

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments  
Restrictions

REPORT ON THE CONSULTATION UNDER ARTICLE XVIII:12(b)  
WITH URUGUAY

1. In accordance with its terms of reference, the Committee has conducted a consultation with Uruguay under Article XVIII:12(b). The Committee noted that the previous consultation with Uruguay on its import restrictions had been held under the unrevised provisions of Article XII:4(b) in April 1968 (cf. BOP/R/20). In conducting the present consultation the Committee had before it a basic document supplied by the Government of Uruguay (BOP/107) as well as background material supplied by the International Monetary Fund.
2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation took place on 18 June 1970. The present report summarizes the main points of discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Uruguay. In accordance with the agreed procedures the representative of the Fund made a statement, which was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 20, 1970, taken at the conclusion of its most recent Article XIV consultation with Uruguay and particularly to paragraphs 2 to 5 (see Annex II).

"On May 27, 1970 the Fund has approved a stand-by arrangement with Uruguay authorizing the purchase of up to \$13.75 million in foreign currencies over the next twelve months."

Opening statement by the representative of Uruguay

4. In his opening statement the representative of Uruguay outlined his country's basic economic problems, the policies being pursued to combat inflation and to stabilize the economy and the progress that had been made in attaining the objectives

set. He also described the balance-of-payments position and prospects and the import control régime at present in force. The full text of the statement is contained in Annex I to this report.

#### Balance-of-payments position and prospects

5. Members of the Committee expressed appreciation for the very comprehensive and informative statement made by the representative of Uruguay. They congratulated the Uruguayan authorities on the marked improvement in the country's economic situation over the past three years, which was largely attributable to the policies pursued by the Government during that period, policies which were generally in line with the advice offered by international bodies such as IMF and GATT. They expressed the hope that the improvement would continue on the good course that had now been set. The Committee was particularly gratified to note the declaration included in the basic document for this consultation that: "... the Government proposes gradually to open the doors of the national economy to the fullest play of foreign competition and, at the same time, to continue its policy of liberalization. This policy, which is one of the essential elements in the economic thinking of the Government of Uruguay, is being followed not only because of the conviction that it produces tangible results, but also because it is considered to be inspired by the letter and spirit of the General Agreement in that freedom of exchange is an important factor in stimulating trade" (BOP/107, page 7). In other words, as had been reaffirmed by the representative of Uruguay, the policy being followed was aimed at restoring equilibrium through the expansion of exports and promoting the integration of the Uruguayan economy with the world economy.
6. In reviewing the balance-of-payments position, a member of the Committee drew attention to the significant recovery in exports in recent years which, in fact, reached the highest level in ten years and enquired to what extent this was attributable to the price policy that had been so resolutely pursued in 1969, and whether the reduction in export levies had played a part. He expressed the hope that these policies would be continued. On the other hand, the very marked rise in imports in 1969 had largely offset the gain in exports and, considering that there might be obstacles to the prolonged adherence to a rigid price policy, it would be interesting to know how the Uruguayan authorities viewed the future prospects in regard to the trade balance. As regards the other sectors of the balance of payments, receipts from tourism had been stable over the past few years; the Committee would like to be informed of any special measures taken to develop this branch of the economy. On the capital account, whereas the largest inflow in 1968 had been in the form of long-term government loans, the 1969 inflow to the public sector had been only one third as large, and a predominant position had been taken by short-term commercial credits. One would therefore like to know whether any steps were contemplated for the re-scheduling of external debts through, for example, the contracting of long-term loans with international institutions. The developments in the various sectors of the balance of payments had indeed resulted in a remarkable rise in foreign exchange reserves in the last four years. One would like to know whether the Uruguayan Government regarded the present trend of rapidly rising imports, coupled with a less rapid rise in exports, a cause for

concern in regard to the balance-of-payments prospects in the coming years, and what measures - for example, an even more stringent price policy, or a tighter fiscal policy - might be adopted to forestall a decline in reserves.

7. Another member of the Committee commented that the rise in gross national product in real terms in 1969 bespoke the effectiveness and success of the current economic programme. Partly owing to favourable weather conditions, agricultural production had been good in that year and had contributed to an increase in exports. It was to be hoped, however, that apart from weather conditions, the price and other policies to increase agricultural production would soon bear fruit and be reflected in increased export earnings. Uruguay had long proved to be adept and efficient in exploiting its natural resources and one could expect that it would be successful in further raising productivity and production in agriculture, thus laying a firm foundation for further economic progress. The substantial increase in imports in 1969 and their continued rise in the first months of 1970 might be attributed to pent-up demand that had been built up in previous years during which imports were subject to more stringent restriction, and part of the current import demand could therefore be regarded as non-recurrent, which would be a favourable sign with regard to import prospects for the future.

