BANCO CENTRAL
DEL URUGUAY

Statement by Guillermo Tolosa, in his capacity as Governor to the International Monetary Fund (IMF)

Let me start with a bit of perspective: countries in our region are no strangers to surrounding environments of intense macro and policy uncertainty like the one we have today.

Thanks to these, during the last 20 years different governments in Uruguay have focused on the strategic management of risks as the central organizing principle of governance across a number of domains. These span from the political system to social policies, and also economic policies, which have been based on two key pillars: the build-up of large buffers and diversification. In terms of buffers, the reserves at the Central Bank are ample, bank capital and liquidity ratios are very high in the international comparison, and sovereign debt duration among the longest in the emerging world. On diversification, we have strongly diversified trading partners, we have diversified the currency composition and investor base of our debt, and energy sources away from fossil, imported energy and into renewables.

These efforts have served the country well, as it displayed unprecedented resilience to the ups and downs of our region, pandemic and war. And it is serving the country well to navigate the current scenario without major anxiety.

But in a world of growing uncertainty, we must work even harder to cement predictability. A key dimension in this respect is that there is still room for stronger rules and stronger institutions, so we have made a priority in our new government to take action on this front.

On rules, we are anchoring expectations of a sustainable fiscal path by reinforcing our fiscal framework, introducing the concept of a prudent debt level to the current rules. Also, we're anchoring inflation expectations by strengthening our monetary policy framework through further dedollarization measures to strengthen transmission mechanisms, enhanced communication and a de-indexation agenda.

On institutions, we will provide significantly more resources to cement the autonomy of the fiscal council and have taken steps to consolidate the de facto independence of the Central Bank.

In a world of heightened uncertainty, Uruguay's stability and policy predictability can be a source of comparative advantage. And we believe it can actually be harnessed.

But we still dare to dream, that the longstanding resilience of our country can now be turned into anti-fragility which would mean to achieve takeoff after a decade-long lackluster growth. Why? Our relatively low financing costs can enable new projects of capital-heavy, export-oriented projects, including in renewable energy. Our relatively lower tariffs can bring new trade opportunities. A lower global growth may garner the support for politically difficult and henceforth elusive microeconomic reforms. These include tackling long-standing obstacles to competition in the non-tradable sector, which will require strengthening the Competition Commission and its powers. A frictionless service sector trade will continue to allow us to attract FDI and be a business hub for rule-of-law-loving foreign companies in the knowledge-intensive service export sector.

History both globally and locally shows us once and again that focusing on a cohesive, integrated society is not only an end in itself but also underpins our capacity of providing stable rules and maintaining a policy framework that lays the foundation for further growth. We will continue to strive that our citizens are endowed with opportunities to thrive and a safe environment to live, strengthening the focus of our social policies and decisively tackling crime and violence.

Make no mistake. We understand we have to act cautiously. We live in a global reality which may not be characterized as a shock but as a new regime with lower provision of global stability-inducing public goods, which may well deliver lower growth and higher interest rates, complicating our debt dynamics. We then have to act cautiously. Addressing our strategic spending needs and complying with a tighter fiscal rule will have to involve considerable spending restraint outside the priority areas and a tax administration reform.