

GENERAL AGREEMENT ON TARIFFS AND TRADE

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1970 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH URUGUAY

Basic Document for the Consultation¹

Introduction

On 25 April 1968 on the occasion of the last balance-of-payments consultation with Uruguay (under the unrevised provisions of Article XII:4(b) of the General Agreement), the Government of Uruguay provided a clear outline of its economic policy and more particularly indications of its plan for structural stabilization with a view to enabling the country to escape from the economic crisis from which it was suffering. This plan involved strict observance of all international commitments and in particular those undertaken as a contracting party to the General Agreement.

On this occasion some two years later, Uruguay is in a position to submit to the Committee, the very satisfactory results of what can be considered as being the first stage in this policy of stabilization and a statement of the efforts which it proposes to undertake for the future.

I. Balance-of-payments situation and prospects

During 1969, it proved possible to consolidate the process of stabilization with an increase in production in gross internal investment and in international reserves, while at the same time raising the real income of the workers.

The level of activity rose by 5.3 per cent, mainly on account of an increase in agricultural production and cattle rearing and a revival of industrial activity.

Gross fixed investments increased by 32 per cent, representing 15 per cent of the gross domestic product. It is important to stress that this proportion has only twice been exceeded in the course of the decade, in the years 1961 and 1962. The significant increase in purchases of machinery and equipment played an important part in the development of this sector.

¹Statement supplied by the Government of Uruguay for the consultation on the Uruguayan import restrictions as well as for the examination of the request for a further extension of the waiver on Uruguayan import surcharges (cf. G/W/61 and L/3357).

The actual volume of exports of goods and services increased by 8.7 per cent and reached the highest level registered during the decade except for 1965.

Consumer prices rose by 14.5 per cent, which was less than the maximum increase forecast by the Executive at the beginning of the year (20 per cent). In view of the increases in wages which were authorized, the real income of wage earners rose by 4.7 per cent. Wholesale prices increased only by 7.3 per cent during 1969.

As regards production, the most recent available figures show an increase in the gross domestic product of 5.3 per cent as compared with 1968.

In the agricultural sector, thanks to the combined effect of a crop promotion policy and favourable conditions, there was a recovery from the decline which occurred in 1967 and 1968 and an increase of 15 per cent as compared with the corresponding figures for 1968. The output of cereals increased by 129 per cent, that of beef by 4 per cent and that of milk by 12 per cent.

In the case of manufacturing industry, the volume of production increased by 4.8 per cent as against 1968. The revival of domestic demand and the sustained foreign demand were one of the causes of the increase in this sector, quite apart from the important rôle played by the successful marketing of raw materials, both domestic and imported.

In the traditional sectors of production basically destined for export, mention should be made of the increased output from the cold-storage plants notwithstanding the serious situation created by difficulties of marketing on some of the traditional markets.

Non-traditional sectors responded favourably to the promotion policy developed by the Government by means of a system of drawbacks and financing of production and exports.

During 1969, the value of exports amounted to \$200.3 million which is the highest figure registered during the decade. The factors which produced this high degree of activity were the important increase in exports of hides and hair and the considerable development in natural and processed agricultural products and manufactured articles.

Exports of beef increased slightly despite serious marketing difficulties.

Imports amounted to \$197.3 million which was an increase of almost \$20 million over the corresponding figure for 1968. This was due mainly to an increase in imports of vehicles, automobiles and machines required as capital goods, the extent of which had been very slight in 1968 because of the policy in force in that year. There was an increase in imports of raw materials because of the increased demand for such imports in view of the higher level of domestic activity.

The revenue from taxation collected by the General Tax Department amounted to Ur\$43.2 thousand million, or approximately Ur\$2.3 thousand million in excess of the figure projected at the beginning of the year. However, the decrease in this revenue as a result of rebates and consular fees, among other factors, meant that the total cash revenue was about Ur\$1.9 thousand million less than had been expected at the beginning of the year.

Monetary policy during 1969 was characterized by the maintenance of the level of liquidity within limits compatible with the basic aims of the Government's economic policy, namely, stability and equilibrium in the exchange market.

When the estimates were drawn up it was thought prudent to maintain the conditions of liquidity which had been in force up to the end of 1968. Account was taken of the brief period during which the freezing of prices and wages had been in force and consequently, the persistence among the population of strong expectations of inflation. During the year, however, the economic and financial indications tended to guarantee conditions of stability and a steady rise in the level of activity. Consequently, there was a change in the conditions in the light of which the monetary policy had been determined.

The higher rate of expansion in the primary sector as compared with the programme, resulting from a higher index of increase of international reserves and the better situation in the fiscal sector, was absorbed without interfering with the objectives laid down as regards prices and balance of payments.

The level of liquidity in the primary sector in 1969 at 1961 constant prices was the highest for the last two decades. Action had to be taken as regards expansion of the secondary sector so as to prevent a cumulative effect of the latter on the primary sector.

The liquidity of the economy increased in real terms by about 27 per cent during 1969, thus regaining a fraction of the liquidity which had been lost during the years of acute inflation.

As regards future prospects, the policy of the Government of the Republic may be summed up as follows:

- (1) To ensure normal supplies of raw materials and imported products without imposing restrictions on imports, so as to meet satisfactorily the needs for a higher level of activity. To this end it is estimated that in 1970 there will be an expenditure of foreign currency of \$169 million, which is 10 per cent above the 1969 figure. This would correspond to a level of imports of round about \$208 million. The difference would be met by international loans to the public sector with a view to financing imports.