8. Members of the Committee also referred to the shortfall in fiscal revenue from the expected level in 1969 and the excess of expenditure above the level forecast, and expressed the hope that the attempt to improve the situation in this regard in 1970 would be successful as this would help to bring about a slower growth of the money supply. In 1969 the large increase in money supply had been cushioned by a rise in the public's propensity to hold cash balances. A further easing of the liquidity base in 1970 and the next year would most likely lead to greater pressures on imports. It was therefore to be hoped that the fiscal and monetary policies would be continued or even more energetically pursued so as to lessen unduly heavy calls on the foreign exchange reserves, and to avoid recourse to commercial policy measures which were contrary to the Government's declared objective of furthering trade liberalization and detrimental to economic growth on a sound basis. It would also be desirable if greater reliance could be placed on domestic sources for budgetary revenue by way of increasing direct and indirect taxes, rather than on levies that impinged on foreign trade. Above all, since the continued rise in domestic prices - even though at a relatively moderate rate - would already have substantially offset any increase in productivity that might have been achieved and constituted a severe disincentive to exports, the export tax on agricultural products should be reduced.

9. A member of the Committee noted that according to the statement contained in the basic document (BOP/107), the objectives of the current stabilization policies included: (a) an increase in reserves by \$29 million in 1970, (b) exchange stability, (c) limitation of the rise in prices to 15 per cent, and (d) maintaining domestic liquidity in 1970 at the 1969 level. He expressed the view that these objectives seemed not to be mutually consistent and might not all be attained. The Uruguayan delegation was invited to comment on this point as well as on the steps that might be taken in the event of any one of the objectives not being realized. Another member of the Committee pointed out that present indications

were that the rise in prices in 1970 was likely to exceed the 15 per cent envisaged and enquired whether any steps were being considered should this limit be substantially exceeded.

10. A member referred to the statement in the basic document that one of the "basic assumptions" of the current stabilization programme was to prevent salary increases in the private sector this year and wished to know the relative importance of the private and public sectors in the Uruguayan economy and whether parallel restraint applied in the public sector.

11. In response to the above comments and questions the representative of Uruguay supplied supplementary information or clarification, in particular the following:

Export policy: There had been no change in the legal basis of the measures affecting exports since the last consultation was held in 1968. The Government remained determined to take all measures available to stimulate the expansion of exports. New formulae were being examined and were likely to be adopted before the end of 1970.

Tourism: Receipts from tourism had increased from \$35 million in 1964 to \$45 million in 1965 and had since remained at the same level. Outward payments on this account had amounted to \$35 million in 1964 and had fluctuated between \$18 and \$20 million since 1965. The Government's policy had consistently been to foster the development of this branch of the economy. The establishment of a Ministry of Tourism bore out the importance attached to this matter, and a positive programme of construction of roads and hotels was being implemented with a view to attracting an increasing number of tourists, especially from neighbouring countries.

Agricultural production: The considerable increase in agricultural production in 1969 had not only been due to favourable weather conditions but mainly due to the successful implementation of the agricultural plan, which provided for a substantial rise in productivity and output. As regards the prospects for 1970 production was expected to exceed the 1969 level.

Domestic prices: The Government firmly believed that all the objectives set for this year in the monetary and fiscal fields, as well as those relating to prices and reserves, would be attained. Between 1968 and 1969 the rate of price increase had been brought down from 137 per cent to 15 per cent while wages increased also moderately and reserves mounted. There was no reason to doubt that similarly satisfactory progress would be achieved in 1970. At least in regard to prices the Government was determined to hold the line, and the forecast had been proved correct during the first six months of the year, in spite of a substantial increase in the tariffs for certain public services.

Wages policy: Similarly, the wages policy would also be rigidly followed, in the private sector as well as in the public sector. The Productivity and Incomes Board created under a public law had, for the first time in Uruguay, enabled the regulation of wages in the private sector on a national scale and ensured the effective implementation of the Government's stabilization policy and programme. Wages in the public sector were of course subject to more direct control by the Government, and the policy pursued since the beginning of the year had been to permit a certain measure of adjustment to take account of the rise in prices.

12. Members of the Committee congratulated the Uruguayan Government on its successful implementation of the stabilization programme. It was noted that Uruguay, which had faced for a very long period major problems of development, had, by a series of radical and sharp changes in economic policy, succeeded in curtailing domestic inflation beyond expectation. This success, achieved against great odds and not without difficulty, had been followed almost immediately by increases in production. This had laid a firm foundation for further economic growth, which would be assured if the same policies were continued and, where necessary, intensified, and if the plans being formulated for improving agricultural efficiency were also carried out.

#### System and methods of restriction

13. Members of the Committee also noted the affirmation in the documents available that there no longer existed in Uruguay any quantitative import restriction. Some members pointed out, however, that the various other commercial policy measures in force nevertheless constituted effective obstacles to trade. They commented on the complexity of the Uruguayan import régime which was found difficult to comprehend to officials and traders in foreign countries. Some members expressed regret that in spite of the successful implementation of the stabilization programme, the Government still found it necessary to maintain its present import control system with all its paraphernalia, in particular the discriminatory arrangements which had been the subject of discussion on a number of previous occasions. In reply the Uruguayan representative stated that the system had remained exactly as it had been at the time of the last consultation in 1968. Indeed, apart from the few minor adjustments which had been reported to the CONTRACTING PARTIES, it was the same system that had been examined in this Committee on several occasions; there could, therefore, be few mysteries left about the mechanism.

