Statement by Andrei Bugrov  
Date of Meeting: June 6, 2000

Uruguay - Country Assistance Strategy

We would like to commend the Staff for preparing a high quality CAS for Uruguay. The document clearly identifies key development challenges facing by the country and sets correct priorities for the Bank’s prospective programs. We also would like to congratulate the Uruguayan authorities that, in a difficult environment, have managed to attain macroeconomic stability and are advancing important structural reforms while maintaining good social policies and relatively high living standards for the population. At the same time Uruguay still faces substantial challenges in its development agenda that need to be addressed in order to sustain the positive achievements in economic and social areas and maintain the competitive edge for Uruguay in a global economy. Those main challenges are: continuation of structural reforms, creating a more enabling framework for private sector development, enhancing competitiveness in the financial sector, financing necessary infrastructure investments, improving public sector efficiency, increasing the quality of human capital, and attacking existing pockets of poverty.

The CAS accurately identifies issues in the social area such as pockets of poverty and social exclusion that prevent the expansion of benefits of economic growth to all groups. Solving these issues requires a more targeted approach aimed at improved access of the poor to social services such as education and basic health care as well as infrastructure. The proposed WBG instruments are based on a solid empirical basis such as the recent Poverty Assessment. We are also pleased to see that the Bank is ready to assist the Government in improving public sector management and public enterprise reform by adhering to a gradual, participatory but also steady approach to reforms that proved to be successful in case of Uruguay.

We have some observations with respect to lending volumes and triggers as indicated in CAS. As we can see, the World Bank is not a major player in Uruguay. Nevertheless the Government clearly states that it would like to seek financial and technical assistance from the Bank in areas where it sees clear knowledge-based comparative advantages of the Institution. On the other hand, the present CAS implies there is a substantial reduction in Bank lending to Uruguay that,
in fact, signifies a start of a forced graduation. This is explained by country’s good social indicators, modest vulnerability to external shocks as well as a leading role of IDB in investment lending.

We believe that this approach downplays the extent of possible external risks faced by this small open economy. The Bank should reassess more carefully the vulnerability factors, such as volatility in terms of trade and access to export markets, and remain engaged with a view of still substantial development challenges. In our opinion, drastic reduction in Bank’s services at this stage is premature.

High Case lending scenario that envisages rather modest lending volumes is conditioned on superior policy performance including privatization of publicly held banks. Without a doubt, a well designed privatization of financial institutions can enhance efficiency and competitiveness. On the other hand, this strategy should fully take into account then the role of Uruguay as a regional financial center and the major role of the banking sector in the national economy. That is why we think that radical steps albeit in the right direction in a specific context can be associated with negative outcomes. The complex agenda of reforming Uruguayan banking sector alone, taking into account its domestic and international implications, justifies steady attention from the Bank and the continuation of assistance in the future.

Finally, we broadly endorse the CAS for Uruguay. At the same time, we believe that there is clearly a scope for more activity in the Bank’s program including lending and non-lending services in priority areas identified jointly by the Government and the Bank.