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Uruguay: Supplementary Letter of Intent

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The following item is a Letter of Intent of the government of Uruguay, which describes the policies that Uruguay intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Uruguay, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

December 7, 2006

Dear Mr. de Rato:

1. ***Achievements.*** After several years of vigorous growth and low inflation, and with a much improved external position, the country is now prepared to exit from Fund support. Official reserves are already above the level envisaged for end-2008 and the primary fiscal balance is approaching our medium-term target. Public debt as a percent of GDP has declined sharply, and the debt maturity profile has improved markedly.
2. ***Last program reviews.*** Against this background, we have paid off all outstanding obligations to the Fund. We do not intend to make any further drawings under the current arrangement. The pending reviews will be the last ones under the arrangement, which we intend to cancel by the end of this month.
3. ***Program implementation.*** All performance criteria on macroeconomic variables have been observed, except the one on public debt, reflecting faster than anticipated reaccess to capital markets, and for which a waiver is requested. At the same time, we have advanced our reform agenda, with the passage of the tax reform, a key milestone, expected to be secured in mid-December, prior to consideration of the program reviews. Important progress has also been made in strengthening the financial sector, public finances, and the investment climate. We request waivers for the non-observance of the structural performance criteria listed in Table 1. In some cases, the measures are expected to be implemented with only a brief delay (tax reform) or remedial actions were taken (all nonperforming loans in BHU have been either transferred to trusts or prepared for transfer); in other cases, delays reflect the crowded legislative and reform agenda, and will be implemented in 2007.
4. ***Policy framework.*** We remain committed to the broad macroeconomic and reform agenda set out in previous Letters of Intent. In particular, we would emphasize:
 - ***Fiscal objective.*** A key objective remains to lower the debt-to-GDP ratio, anchored by the medium-term fiscal balance set out in our program and in the 2005-9 budget framework. Effective implementation of the tax reform will be an early priority, as will be strengthening tax administration.
 - ***Monetary policy.*** The central bank will continue to support low inflation, while maintaining exchange rate flexibility and building reserves.
 - ***Structural reforms.*** The broad objectives for reform in the financial sector, debt management, and pensions will continue to be advanced.
5. ***Exit from Fund support.*** As we make this last request for completion of the reviews, we thank the Fund for its crucial support over the past years. While our strengthened position allows us to exit Fund financial support, we hope to remain in close touch with the Fund on the technical aspects of our reform effort.

Sincerely yours,

/s/

Walter Cencela
President of the Central Bank

/s/

Danilo Astori
Minister of Economy and Finance

Table 1. Uruguay: Structural Performance Criteria requiring Waivers

Area	Measure	Date	Status
Tax reform	Begin to implement the comprehensive tax reform.	September 15, 2006	To be approved before congress enters in recess in mid-December.
Central Bank	Begin to implement the laws that: (i) give appropriate autonomy to the central bank; (ii) strengthen the regulation of the financial system; and (iii) provide a suitable bank resolution	November 30, 2006	To be implemented in 2007.
BHU	Move nonperforming loans into a fideicomiso and adequately capitalize BHU.	August 31, 2006	Remedial actions taken in mid-November.
BHU	Move all nonperforming assets into a fideicomiso and transform BHU into an institution with a viable business plan and a strong regulatory framework.	November 30, 2006	To be implemented in 2007.
Pensions	Begin to implement reform of the pension fund for the police.	October 31, 2006	To be implemented in 2007.
Pensions	Submit to Congress reform of the pension fund for the military and bank employees.	November 30, 2006	To be implemented in 2007.

Sources: Ministry of Economy and Finance; and Central Bank of Uruguay.