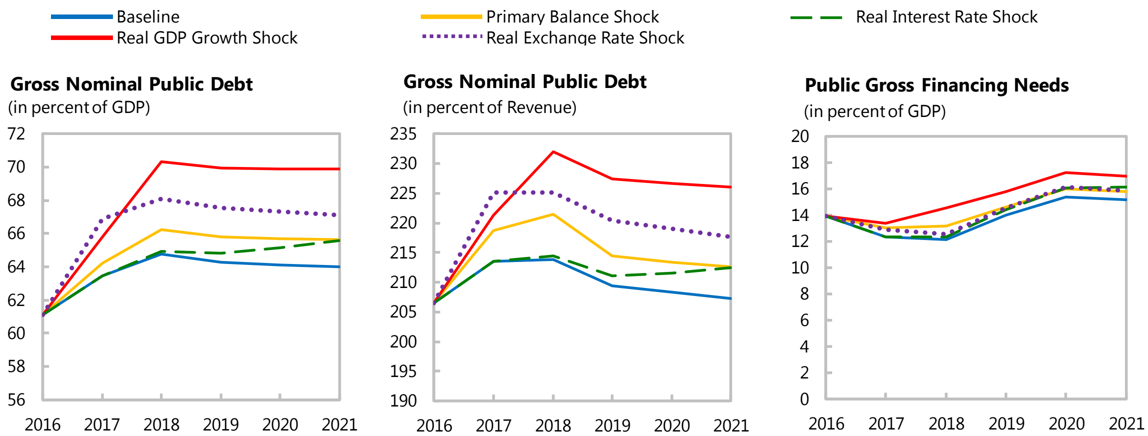
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.2	1.4	2.6	3.4	3.3	3.1
Inflation	9.5	7.5	7.2	6.7	6.3	6.4
Primary Balance	-0.4	-0.3	0.3	0.6	0.7	0.8
Effective interest rate	6.5	6.5	6.8	7.0	7.3	7.6
Constant Primary Balance Scenario						
Real GDP growth	1.2	1.4	2.6	3.4	3.3	3.1
Inflation	9.5	7.5	7.2	6.7	6.3	6.4
Primary Balance	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	6.5	6.5	6.8	7.0	7.4	7.6

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.2	4.7	4.7	4.7	4.7	4.7
Inflation	9.5	7.5	7.2	6.7	6.3	6.4
Primary Balance	-0.4	1.3	1.3	1.3	1.3	1.3
Effective interest rate	6.5	6.5	6.4	6.4	6.5	6.6

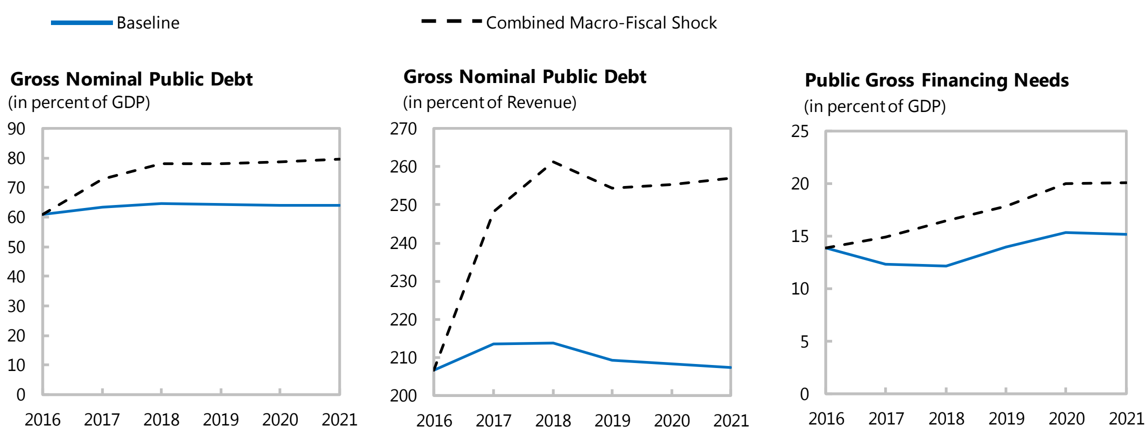
Source: IMF staff.