14. In response to questions concerning (a) advance import deposits and (b) prepayment for imports, the representative of Uruguay stated that most imports had, since 15 January 1968, been exempted from the advance deposit requirement and the regulation, nominally applicable to a few products, was no longer being applied in practice. As regards the prepayment (consignaciones) for imports, there had been no change in the system since the last consultation, and a number of categories of imports, such as imports by the public sector, those financed by institutional loans, automobile kits, etc. were exempt from the requirement. Members of the Committee enquired as regards the distinction between the advance deposits and the

"consignaciones" and the prospects of the "consignaciones" being eliminated in the near future. They considered that, having regard to its limited incidence on imports on account of the vast range of imports exempt from it, the system merely added to the complexity of the system without yielding much real, meaningful benefit. On the other hand, the uncertainty constituted a major concern for the trading community, especially foreign suppliers of new types of products. Having regard to its declared temporary nature, it was to be hoped that serious thought would be given by the Uruguayan authorities to the possibility of its abolition in the near future. The representative of Uruguay explained that the system of "consignaciones", which had been introduced in 1967, was indeed very akin to that of the advance deposit which, as noted above, had fallen into desuetude. Its purpose was to reduce to a minimum the direct, quantitative regulation of imports. Its incidence on imports was indeed minimal, and it constituted in reality no significant obstacle to trade.

15. The Committee also discussed the possible discriminatory effects of the exemption of tied-aid financed imports from the requirement and its evident inconsistency with Article I of the General Agreement. One member pointed out that 98.5 per cent of Uruguay's imports being exempted from the requirement any such divertional effects must be negligible. The representative of Uruguay replied that the exemption related to imports of capital goods financed by loans and involved no differentiation as between supplying nations as such.

16. In the light of the discussion members of the Committee reiterated their hope that the "consignaciones" system, which evidently no longer served any useful purpose, should be eliminated at an early date. The representative of Uruguay stated that his Government was actually engaged in a thorough review of the whole import control system and that a new system, more flexible and more suited to the needs of the economy, might be adopted in the near future. The views that had been expressed in this Committee would no doubt be taken into account by his Government in the formulation of the new policy and measures.

17. Members of the Committee referred to the recent termination of four bilateral payments agreements, including three with contracting parties to GATT, and enquired about any steps that might be taken in regard to the one remaining agreement. In reply the representative of Uruguay stated that it was his Government's intention not to enter into any new payments agreements and that the remaining one, with Bulgaria, might be terminated when it became possible to do so next year. Recently concluded agreements (with Bulgaria, Israel, Romania and the USSR) were trade agreements aimed at facilitating and promoting trade without exchange provisions that might cause trade diversion.

### Conclusion

18. The Committee noted with satisfaction the successful implementation by the Government of Uruguay of its comprehensive stabilization programme, and expressed the hope that continued adherence to the objectives set would lead to further improvements in the balance of payments, thus enabling the consolidation and completion of the liberalization of imports.

19. The Committee, noting from the explanation given by the Uruguayan delegation that the prepayment for imports (consignaciones) at present in force exerted only limited effects on imports and contributed insignificantly to the balance of payments, urged the Uruguayan authorities to take early steps to eliminate this measure.

20. The Committee's views on the import surcharges as a balance-of-payments measure are contained in a separate report. While it recommended the renewal of the waiver, the Committee hoped that the Uruguayan Government, in operating the surcharges, as well as other commercial policy measures, would bear in mind the adverse effects of the protection afforded by them on the efficiency of the economy.

21. The Committee expressed appreciation for the open and active participation of the Uruguayan delegation in this consultation. The representative of Uruguay stated that he had taken due note of the comments made which he would convey to his Government for attention.

Annex I: Opening Statement by the Representative of Uruguay

Annex II: IMF Board Decision

ANNEX I

Opening Statement by the Representative of Uruguay

1. On four earlier occasions - in May 1960, September 1962, November 1965 and April 1968 - Uruguay held consultations under Article XIII:4(b) with the Committee on Balance-of-Payments Restrictions.

My country is now consulting once more, with the object of examining the consistency of its economic policy, and more particularly the present import régime, with the GATT rules, and in order to comply with the Decisions adopted by the CONTRACTING PARTIES and the Council of Representatives.

2. The consultation is being carried out in accordance with the plan of discussion adopted by the CONTRACTING PARTIES in 1958, which is still in effect.

