Board Meeting of June 25, 1997
Statement by Juan L. Cariaga

URUGUAY: Country Assistance Strategy

First, we wish to thank the management of the World Bank for preparing this assistance strategy for Uruguay. It is very well designed, and is further evidence of their high professional standards. I have consulted the Uruguayan authorities concerning this document, and they are in agreement with the overall strategy it presents.

As we represent the country under discussion, it is our function to present the views of its authorities concerning the Bank’s assistance strategy. Consequently, we would like to discuss first Uruguay’s special position with regard to the challenges it faces in endeavoring to speed up its development; second, the particular nature of the country’s structural problems, which are less severe than those affecting most of the Bank’s clients; third, the results of the country’s stabilization and reform program; fourth, the important role played by the Bank in past reforms, in particular the liberalization of agriculture; and fifth, the Bank’s participation in Uruguay’s development process.

First: Uruguay is a country with a high level of human capital and abundant natural resources, especially as regards agriculture. Poverty is minimal and declining, currently affecting only 6% of its inhabitants, and the social services provide coverage for practically the whole of the population. Even though Uruguay has suffered from considerable economic fluctuations mainly as a result of external events, there have been no major disruptions in its standard of living. The country’s institutions are firmly established, and Uruguay is a country that actively seeks to establish a social consensus. That is why the reform process in Uruguay is gradual and cautious, and why those reforms are having a sizable, and comparatively speedy, impact on its growth without social costs.

Second: Structural reforms in Uruguay are also different in nature from those implemented in other countries, since its structural shortcomings are neither as profound nor as evident as in other places. Let us take the example of privatization. In Uruguay, the contribution of privatization to gains in efficiency, welfare, and fiscal consolidation might be less extensive and dramatic than in other countries, because most of its public enterprises are earning sizable...
profits and are thus helping reduce the fiscal deficit. Despite this exceptional situation, privatization has made significant progress. Ports and airports have been privatized, and a substantial number of activities that were formerly the exclusive preserve of public enterprises have been deregulated and have ceased to operate as monopolies. In addition, concessions have been issued for the construction and maintenance of some major highways.

The financial sector is another special case. On the one hand, the country's state bank is undergoing a reorganization, with technical and financial assistance from IDB; on the other, the Uruguayan financial system showed just how firmly established and credible it was when it received large inflows of capital from the rest of the region as a result of the Mexican crisis.

Third: Uruguay has one of the best records in Latin America when it comes to stabilization and growth. Per capita income increased by over 3% per year over the last decade, and inflation has been substantially reduced as a result of a rigorous stabilization program launched in 1995 with IMF support. Moreover, the recent stand-by arrangement with the IMF -- entered into as a precaution -- is evidence of the Government's determination to consolidate stabilization without any slowdown in growth. This shows that the implementation of sound financial policies, combined with gradual but steadily applied structural reforms, is producing very positive results for the Uruguayan economy.

Fourth: It should be remembered that much of the increase in agricultural output and productivity, and also in agricultural exports, is due to successful Bank operations during the recent past. Support for the liberalization of the sector -- with the elimination of export taxes the liberalization of domestic trade in live stock, the introduction of new technologies and the Bank's identification of the country's forestry potential in the early 1980s-- is now producing results. Uruguay now has a strongest and more diversified, outward oriented agricultural sector and exports rice and forest products in addition to meat and dairy products.

Fifth: The country is making sustained progress, combining the gradual implementation of structural reforms with rapid macroeconomic stabilization program. What is also notable in Uruguay's development is that the Bank has played a predominant role in helping it achieve economic growth and export expansion by providing prompt and timely support for its reform process. The lesson to be learned from this long-term relationship with the Bank is that, in the case of Uruguay, the institution's support for a series of reforms that have been both gradual and fully discussed has proved effective. My authorities are open to broad cooperation with the Bank over Uruguay's development process, and trust that the institution will maintain its intellectual leadership and redouble its financial support for the country over the medium term.

Finally, I would like to share with you two recent developments that are very favorable for the Uruguayan economy. First, the entire body of legislation relating to the capital market has been modernized, so that all the forms of transaction typical of a contemporary market are now available. This completes the process of reforming the social security system, since it develops the supply of securities and will quite obviously contribute toward increasing savings and investment over the medium term. Second, two highly respected firms, Standard and Poor's and Moody's, have recently placed Uruguay in their "Investment Grade" category. Chile and
Colombia are the only other Latin American countries to achieve this classification. This in itself is clear evidence of how the international markets regard Uruguay's economic future.

To conclude, I wish to thank the Bank's management once again on behalf of the Uruguayan authorities, and to state that they will do their utmost to ensure the complete success of this strategy.