Uruguay Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	1.2	1.4	2.6	3.4	3.3	3.1
Inflation	9.5	7.5	7.2	6.7	6.3	6.4
Primary balance	-0.4	-1.0	-0.5	0.6	0.7	0.8
Effective interest rate	6.5	6.5	6.8	7.1	7.4	7.6
Real Interest Rate Shock						
Real GDP growth	1.2	1.4	2.6	3.4	3.3	3.1
Inflation	9.5	7.5	7.2	6.7	6.3	6.4
Primary balance	-0.4	-0.3	0.3	0.6	0.7	0.8
Effective interest rate	6.5	6.5	7.1	7.6	8.1	8.5
Combined Shock						
Real GDP growth	1.2	-0.6	0.6	3.4	3.3	3.1
Inflation	9.5	7.0	6.7	6.7	6.3	6.4
Primary balance	-0.4	-1.4	-1.6	0.6	0.7	0.8
Effective interest rate	6.5	7.1	7.1	7.7	8.2	8.6

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	1.2	-0.6	0.6	3.4	3.3	3.1
Inflation	9.5	7.0	6.7	6.7	6.3	6.4
Primary balance	-0.4	-1.0	-1.2	0.6	0.7	0.8
Effective interest rate	6.5	6.5	6.8	7.2	7.5	7.7
Real Exchange Rate Shock						
Real GDP growth	1.2	1.4	2.6	3.4	3.3	3.1
Inflation	9.5	12.5	7.2	6.7	6.3	6.4
Primary balance	-0.4	-0.3	0.3	0.6	0.7	0.8
Effective interest rate	6.5	7.1	6.7	7.0	7.3	7.5

Source: IMF staff.

Annex III. Uruguay—Fiscal Space: Considerations and Indicators

1. Initial State

1.1 Macroeconomic conditions	
Output gap (percent of potential GDP)	-0.6
Growth forecast track record (percentile) 1/	85.0
Revisions to potential output level (percent) 2/	-5.0
Gross Public Debt (percent of GDP)	61.1
Gross financing needs (GFN) (percent of GDP)	13.9
Is monetary policy appropriate?	Broadly yes
1.2 Multilateral considerations	
EBA current account gap	1.8
EBA domestic fiscal policy gap	-1.4
Member of currency union?	No
1.3 Structural gaps	
Structural reform related (distance to frontier) 3/	
Innovation	84
Industry regulation	n.a.
Business regulation	n.a.
Labor market	47
Real public capital stock per capita 4/	13,407
(distance to frontier)	84
Balance-sheet related (distressed assets)	
Banking sector NPL ratio	3.5
1.4 Implementation capacity	
Efficiency of public investment 5/	n.a.

2. Fiscal Space under the Baseline and Stress Tests

	Baseline Value 6/	Stress Value 6/
2.1 Is financing available?		
Have sovereign bond spreads breached benchmarks? 7/		
Last 12 months?	358	
Last 5 years?	358	
Do debt profile indicators breach benchmarks?		
Share of public debt in foreign currency 8/	54.2	
Share of public debt held by non-residents 9/	57.6	
Change in share of short-term debt 10/	2.1	
External financing requirements (percent of GDP) 11/	16.4	
Public Financial Assets (percent of GDP)	35.5	
2.2 State of debt burden indicators		
Does debt level breach the benchmark during projection period? 12/	-5.3 (benchmark: 70%)	21.9
Probability of breaching the benchmark at end of projection period 13/	10	
Do gross financing needs (GFN) breach the benchmark during projection period? 12/	0.4	14.1
Does debt trajectory at least stabilize in last 2 years?	Yes	No
2.3 Fiscal adjustment		
Is the adjustment required to stabilize debt realistic? 14/		
Adjustment in CAPB (percentile)	33%	
Average level of CAPB (percentile)	63%	
Long-term adjustment need (percent of GDP) 15/	n.a.	

Desk Assessment

Note: The inclusion of the central bank in the public accounts implies a higher level of public debt and higher financing needs. Uruguay is one of the few countries in the world using this presentation.

- **Bottom-line assessment of fiscal space.**

Fiscal space is limited beyond the operation of automatic stabilizers around the structural consolidation path.

- **Discussion of initial state.**

GDP growth has slowed significantly since 2014. The output gap has turned negative and is expected to reach -0.6 percent of GDP. The government avoided an overly pro-cyclical fiscal stance in 2016 by allowing the fiscal deficit to deepen, while locking in the required adjustment for 2017.

- **Explanation of the fiscal space assesment.**

Financing risk indicators exceed the standard benchmarks. The debt would exceed 70 percent of GDP under the combined stress scenario (see Annex II). Nonetheless, risks are mitigated by the presence of high liquidity buffers, including sizable liquid financial assets of the public sector and the access to contingent credit lines.

The stabilization of the debt at the end of the projection period is contingent upon the full implementation of the planned fiscal adjustment.