In reality, having regard to Uruguay's present economic situation and the system in force, we are not here to justify restrictions under the terms of Article XII - since there are no import prohibitions and no discrimination of any kind - but to describe the difficulties which exist and to show the Government's firm resolve to overcome them by means of a national effort which is the primary and essential element, and international co-operation and understanding already made manifest for example by the IMF, IDB and AID, a spirit which, we do not doubt, will also be present here also.

3. Before examining more closely the topics included in the plan of discussion, the Uruguay delegation, which forwarded to the GATT secretariat by the required date the working document for the consultation (BOP/107), wishes to point out that the Government has undertaken and brought into operation, since November 1967, a realistic and effective economic plan for ensuring adequate national development, together with the adoption of measures to deal with and restrain the inflationary process, thus achieving rational stabilization.

These measures, taken in particularly difficult circumstances - as I outlined at the 1968 consultation - have yielded very encouraging results which have changed the economic and social picture of the country.

An internal climate of confidence and of resolve to work and progress has been built up as a result of a number of factors in combination: complete monetary stability has been achieved since April 1968, despite an adverse situation in regard to wool exports; the country's gold reserves have gradually been built up again, as a result of scrupulous fulfilment of our obligations abroad; internal stabilization has been restored and inflation is under complete control. This is not all, but it indicates that a definite start has been made along the path to stability and recovery and it will have to be followed unflinchingly.

This new economic policy is designed, so far as foreign trade is concerned, to achieve a radical expansion and at the same time rational and planned diversification of exports; on the import side to strengthen the complete liberalization which already exists, without prohibitions, quantitative restrictions or discrimination of any kind - regulated solely in the light of the inescapable requirements of the current balance-of-payments situation, that is to say, by the application of certain surcharges on a temporary basis.

4. There is no doubt that Uruguay has undergone an extremely serious economic crisis of unusual duration and with very special characteristics.

Within the limits of its geographical dimensions and the size of its population, in the first decades of this century Uruguay reached a high level of social, economic and political development. Its economy progressed very rapidly while external conditions were favourable. Foreign capital flowed into the country, supplementing national savings to expand the basis of production. In a climate of internal and external stability, progress was made towards an adequate distribution of income and wealth. (See annex, Tables 1 and 2 and Graphs I and II.)

In the 1950's, a marked change began to become apparent, with a decline in per capita production, first in the agricultural sector (1956) and then in the secondary and tertiary sectors (1957) and as a result of which our import capacity began to decline. These changes adversely affected the possibility of keeping up the rate of economic and social progress, and the country entered a period of widespread and progressive inflation. In the process, large losses of international reserves were incurred, incentive to save was decreased, and there was a substantial outflow of capital. The continuing deterioration in the rate of investment rate in real terms and the national and external instability of the economy contributed to a marked decline in the country's productive capacity. Large sectors of the community, in particular the lower-income brackets, were the victims of this process.

5. From 1967 on, Uruguay found itself in a situation where it had to check severe inflation and at the same time to begin a process of bringing the growth rate up to a more adequate level. The Government is fully aware of the urgent need to promote vigorous development, involving considerable expansion of investments towards a substantial increase in agricultural production, particularly of products that can be exported; greater efficiency of local industry must be promoted and it must be directed towards production for foreign markets.

- The first steps in this economic recovery process were the plans designed:
- (a) to reduce the rate of inflation;
  - (b) to foster the export drive; and
  - (c) to do everything possible to increase investment.

The economic policy which has been followed resolutely since the latter part of 1967 has made it possible to achieve some very positive results towards attainment of these objectives.

In the course of this statement I shall analyse each of these elements, but I should like for the moment to address myself to the fight against inflation, which has been the focus of Government policy.

In 1967 prices had risen by 136 per cent; in 1968 - when the plan was already in operation - the increase declined to 66 per cent, and in 1969 was only 13.5 per cent. This tremendous reduction could be achieved without any social or political upheavals because in 1969 real wages increased by 4.7 per cent, so that a sound development policy could be launched. The principal aggregates of "overall supply and demand" (Table 3 and Graph III) seem to reflect this.

6. The part of the programme designed to promote exports and reduce fiscal pressure required, as an initial step, a substantial adjustment in the rate of exchange in November 1967.

This adjustment was already commented on in the last report. In April 1968 a further adjustment became necessary, raising the value of the dollar to Ur\$250. Since then, that is to say for the past two and a half years, and with no controls of any kind, the rate of exchange has remained unchanged and there are no prospects nor any need for further adjustments.

7. If we take as a reference point the year 1955, one of the last before the period of deterioration commenced, and if we compare it with the year 1969, we can see the chronic stagnation of Uruguay's economy, because over that whole period gross product increased by barely 7 per cent (see Tables 1 and 2 and Graphs I and II).

Over the period 1955-1969 as a whole, gross internal product at constant prices increased by 7 per cent, representing an annual average of 0.5 per cent which is also valid for the period 1961-1969.

