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Uruguay's government announced plans to repay the US$630 million it owes the International Monetary Fund (IMF) in 2006 ahead of schedule, advancing its payment cycle to the lender and saving millions on interest payments. The move by Uruguay follows recent efforts by neighboring Brazil and Argentina to rid themselves of US$25 billion in obligations to the IMF and could signal that Uruguay will be liquidating its remaining US$1.6 billion in outstanding debt sooner than previously planned. Observers from the IMF saw the payment as a sign that Uruguay was leaving behind the deep economic crisis that began in 2001 as recession struck neighboring economic powers Argentina and Brazil (see NotiSur, 2001-06-29, 2001-07-20, 2001-08-10, 2001-12-14, and 2002-01-11).

Uruguay joins regional effort to reduce IMF debts

The move by Uruguay follows much grander, more ambitious debt liquidation efforts by Brazil and Argentina, economic giants in comparison with their tiny neighbor. In December, Brazil paid off its total US$15.5 billion debt, the largest payment ever made by a member country to the IMF (see NotiSur, 2006-01-13). Earlier in 2005, Brazil declined to renew an agreement with the IMF (see NotiSur, 2005-04-15).

In January, Argentine President Nestor Kirchner announced the early and full repayment of US $9.75 billion in debt to the IMF, calling it a step by Argentina to gain "financial independence" from the international lenders whom he and many Argentines partially blame for the economic crisis that started in 2001. The early payments would save Uruguay US$8.4 million in interest, Economy Minister Danilo Astori said at a news conference, where he joined Agustin Carstens, the IMF's deputy managing director, the fund's third-highest official. Astori also said that the government had gained US$24 million in savings over three months by the cancellation of high-interest loans with the IDB and the World Bank, loans that the country agreed to during the crisis of 2002. Those loans would have expired in 2007 if Uruguay had not zeroed them out.

Astori said the measures would represent a "reduction" in the "vulnerability" that such a high debt load would represent. Astori said, in all, the government had saved US$34 million in interest by accelerating payments. Carstens praised Uruguay's progress since the crisis, saying the country had embarked on a "successful" economic restructuring plan that was triggering robust growth for the third straight year.

As in Argentina and Brazil, in Uruguay some critics on the left questioned the legitimacy of the international debts often accrued under less-than-democratic governments and thought the large payments would be better spent on social programs and on fighting poverty.Governments like those of Kirchner, Vazquez, and Luiz Inacio Lula da Silva in Brazil that entered power with left-wing platforms have presented the payments as investments in national fiscal autonomy.

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Vazquez came under criticism from some members of his leftist Encuentro Progresista-Frente Amplia (EP-FA) coalition for making the payment. Uruguay either cannot afford or does not want to engage in the antagonistic verbal campaign Kirchner has conducted against the IMF. Neither Astori nor his boss President Tabare Vazquez used the barbed rhetoric against the fund that has become one of Kirchner's trademarks. The fund, facing its own financial difficulties with the absence of interest payments from large loan holders like Brazil and Argentina, may soon not be able to count on Uruguay for interest payments either. Astori did not rule out making other payments to the IMF ahead of schedule if economic conditions permit.

This payment represented eliminating debt payments scheduled for the first quarter of 2006 and moving up payments previously set for 2007. Uruguay and the IMF reached a three-year lending accord in 2005 as part of ongoing plans to revitalize the country's economy.

Strong growth in Argentina under a regime of increased autonomy from IMF strictures, along with steady growth in Brazil, has helped Uruguay significantly in the years since the 2001 meltdown. Uruguay GDP projected to grow 5.7% in 2006 Authorities are predicting Uruguay's GDP will expand 5.7% in 2006, adding to the 6.6% growth in 2005 and a record 11.8% jump in GDP in 2004. The 2005 growth included a 9.5% increase relative to 2004 in manufacturing, an 11.6% increase in trade and hotels, a 10.9% rise in communications and transportation, 6.4% growth in electricity, gas and water services, and 3.2% growth in agricultural production.

Meanwhile, Astori described the early repayment as part of efforts by economic planners to improve debt portfolios and save interest. Uruguayan bonds gained value on the markets after Astori's announcement. Earlier in March, the government issued 30-year bonds for US$500 million with a fixed interest rate of 7.625%.

On March 16, Astori said the government had been planning to issue US$300 million in bonds, but found demand that reached US1.5 billion, so they expanded the sale to US$500 million. That sale contributed to the early payment to the IMF. Uruguayan officials said the payment would be another step toward gaining independence from the IMF without risking measures that fiscal restrictions disallow. In recent months, Uruguay has issued US$1.3 billion in bonds at rates much lower than those the government was paying to the international lenders, according to Spanish news service EFE.

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