Notes

1/The percentile rank of median forecast error relative to the distribution of median forecast errors from other MACs. Low percentile reflects a median forecast error that is relatively large compared to other countries and may be an indication of persistent optimism in past projections.
2/ Percentage deviation of 2016 potential output in the current WEO from the value implied by Spring 2013 WEO vintage. A negative value indicates that the current estimate of 2016 potential output is lower than the projected value in Spring 2013.
3/ From structural reform indices calculated in IMF (2015a). Distance measured as percentage deviation from frontier economy (separately for AEs and EMs), with 0 being best.
4/ 2011 PPP$ per person, from IMF (2015b). Also converted to percentage deviation from frontier economy (separately for AEs and EMDCs), with 0 being best.
5/ Public Investment Management Assessment (PIMA) from IMF (2015b). Index ranges from 0 (lowest) to 1 (highest).
6/ Corresponds to the actual value of the indicator, or, where applicable, its maximum over the projection period (5 years as per MAC DSA). For sovereign spreads the unit is basis points; for debt levels and GFN, the unit is percentage points.
7/ Benchmarks are indicative, and correspond to those used in the MAC-DSA: below 200 (400) bps for low risk (green); between 200-600 (400-600) bps for medium risk (orange); and above 600 (600) bps for high risk (red) for EMs (AEs). The values correspond to the latest 3 month average spread and the average spread over the last 5 years.
8/ For EMs only. Benchmarks are indicative, and correspond to those used in the MAC-DSA: below 20 bps for low risk (green); between 20-60 bps for medium risk (orange); and above 60 bps for high risk (red).
9/ Benchmarks are indicative, and correspond to those used in the MAC-DSA: below 15 (30) bps for low risk (green); between 15-45 (30-45) bps for medium risk (orange); and above 45 (45) bps for high risk (red) for EMs (AEs).
10/ Benchmarks are indicative, and correspond to those used in the MAC-DSA: below 0.5 (1) bps for low risk (green); between 0.5-1 (1-1.5) bps for medium risk (orange); and above 1 (1.5) bps for high risk (red) for EMs (AEs).
11/ Benchmarks are indicative, and correspond to those used in the MAC-DSA: below 5 (17) bps for low risk (green); between 5-15 (17-25) bps for medium risk (orange); and above 15 (25) bps for high risk (red) for EMs (AEs).

12/ Benchmarks are indicative, and correspond to those used in the MAC-DSA. For AEs, debt level/GFN benchmarks are 85/20 percent; for EMs, they are 70/15 percent of GDP. 'Green' means debt level (GFN) remains below the benchmark in the last year before the projections and over the projection period, 'red' means the respective benchmark is breached for at least one year in the last year before the projections or over the projection period. Value corresponds to the difference between the peak debt level (GFN) and the benchmark in percent of GDP.

13/ From IMF (2016), indicator reflects the probability that debt level exceeds the indicative debt benchmark at the end of the projection period. High risk ("red") if above 50 percent, at low risk (“green”) if below 10 percent, and medium risk (“orange”) otherwise.
14/Results of the MAC-DSA realism module. "Green" if 3-year CAPB adjustment (3-year average CAPB level) is less than 3 (3.5) percent, "red" otherwise. Value corresponds to the percent of countries that have achieved higher adjustment / levels of the cyclically-adjusted primary balance based on historical experience.
15/ From Vulnerability Exercise. Cyclically-adjusted primary balance needed to stabilize debt ratio in the long run (permanently after 2021), taking into account demographic trends and costs associated with population aging. The color of the flag is based on relative rankings among G20 advanced economies and emerging markets, with adjustment needs at or below the country group median assigned "green", those within one standard deviation higher than the mean"orange", and all others assigned a "red".

Annex IV. Uruguay—External Debt Sustainability Analysis

After averaging 46 percent of GDP during 2011–14, Uruguay's gross external debt rose to 58 percent of GDP in 2015, mostly due to significant depreciation of the nominal exchange rate against the U.S. dollar. In 2016, gross external debt is projected to have decreased to 54 percent of GDP, aided by some nominal appreciation of the peso against the U.S. dollar. Under staff's baseline scenario, gross external debt is projected to hold steady over the medium term, rising very slightly to 54¾ percent of GDP in 2021, largely due to exchange rate and price dynamics. Gross external financing needs (which averaged 14 percent of GDP from 2011–15) decreased to 9 percent of GDP in 2016, and are expected to moderate further, to 8¼ percent of GDP, in the medium term.