On the basis 1961 = 100, we find, however, that GNP at 1961 factor costs reached 104.2 per cent in 1969 which, as we have already indicated, implies growth of the order of 5.3 per cent in relation to 1968. From the social aspect, such an increase represents an increase by \$5,645.6 in per caput GNP, at 1961 factor costs, exceeding the figures for the years 1968 (\$5,431) and 1967 (\$5,435) - and this was exceptional having regard to the negative percentages of the years immediately preceding 1969. The growth of per caput GNP in 1969 was thus by 4.2 per cent.

In 1969 also, a substantial increase was recorded in fixed internal gross investment and in gross internal formation of fixed capital, resulting in an investment ratio of the order of 15 per cent of GNP, with an increase of the order of 32.3 per cent in relation to 1968 (see Tables 3 and 4, Graphs III and IV).

8. Uruguay's programme provides for an improvement in external reserves which will make it possible to establish better order in the country's external obligations. Although Uruguay's total external indebtedness cannot be said to be excessive, the accumulation of maturities in coming years constitutes a heavy burden. It is in relation with this problem that Uruguay has sought the assistance of the International Monetary Fund and some time ago adopted measures to increase its quota from \$30 million to \$55 million, and this has already been done by making the relevant payments.

The International Monetary Fund has just approved a stand-by loan authorizing the purchase of up to \$13.75 million in foreign currency over the coming twelve months. This stand-by agreement will constitute a supplementary line of reserves to meet contingencies.

9. In 1969, action was successfully taken to restore various situations, in particular with respect to outstanding foreign payments, increased foreign exchange reserves, and recovery of gold bullion which was outside the country. These will be commented on more specifically in connexion with the balance of payments.

#### I. Balance-of-payments position and prospects

(1) In the first place we must examine the present position of the trade balance, in the light of its evolution since the last consultation in 1968.

On that occasion, commenting on developments over the period 1965-1967 we stated that the situation had progressively deteriorated and that 1967 had been a disastrous year for Uruguay's exports, for various reasons which we examined on that occasion.

In 1968 the situation was somewhat better (exports 179.2, imports 159.2) and in 1969 there was a definite improvement. In the latter year exports reached \$200.3 million (forecast \$196 million), the highest level for the past ten years, while imports reached \$197.3 million (forecast \$170 million).

Thus, exports were 11.8 per cent above their 1968 level, yielding a surplus of \$3 million, greater than the amount expected. This surplus was achieved despite the fact that imports increased by \$20 million over the 1968 level; this was attributable to increased supplies of raw materials, machinery and goods in general.

The document which has been distributed analyzes the increase in Uruguay's exports and the various contributory factors. I leave it to speak for itself.

(2) So far I have spoken of the trade balance. As regards the balance of payments, the situation is better than that described at the 1968 consultation.

Balance-of-payments situation and international reserves

(a) The net balance on current account (in million dollars) showed a deficit of 0.8 in 1963, a deficit of 0.8 in 1964, a surplus of 72.2 in 1965, a surplus of 59.3 in 1966 and a deficit of 5.4 in 1967, on the basis of the following totals in the same periods (see Table 4 and Graph V):

<u>Receipts</u>		<u>Payments</u>	
212.3	-	213.1	= -0.8 (1963);
237.1	-	237.9	= -0.8 (1964);
257.1	-	185.1	= +72.0 (1965);
254.7	-	199.4	= +59.3 (1966);
231.7	-	237.1	= -5.4 (1967).

Preliminary figures for 1968 and 1969 - which are naturally subject to revision - indicate the following results:

<u>Receipts</u>		<u>Payments</u>	
254.2	-	233.4	= +20.8 (1968);
276.2	-	275.8	= +0.4 (1969).

(b) The net balance on capital amount and monetary gold (also expressed in million dollars) showed a surplus of 1.4 in 1963, a surplus of 61.8 in 1964, a surplus of 17.8 in 1965, a deficit of 18.9 in 1966 and a deficit of 2.8 in 1967, on the basis of the following totals in the same period (see Table 4 and Graph V):

<u>Receipts</u>		<u>Payments</u>	
40.0	-	38.6	= +1.4 (1963);
90.1	-	28.3	= +61.8 (1964);
91.7	-	73.9	= +17.8 (1965);
88.0	-	106.9	= -18.9 (1966);
50.2	-	53.0	= -2.8 (1967).

Preliminary figures for the years 1968 and 1969 - which are naturally subject to revision - show the following results:

<u>Receipts</u>		<u>Payments</u>	
39.7	-	16.0	= +23.7 (1968);
21.7	-	13.3	= +8.4 (1969).

In summary, the evolution of the balance of payments since the last consultation in 1968 has been as follows:

Net balance on current account:	+20.8)	
1968	)	+44.5
Net balance on capital account:	+23.7)	
Net balance on current account:	+0.4)	
1969	)	+8.8
Net balance on capital account:	+8.4)	

(c) International reserves. The results of the past two years are clearly positive.

In 1969 international reserves increased by \$16 million (against a forecast of \$9 million) and this increase coincided with the net result of purchase and sale of foreign exchange.