Stress tests indicate that the standard growth and interest rate shocks would have a minimal impact on external debt. Shocks to the non-interest current account and a combined shock (to the real interest rate, growth and current account) would weigh more on external debt, albeit still moderately. Exchange rate shocks would pose the biggest risk to Uruguay's external debt sustainability, as shown in the charts. Nonetheless, given Uruguay's sizeable gross international reserves and liquidity buffers, risk to external debt sustainability remain limited.

Table A4.1. Uruguay: External Debt Sustainability Framework, 2011–2021

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	**Debt-stabilizing non-interest current account 7/**
1 **Baseline: External debt 1/**	39.4	45.0	48.5	51.5	58.3			**53.9**	**54.5**	**54.9**	**54.8**	**54.5**	**54.8**	**-4.5**
2 Change in external debt	-11.2	5.6	3.5	2.9	6.8			-4.4	0.6	0.4	-0.2	-0.2	0.3	
3 Identified external debt-creating flows (4+8+9)	-15.2	-1.6	-5.5	-6.5	-3.3			-0.6	-0.7	-1.3	-1.7	-1.6	-1.4	
4 Current account deficit, excluding interest payments	1.0	3.5	3.6	3.1	0.9			1.1	0.9	1.8	1.4	1.6	1.7	
5 Deficit in balance of goods and services	-0.3	2.2	2.0	1.4	-0.3			-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	
6 Exports	27.7	25.2	25.0	25.1	24.7			21.7	22.7	23.2	24.0	24.4	24.9	
7 Imports	27.4	27.4	27.0	26.5	24.5			21.2	22.4	22.9	23.7	24.2	24.6	
8 Net non-debt creating capital inflows (negative)	-3.2	-4.3	-4.6	-4.6	-6.2			-2.1	-2.3	-2.3	-2.3	-2.4	-2.4	
9 Automatic debt dynamics 2/	-12.9	-0.8	-4.5	-5.0	2.1			0.5	0.7	-0.8	-0.7	-0.8	-0.8	
10 Contribution from nominal interest rate	1.7	1.5	1.5	1.4	1.5			1.1	1.4	0.6	1.0	0.9	0.8	
11 Contribution from real GDP growth	-1.9	-1.3	-1.8	-1.4	-0.5			-0.6	-0.7	-1.3	-1.8	-1.7	-1.6	
12 Contribution from price and exchange rate changes 3/	-12.8	-1.0	-4.1	-4.9	1.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	4.0	7.2	9.0	9.4	10.1			-3.8	1.3	1.7	1.5	1.3	1.7	
External debt-to-exports ratio (in percent)	142.0	178.8	194.3	205.3	235.6			248.7	239.5	236.3	228.5	223.0	220.3	
Gross external financing need (in billions of US dollars) 5/	6.0	6.7	8.3	7.9	7.7			5.1	5.4	4.6	4.8	5.3	5.8	
in percent of GDP	12.8	12.5	15.1	14.4	15.8			9.2	9.5	7.7	7.7	8.0	8.2	
Scenario with key variables at their historical averages 6/						10-Year Historical Average	10-Year Standard Deviation	**53.9**	**48.6**	**44.6**	**40.5**	**36.4**	**32.8**	**-7.5**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	5.2	3.5	4.6	3.2	1.0	4.7	2.0	1.2	1.4	2.6	3.4	3.3	3.1	
GDP deflator in US dollars (change in percent)	33.7	2.5	10.1	11.4	-2.1	6.5	13.9	9.0	1.2	2.2	2.2	2.4	2.4	
Nominal external interest rate (in percent)	4.7	4.0	3.7	3.2	2.9	2.9	1.4	2.2	2.7	1.1	2.0	1.8	1.6	
Growth of exports (US dollar terms, in percent)	20.5	4.7	1.6	-0.4	-11.8	9.9	14.9	-1.6	8.1	7.6	9.4	7.7	7.4	
Growth of imports (US dollar terms, in percent)	26.4	15.2	1.1	-2.6	-17.4	11.8	22.2	-2.5	8.5	7.8	9.7	7.9	7.5	
Current account balance, excluding interest payments	-1.0	-3.5	-3.6	-3.1	-0.9	-1.9	2.0	-1.1	-0.9	-1.8	-1.4	-1.6	-1.7	
Net non-debt creating capital inflows	3.2	4.3	4.6	4.6	6.2	4.9	0.6	2.1	2.3	2.3	2.3	2.4	2.4	

1/ External debt includes non-resident deposits.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = 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.

3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

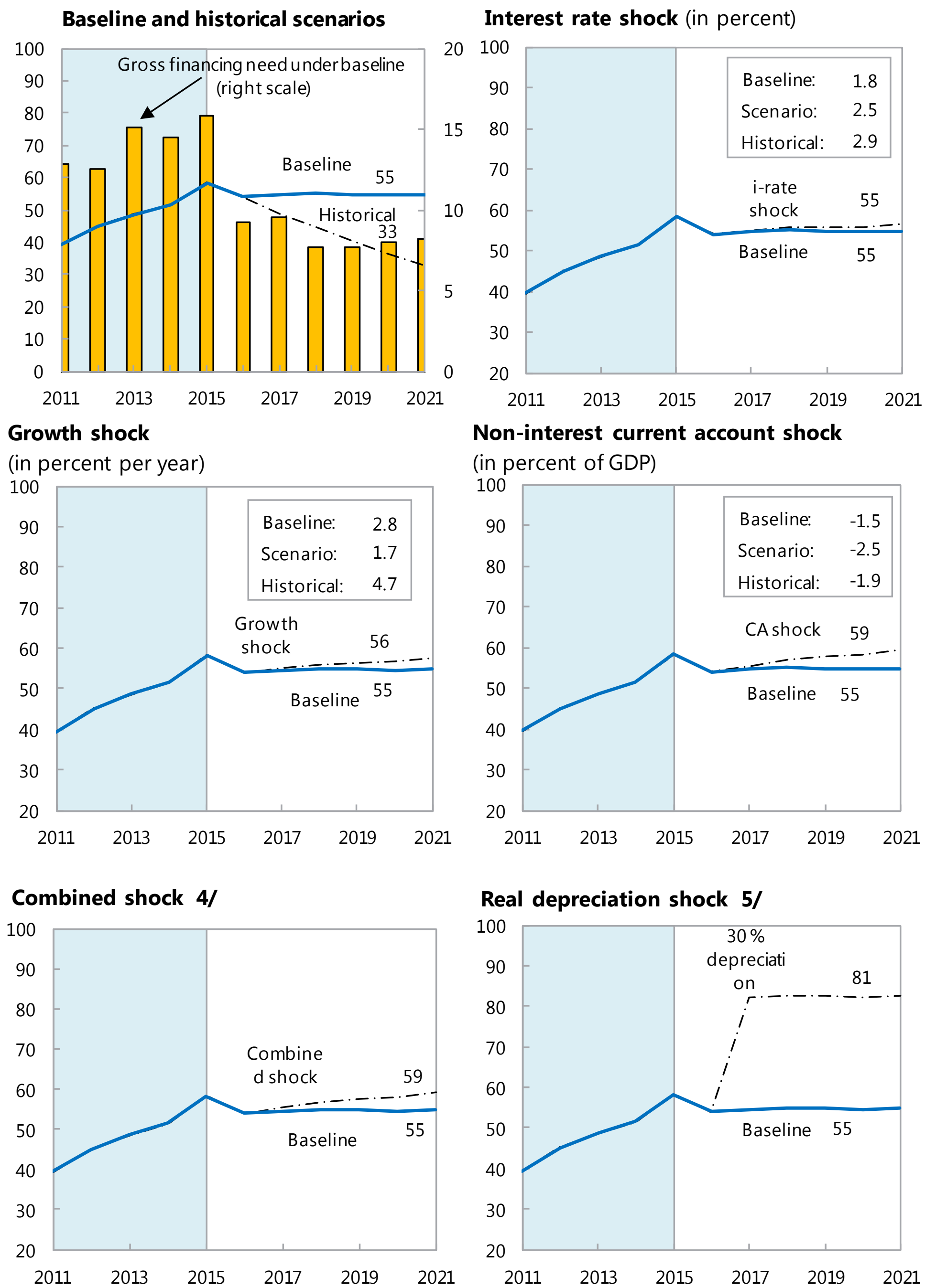
4/ For projection, line includes the impact of price and exchange rate changes.

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

6/ 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.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure A4.1. Uruguay: External Debt Sustainability: Bound Tests 1/ 2/ 3/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ External debt includes non-resident deposits.
4/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
5/ One-time real depreciation of 30 percent occurs in 2017.