In 1968, reserves calculated in the same way had increased by \$35.3 million.

As regards external indebtedness, between 31 May 1965 and 31 December 1969 the debit balance decreased by \$176 million.

Lastly, gold reserves increased by \$31.6 million in 1969, as against a decline by \$6.2 million in 1968.

To sum up, in 1969 the balance of payments showed a surplus of \$8.8 million according to preliminary estimates by the Central Bank.

It should also be stated that, following on recent developments, a new stand-by credit in the amount of US\$13.75 million has been agreed with the International Monetary Fund in order to support the balance of payments and exchange policy.

(3) The adjustment in the rate of exchange in 1968 resulted not only in an immediate improvement in exports, but also in an immediate inflow of capital, with all the favourable consequences following thereon.

(4) For the first time since 1956, exports passed the \$200 million-mark; and while one should not overlook the negative factors which prevent, impede or hinder access to export markets for Uruguay's products - as a result of measures adopted by third countries in breach of the General Agreement - this improvement in export prospects will make it possible to maintain the present régime of complete freedom of imports, without discrimination or prohibition of any kind.

(5) Concluding this review of part I of the Plan of discussion, I should like to say that the fact that there are at present no quantitative restrictions, prohibitions or discrimination of any kind on imports into Uruguay, despite the balance-of-payments difficulties carried over from earlier years, clearly demonstrates Uruguay's resolve to strengthen and maintain a liberal policy and its desire to apply not only the letter of the General Agreement, but also the spirit underlying its provisions.

## II. Alternative measures to restore equilibrium

### 1. Stabilization measures

One of the essential points of the stabilization measures put into effect by the Government of the Republic was its prices and incomes policy.

The index of price increases in 1969 was 14.5 per cent, which compares favourably with the estimate of 20 per cent. This is the lowest rate of increase in recent years (136 per cent in 1967 and 66 per cent in 1968).

The trend of prices to rise, which had been very marked in recent years, was drastically stopped by the application of the Decree of June 1968 which froze prices and wages. Thus, whereas during the first half of 1968, before the Decree came into force, there had been an inflation of 63.7 per cent, in the second half the figure was only 1.6 per cent. In the two halves of 1969 the corresponding increases were 7.8 and 6.2 per cent respectively.

The prices and incomes policy introduced by the Government of the Republic and continued in a co-ordinated manner under the terms of Act No. 13720 which set up the Committee of Productivity, Prices and Incomes (COPRIN), set in motion two important factors which favoured stabilization:

- (i) the fixing of minimum price increases for essential articles;
- (ii) the control of wage increases by limiting them to what the undertakings could absorb without altering their prices. In applying this control, account was taken of the inflated profits which the undertakings obtained during the first half of 1968, when they raised prices in advance of any rise of costs and of any increase in productivity which it might have been possible to achieve.

To those factors of stabilization which made it possible to restrict the rise in prices in 1969 must be added certain others, such as the stability of the exchange rate, the limitation of the absolute profit margin in the commercial sector, the favourable climatic conditions during 1969 which permitted an increase in agricultural production and, finally, the absence of any expectations of inflation which had the effect of reducing speculative demand by middlemen.

2. The goals set by the Government for 1970 within the framework of its stabilization policy include the maintenance of the rate of exchange and an increase in the price level not exceeding 15 per cent. The basic document presented by the Uruguayan Government contains a detailed analysis of this question.

3. The unsatisfactory fiscal performance of recent years has undoubtedly been responsible for the country's overall economic evolution. The Government is aware that fiscal policy is an essential element in achieving effective internal stabilization and that its effects are felt in every sector of economic activity.

Despite the efforts made, however, action designed to reduce the tax deficit has not yet yielded clearly positive results.

The implementation of the budget of the Central Government for 1969 resulted in a deficit amounting to Ur\$8,200 million (expenditure Ur\$69,970 million, receipts Ur\$61,770 million), which is equivalent to 11.7 per cent of expenditure.

Notwithstanding the increase of about 8.3 per cent in the index of revenue from taxation, the expected receipts were not achieved; in fact, they were Ur\$1,900 million less than had been foreseen. At the same time there was an unexpected expansion in expenditure to the extent of Ur\$1,900 million; hence there was a deficit in cash of Ur\$8,200 million which was Ur\$4,400 million more than had been foreseen.

It had been foreseen that any deficit could be financed from two sources:

- (a) the issue of Treasury Bills for Ur\$1,400 million;
- (b) a credit of Ur\$3,000 million from the Bank of the Republic.

As the Treasury Bills did not yield the amount that had been expected and as the collection of receipts from taxes and other sources did not reach the expected goals, the Government had to request more help than had been expected from the Bank of the Republic.

At the same time the unfavourable trend in international wool prices led to a reduction in receipts from export rebates in respect of 1968 (by Ur\$3,600 million or a decrease of 38 per cent).

Although the remaining cash receipts increased as compared with 1968 by Ur\$16,600 million (47 per cent), they nevertheless fell short of the figure which had been estimated by Ur\$800 million.