INTERNATIONAL MONETARY FUND

URUGUAY

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 21, 2016

Prepared By	The Western Hemisphere Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2016)

Membership Status: Joined: March 11, 1946 Article VIII

General Resources Account:	**SDR Million**	**% Quota**
Quota	429.10	100.00
Fund holdings of currency	334.64	77.99
Reserve Tranche Position	94.47	22.02

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	293.26	100.00
Holdings	215.08	73.34

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jun 08, 2005	Dec 27, 2006	766.25	263.59
Stand-By	Apr 01, 2002	Mar 31, 2005	1,988.50	1,988.50
Of which: SRF	Jun 25, 2002	Aug 08, 2002	128.70	128.70
Stand-By	May 31, 2000	Mar 31, 2002	150.00	150.00

Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.01	0.11	0.11	0.11	0.11
Total	0.01	0.11	0.11	0.11	0.11

Ex-Post Assessment. The last Ex-Post Assessment of Longer-Term Program Engagement was considered by the Executive Board on August 29, 2007 (Country Report No. 08/47).

Exchange Rate Arrangement. The currency is the Uruguayan peso (UY$). Uruguay's de jure and de facto exchange rate arrangements are classified as floating. Since June 2013, monetary policy targets the growth rate of M1 plus saving deposits as the intermediate instrument. On December 8 2016, the exchange rate in the official market was UY$ 28.80 per U.S. dollar. Uruguay has accepted the

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

obligations of Article VIII and maintains an exchange rate system free of restrictions on payments and transfers for current international transactions.

FSAP participation and ROSCs. A Financial Sector Stability Assessment (FSSA) was considered by the Executive Board on June 28, 2006 (Country Report No. 06/187). An FSAP Update was conducted in 2012 and the FSSA was published on May 31, 2013 (Country Report No. 13/152). A ROSC module on fiscal transparency was published on March 5, 2001. A ROSC module on data dissemination practices was published on October 18, 2001. A ROSC on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) was published on December 12, 2006 (Country Report No. 06/435). A data module ROSC was published on February 11, 2014 (Country Report No. 14/42).

Technical Assistance 2008–16.

DPT	Purpose	Date of Delivery
FAD	Assist with strengthening customs' reform strategy and implementation of the governance framework	November 2015
	Tax Administration, PFM (Follow-up)	October 2015
	Treasury Management	August 2014
	Tax, customs, and social security administration	August 2014, March 2014, November 2012, November 2011, September 2010
	Performance Informed Budgeting	March 2011
	Private public partnership	May 2010
LEG	Structure and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	November 2016
	Structure and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	March 2016
	Structure and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	October 2015
	Structure and tools for strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	March 2015
	Assist the authorities on strengthening the AML/CFT capacity of the Superintendency of Financial Services and the Financial Intelligence Unit	October 2014

	Follow up of the implementation of the AML/CFT National Strategy	October 2013
	Assist the authorities on the launch of the recently designed AML/CFT national strategy	June 2012
	Assist the authorities on the elaboration of a risk-based national strategy enhancing the AML/CFT regime	December 2010
	Conduct a money laundering/terrorist financing country risk assessment consistent with the objectives of the national AML/CFT strategy	January, April, and July 2009
MCM	Sovereign Asset and Liability Management and Development of the Local Currency Government Bond Market	September 2016
	Bank resolution	June 2014
	FSAP update	September 2012
STA	Trade Margins and Commercialization Channels	September 2016
	International Investment Position Statistics. BOP and external debts stats.	October 2015
	Data ROSC reassessment	August 2012
	Government Finance Statistics, to assist in improving the quality of public debt data	February 2008

RELATIONS WITH THE WORLD BANK UNDER JMAP

(As of October 12, 2016)

Title	Products	Provisional timing of Missions	Expected delivery date*
World Bank work program	**A. Lending**		
	1. UY Institutions Building Technical Assistance Lending	October 24-October 28	December 31st 2016
	2. UY OSE Sustainable and Efficient		February 28th 2016
	3. Sustainable Management of Natural Resources and Climate Change		June 30th, 2018
	4. Road Rehabilitation and Maintenance Program		March 31st 2017
	5. Support to Uruguayan Public Schools Project		May 31st 2017
	6. Public Sector Management and Social Inclusion Development Policy Loan	October 31-November 4th	June 30th 2019
	7. 2nd. Programmatic Public Sector, Competitiveness and Social Inclusion Development Policy Loan with Drawdown Option	October 31-November 4th	June 25th 2018
	8. Drought Events impact Mitigating Investment Project Financing	October 31-November 4th	December 31st 2017
	B. Lending pipeline		
	1. Uruguay Public Sector Institutions Strengthening Project		
	2. Improving the quality of Initial and Primary education in Uruguay		
	C. ASA		
	1. Uruguay Pro-growth Public Policies and Competitiveness (PA)-Integration into Global Value Chains		October 27th, 2016
	2. Water for Uruguay (PA) - Strengthening Uruguay Hydromet Services		April 30th, 2017
	3. Engaging Uruguay 2050: Demographic Change and Social Policies		August 31st, 2017
	4. Uruguay Green Growth		August 31st, 2017
	5. Smarter Urban Mobility for Montevideo		TBC
	6. Uruguay FCPF REDD Readiness Preparation		TBC

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of December 8, 2016)

The Inter-American Development Bank's Board of Executive Directors approved in December 2015 the Country Strategy with Uruguay (2016-2020). Sovereign-guaranteed lending under the program is expected to reach approximately US$1.8 billion, which is considered to be consistent with Uruguay's five year budget. The program includes additional non reimbursable financing for technical assistance and analytical work. Approved lending under the previous Country Strategy (2010-2015) reached approximately US$1.9 billion in sovereign guaranteed loans[2] and US$1 billion in non-sovereign guaranteed loans.

The objectives of the country strategy for 2016–2020 are to: (i) boost productivity and competitiveness by promoting innovation, improving productive infrastructure, and supporting an integrated and coordinated policy for international positioning; (ii) promote equity and social inclusion by strengthening the human capital and employability of the population, supporting health care reform, improving habitat, and supporting the early childhood and youth segments of the most vulnerable population groups; and (iii) strengthen public sector management by supporting greater efficiency in public institutions and strengthening urban and departmental management.

As of October 31st 2016, the Bank's portfolio in execution in Uruguay includes 37 sovereign guaranteed loans for US$2.1 billion. Of this total, 33 are investment loan operations totaling US$1.3 billion, and 4 are policy-based loans for US$800.8 million with a deferred drawdown option. The main sectors comprising the active public sector portfolio are: export and investment promotion (27%); public management and finance (16%); water, sanitation, and solid waste (14%); energy (14%); urban development and security (8%); transportation (7%); science and technology (2%); agribusiness (3%); education and job training (5%); and social protection (4%). The active private sector portfolio is composed of 22 loans totaling US$449.1 million, primarily concentrated in the energy (48%) and agribusiness sectors (46%).

Financial Relations With the Inter-American Development Bank[1]

(In millions of U.S. dollars)

Total outstanding loans: US$1,728 (As of November 30, 2016)

Loan Transactions

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Disbursement	242.3	114.8	112.9	337.2	477.3	54.3	138.2	121.6	195.9	166.3	182.6
Amortization	220.0	519.6	133.8	140.0	162.0	465.1	115.4	120.7	591.7	99.2	110.1
Net Loan Flows	**22.3**	**-404.8**	**-21.0**	**197.2**	**315.2**	**-410.8**	**22.8**	**0.8**	**-395.8**	**67.1**	**72.4**

Source: Inter-American Development Bank.

1/ Only loans with sovereign guarantee are considered.

[2] This includes US$366 million approved under the Reallocation Program and US$50 million from the China Cofinancing Fund.

STATISTICAL ISSUES

(As of November 15, 2016)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected area is national accounts.
National accounts: In 2009, the Uruguayan authorities completed a revision of national accounts statistics, in which they updated the benchmark year (from 1983 to 1997 and 2005) and adopted the *System of National Accounts (SNA) 1993*. However, national accounts statistics still have some shortcomings: limited coverage of the enterprise survey, partial update of business register, poor quality source data for some components of GDP, inadequate information on the informal economy, and incomplete quarterly accounts. Long-time series are not available on the BCU website. There is no regular schedule for updating the base year of the national accounts. The causes of the current revisions to the quarterly national accounts are not explained to users. For the national accounts there is a need to plan adoption of the 2008 SNA and updating of the base year.
Prices: The new base period for the consumer price index is December 2010 = 100. The CPI has national coverage and includes more than forty thousand price quotations. It does not cover either the implicit rent or the net acquisitions of owner-occupied dwellings. For the CPI, reselection of the sample of detailed products has not been done for an extended period. The base of the wholesale price index has been updated to 2001. Producer price indices (March 2010 =100) for national products have been recently disseminated. The PPI does not cover utilities, construction, business and other services and exported output. For both the CPI and PPI, statistical outputs/intermediate results are not validated with available information from alternative sources. The CPI and PPI would benefit from a more regular and frequent schedule of weight updates.
Government finance statistics: 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 for local governments. Information on a monthly and quarterly basis for financing and debt data respectively, are disseminated on the BCU website from 1999 onwards for the central government and total public sector, but no information is reported for publication in the *International Financial Statistics*. The information reported for publication in the *Government Finance Statistics Yearbook* covers transactions on revenue and expense for the consolidated central government (data on revenue and expense for local governments have not been reported since 1994), and the general government's operations on financial assets and liabilities, both in terms of flows (financing) and stocks (debt).
Monetary and financial statistics: Monetary and financial statistics are prepared in accordance with the IMF's *Monetary and Financial Statistics Manual (2000).* The authorities report monetary data for the central bank, other depository corporations, and other financial corporations (OFCs) using the standardized reporting forms (SRFs). However, data for the OFCs are limited to off-shore financial institutions. A mission could be fielded to expand the institutional coverage of OFCs and compile the SRF for OFCs with full institutional coverage.