On the other hand income from surcharges increased by Ur\$1,600 million (64 per cent) as compared with 1968, which was an increase of Ur\$100 million above the estimate.

This deficit in 1969 is a source of concern in view of its possible inflationary effects which, because of their impact on the economic process in general, might even nullify the results already obtained.

The Government has already launched a radical policy to deal with this question, and hopes to achieve positive results in 1970.

As regards current expenditure, the Government has made every effort to reduce its volume and achieve savings under all headings, being aware of the importance of this in any stabilization programme.

In addition, the Treasury intends to introduce administrative controls on the authorization of current expenditure, in order to achieve additional savings during the current budget period.

4. At the 1968 consultation we stated that the Uruguayan Government had reached the conclusion, after examining all elements of the national economic situation and of recent experience, that efforts should be concentrated on the short- and medium-term aspects. To this end, it drew up a national five-year plan (1968-1972) which up-dated the ten-year plan 1965-1974, with an economic and financial programme for the year 1968, and an investment and development promotion plan for the same period.

As I have already said in the opening section of my statement, the immediate concern was to establish conditions conducive to recovery of the rate of economic development. This implied action on a priority basis to achieve economic stability, in order to check the rapid rise in prices without thereby creating any tendency towards recession.

In order to attain this objective, which has already been achieved in part, certain major reforms are necessary; these include a re-orientation of the public sector, in particular through an appropriate policy to eliminate red tape, which was planned and strictly carried out in 1969 by the Civil Service Office and was announced in various very important decrees issued by the Executive; a radical change in the system of social security and the organization and restructuring of public undertakings, as well as a programme of public investment in infrastructure projects for the country's development and which will employ manpower during the stabilization period. At the same time special attention is being given to the

need to greater agricultural productivity which is essential for the economic take-off. Encouragement is also being given to traditional industries, in order to reduce unemployment still further.

Because of the fact that its market is too small, Uruguay has based its plan of action on a broader export market. The country's economic development will depend on an increase in exports of agricultural and livestock products in the short term, and of industrial products in the medium term.

Priority must therefore be given to the agriculture in the short and medium term. Without recovery in this sector it will not be possible to embark in a realistic way on a sound industrialization process, or on rapid and sustained economic development in the long term, because of present circumstances. Government measures already adopted in this sector cover a wide range and have yielded immediate and positive results.

Thus, in 1969 there was a pronounced recovery in agricultural and livestock production, by 15 per cent, while industrial output increased by more than 4 per cent.

All this requires concomitant action by our principal international customers, within an appropriate policy of opening up their markets, so as to ensure reasonable access at remunerative prices for Uruguay's exports.

### III. System and methods of the restrictions

1. The legal basis for the restrictions that can be applied on imports into Uruguay is the Law of 17 December 1959 establishing a régime that has already been examined in earlier consultations.

The basic principle underlying the law, as stated in its Article 1, is to establish a system of unrestricted imports, in contrast to the system existing when the law was enacted, but at the same time it allows the authorities to regulate imports by:

- (a) requiring the payment of prior deposits;
- (b) establishing surcharges of up to 300 per cent of the c.i.f. price on non-essential or luxury products and goods competing with national production;
- (c) prohibiting entirely or in part, for a period of six months that may be extended, imports of non-essential or luxury products and goods competing with national production.

2. Since November 1967 the new economic policy has implied the gradual elimination of all existing prohibitions on imports. Under the decrees of 6 November and 1 December 1967 and of 9 January 1968 all prohibitions or quantitative restrictions on imports have been revoked. Accordingly the possibility mentioned in Article 1(c) of the Law of December 1959 has not been invoked and the Government's policy is not to re-introduce any prohibitions or restrictions of this kind.

At the last balance-of-payments consultation in this Committee, Uruguay explained in detail how the restrictions provided for in the aforementioned Law are applied. It also explained how the system of prior deposits had been abolished and replaced by a system of consignations under the Decree of 1 December 1967 which authorized the Central Bank to charge consignations in national currency on imported goods. Under Circular No. 48 of the same date, the Central Bank abolished the prior deposits and introduced the system of consignations, acting under authority conferred upon it by the aforementioned Decree of the Executive.

As also stated at the last consultation in this Committee, the Government's intention is to abolish the system of consignations as soon as economic conditions permit. For the moment the system is still maintained without any change in the method of application, and its duration was recently extended for six months.

No discrimination is made in Uruguay according to the origin of imported goods. Nevertheless, as a member of LAFTA, Uruguay has to observe the commitments entered into under the Montevideo Treaty with other countries in the area, and solely in pursuance of those commitments it applies a special system of surcharges and consignations in respect of goods originating in other LAFTA countries.

Imports by the State, State-trading enterprises or State industries are exempted from consignations. Special treatment is also provided for fuel imports by ANCAP, under the law establishing that body as the Government monopoly in this sector.

As may be seen, there has been no substantial change in the import régime since the last consultation except in certain special cases, for example, that of imports of capital goods for export industries which are exempt from surcharges (Decree of 28 October 1969 and relevant Central Bank circulars).

3. I repeat, under the import régime there are no prohibitions for protective reasons.

The application of surcharges is permitted however, inter alia, in the case of goods competing with national production.

No immediate and complete abolition of the surcharges can be envisaged at present but the Government has realized the need to review its entire policy in this field; for that reason the economic and financial programme states that "a review is to be made of the system of protection, including the present system

of exchange surcharges, with a view to establishing a national tariff mechanism that will encourage domestic activity in the context of greater efficiency in the country's industrial activities".

Nevertheless, and even taking into account the obvious improvement in the country's overall economic situation and all the progress made in the state of the trade balance and balance of payments, there are many reasons - in particular the large and disproportionate budget deficit as well as the existence of restrictions and limitations on Uruguay's exports, such restrictions having been created and maintained in breach of the General Agreement - which still make it impossible for the Government to contemplate eliminating the existing restrictions.

4. Accordingly, the present situation can be considered as being a transitional phase, pending the disappearance of the negative factors referred to. It will then be possible to carry out in full the decisions referred to in the foregoing paragraph of the Government's programme and the necessary measures are in preparation to complete the present situation in which there are no prohibitions or quantitative restrictions on imports.

5. It is clear that, by having applied a minimum level of restrictions to ensure balance-of-payments equilibrium, Uruguay has strictly observed the requirements of Article XII:3(c) of the General Agreement, in that there is nothing in the existing system:

- (i) to cause unnecessary damage to the commercial or economic interests of any other contracting party;
- (ii) to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular trade flows;
- (iii) to prevent the importation of commercial samples or prevent compliance with patent, trade mark, copyright, or similar procedures.

#### V. Conclusion

The foregoing describes what is already being done and the positive results already achieved.

Uruguay is attending this consultation in order frankly to explain its present economic position, with particular reference to its balance of payments and to ensuring that all the measures adopted, more especially since November 1967, are in conformity with the General Agreement.

The set of measures recently adopted, and in particular the broad degree of liberalization in the import régime, show that Uruguay is striving to solve its own problems, being aware that nothing can be achieved without such an effort on its part, hard and difficult though it is in the circumstances.

At the same time, however, at the level of international trade, Uruguay is entitled to expect equal respect for the General Agreement and for the universally acknowledged principle that international trade must be an instrument and a factor for economic development. All States are responsible for insuring that this is so but, of course, first and foremost the developed countries which, so far as my country is concerned, have an inescapable duty to open up their markets by eliminating the import prohibitions and restrictions and to ensure better conditions of access and prices for the products which Uruguay exports to their markets.

ANNEX II

International Monetary Fund Executive Board  
Decision Taken at the Conclusion of the Fund's  
Consultation with Uruguay on 27 May 1970

1. This decision is taken by the Executive Directors in concluding the 1969 consultation with Uruguay pursuant to Article XIV, Section 4, of the Articles of Agreement.
2. In 1969, Uruguay achieved a substantial reduction in the rate of price inflation, continued to strengthen its net foreign reserve position, and registered an improvement in the rate of growth. The strong rise in agricultural production last year was an important factor behind the 12 per cent expansion of exports. The upsurge in the general public's holdings of monetary and quasi-monetary assets that accompanied the sharp decline in the rate of inflation absorbed the impact of the expansionary credit policy of the monetary authorities, thereby moderating the repercussions on prices and the balance of payments. Incomes policy in 1969 was directed towards eliminating some of the distortions that grew out of the wage and price freeze adopted in June 1968 and at keeping the over-all rise in incomes within the bounds indicated by the authorities' aims as regards prices.
3. For 1970, the Uruguayan authorities have framed policies that have as their objectives a price rise that would not exceed the one recorded in 1969, a further strengthening of the official net foreign reserve position, and the attainment of a growth in real GDP of about 5 per cent. Measures have been adopted to achieve a substantial cutback in the fiscal cash deficit, and the rate of expansion of bank credit is to be reduced sharply in comparison with 1969.
4. Notwithstanding the adoption of a financial program for 1970 that is much more restrictive than the policies actually followed in 1969, the authorities will need to remain alert to the possible need for adjustments in order to ensure attainment of the net foreign reserve target. In the event that additional measures are required to achieve the established balance of payments objectives, the Fund would urge that such measures be consistent with expansion of trade and with maintenance of substantial freedom for international transactions.
5. The Fund notes with satisfaction the progress Uruguay has made recently in reducing its reliance on bilateral payments agreements. The Fund welcomes the intention of the authorities to avoid introducing new restrictions or multiple currency practices and considers that it is feasible to eliminate the existing restriction on travel payments. In present circumstances, the Fund grants approval for the maintenance of Uruguay's multiple currency practices and the restriction on travel payments, as described in SM/70/93, until the end of 1971.