Financial sector surveillance: The authorities participate in the IMF's Coordinated Direct Investment Survey (CDIS), Coordinated Portfolio Investment Survey (CPIS), and Financial Soundness Indicators (FSIs) databases. However, only annual FSIs data from 2009 through 2013 have been reported, and the authorities have not responded to requests for more current data. FSIs on nonfinancial corporations, households, market liquidity, and real estate markets are not available. The BCU disseminates FSIs for individual banks on a monthly basis and generates FSIs for the banking system weighting individual bank FSIs by their asset share.	
External sector statistics: Balance of payments and international investment position statistics are compiled and published on a quarterly basis. Data are compiled following the recommendations of the fifth edition of the *Balance of Payments Manual*. The BCU is working on improving the quality and coverage of trade in services and direct investment-related statistics, as well as on migration to the sixth edition of the *Balance of Payments and International Investment Position Manual*, Uruguay disseminates the international reserves and foreign currency liquidity data template, submits quarterly external debt statistics to the Quarterly External Debt Statistics (QEDS) database, and participates in the Coordinated Portfolio Investment Survey (CPIS) and the Coordinated Direct Investment Survey (CDIS).	
II. Data Standards and Quality	
Uruguay subscribed to the SDDS in February 2004 and is in observance.	Data ROSC published on October 1, 2001. A data reassessment ROSC on CPI, PPI and NA was published in February 2014.
III. Reporting to STA (Optional)	
Both the consumer and wholesale price indices are reported on a regular and timely basis for publication in the *International Financial Statistics (IFS)*. The authorities do not provide trade price and volume indices for publication in the *IFS*. Annual GFS are regularly reported to STA for publication in the *Government Finance Statistics Yearbook*. No high frequency GFS are reported for publication in the *International Financial Statistics*. Uruguay reports to STA balance of payments and IIP data for publication in the *IFS* and the *Balance of Payments Statistics Yearbook*.	

Uruguay: Common Indicators Required For Surveillance

(As of November 15, 2016)

	Date of latest observation	Date received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/	Memo items:	
						Data Quality – Methological Soundness 8/	Data Quality – Accuracy and Reliability 9/
Exchange Rates	12/29/15	12/29/15	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	02/16	04/04/16	M	M	M		
Reserve/Base Money	09/16	10/19/16	M	M	M		
Broad Money	08/16	10/19/16	M	M	M		
Central Bank Balance Sheet	08/16	10/19/16	M	M	M		
Consolidated Balance Sheet of the Banking System	08/16	10/19/16	M	M	M		
Interest Rates 2/	11/24/14	11/24/14	D	D	D		
Consumer Price Index	09/16	10/13/16	M	M	M	O, LO, O, O	LO, O, O, LNO, NO
Revenue, Expenditure, Balance and Composition of Financing 3/– Central Government 4/	8/15	11/30/15	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt 4/ 5/	Q2/15	9/30/15	Q	Q	Q		
External Current Account Balance	Q2/16	11/15/16	Q	Q	Q		
Exports and Imports of Goods and Services	Q2/16	11/15/16	Q	Q	Q		
GDP/GNP	Q4/15	11/17/16	Q	Q	Q	LO, LO, LO, LO	LNO, LNO, LO, O, LO
Gross External Debt	Q2/15	10/1/15	Q	Q	Q		
International Investment Position 6/	Q2/16	11/15/16	Q	Q	Q		

1/ Includes reserve assets pledged or otherwise encumbered as well net derivative positions.
2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
7/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
8/ This reflects the reassessment provided in the data ROSC (published in February 2014, and based on the findings of the mission that took place during August 20–31, 2012) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) (i) concepts and definitions, (ii) scope, (iii) classification/sectorization, and (iv) basis for recording are fully observed (O); largely observed (LO);largely not observed (LNO); not observed (NO); and not available (NA).
9/ Same as footnote 9, except referring to international standards concerning (respectively) (i) source data, (ii) assessment of source data, (iii) statistical techniques, (iv) assessment and validation of intermediate data and statistical outputs, and (v) revision studies.