- (2) To continue to promote the most active sectors of the economy which are directed towards exports, to support the traditional channels and to promote the marketing of non-traditional products by assistance in the form of credits, drawbacks etc.
- (3) To increase public investment so as to achieve the best possible yield from external resources.

In view of this general situation, the Government of Uruguay proposes to direct its monetary policy during 1970 in such a way as to guarantee the complete liquidity of the economy so that the expansion of cash liabilities will be in harmony with the expected rise in prices and will facilitate the achievement of the objectives as regards balance of payments and the goals put forward in the fields of production and investment.

To this end it is thought that the total liquidity level in 1970 within the framework of a prudent monetary policy and in so far as the present conditions of economic development continue to apply should not exceed the level at the end of 1969, notwithstanding the fact that this figure would be below the level which was prevalent in the years preceding the acute inflation.

The international reserves of the monetary authorities increased by \$26.6 million in 1969. International assets increased by \$2.7 million and liabilities decreased by \$2.9 million.

This increase in reserves becomes even more significant when it is remembered that it was accompanied at the same time by an increase in the gross domestic product and by full supplies for the market for capital goods and imported products.

As regards international assets, the most significant movement was the increase in the volume of gold by \$31.6 million as a result of the repurchase of shares sold under a reversion sale agreement by the Bank of the Republic to the Bank of Nova Scotia and the Union Bank of Switzerland.

As regards liabilities, it is important to note the decrease in the debts in foreign currencies of the monetary authorities, which affected international credit and made it difficult to apply measures of exchange and balance-of-payments policy.

During the period 1967-69 indebtedness in foreign currency fell by more than \$120 million, decreasing from \$346.8 million in December 1966 to \$224 million in December 1969.

One of the characteristic aspects of the external sector during 1969 was the absence of any speculative tensions based on unfavourable expectations as to the maintenance of exchange rates, and also the skilful handling of the matter by the monetary authorities.

As regards future prospects, the estimates of expenditure and income in foreign currencies in 1970 were drawn up on the assumption that the short-term liabilities of the monetary authorities would continue to decline without the need for any restrictions on foreign exchange transactions. The basic assumption was that

it was essential to maintain a sufficient fund of foreign exchange to be able to counteract if necessary any possible seasonal falls in rates and to absorb any possible tension on the market.

In accordance with those assumptions the Government of the Republic set as its goal an increase in international reserves of \$29.2 million, including the special charges on transfers.

II. Other 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 (COPRIM), set in motion two important factors which favoured stabilization:

- (i) the fixing of minimum price increases for essential consumer goods;
- (ii) the control of wage increases by limiting them to what the undertakings could afford 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 two factors in 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 profits 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 might have reduced speculative demand by middlemen.

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. In connexion with this increase and in order to establish basic hypotheses for the estimates to be contained in the budget, the Economic Research Department of the Central Bank made an analysis of the prospects of changes in consumer goods prices in 1970.

The basic assumptions used were the following:

- (1) stability in exchange rates during the whole year;
- (2) that no salary increases would be granted in the private sector until the last months of the year;
- (3) that there would be no changes in the international prices of raw materials;
- (4) that there would be no price increases caused by abnormal climatic conditions;
- (5) conditions of demand would not affect prices;
- (6) the charges for public services and the price of fuel would remain at the levels fixed during the present year.

On those assumptions, the increases in prices would be the following:

(a) Foodstuffs

The prices of foodstuffs were estimated in the light of the increases already granted in respect of agricultural raw materials and the incidence on processing costs of the latest wage adjustment in the private sector which came into force on 1 December 1969. In accordance with those assumptions, the most important articles in this group would show the following increases:

Flour and bread: between 7 and 10 per cent

Milk and milk
products: 10 per cent

Beverages: between 6 and 10 per cent

Sugar: the increase of 11.7 per cent which had already taken place was accepted, and it was assumed that there would be no further change in prices during the rest of the year

Oil: it was thought that existing conditions would make it possible to maintain the price fixed during the year

The price of beef was estimated in the light of the present rising trend in international prices and the foreseeable increase in domestic prices for cattle during the period following the sugar harvest. Consequently it was assumed that there would be an increase of 15 per cent in the price of beef on the market.

(b) Clothing

The best possible assumptions of costs in this sector were based on the one hand on the latest adjustment of wages in the private sector and, on the other, on the probable increase in the price of certain raw materials. The rise foreseen in the index for this group is 8 per cent for 1970.

(c) Housing

The adjustment by legal measures of prices for rentals will raise the average level of rents. The average increase is estimated at 88 per cent for the whole year.

What has been said tends to show that the general index of consumer prices will show an increase of 15 per cent.

To conclude this section about the additional measures for ensuring stabilization, it is important to point out, although merely briefly and in a provisional way, the general lines of the medium and long-term policy which the Government of the Republic proposes to follow in order to complete the process of "opening up" the country to the rest of the world.

On the one hand, the Government is at present developing a firm policy of "unbalanced and selective development" which implies stimulating the most dynamic sectors of the economy which are directed in the main towards exports. This policy will apply both to the agricultural sector and to manufacturing industries and also to the more dynamic sectors in non-traditional branches. As regards imports, 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 will produce tangible benefits, 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.

III. System and techniques of restrictions

The legal basis for the import restrictions applied by Uruguay and in force at the present time is the Act of 17 December 1959 which lays down a system based on freedom of imports, but with the possibility of applying control mechanisms by means of:

- (i) requiring prior deposits;
- (ii) imposing surcharges of up to 300 per cent of the c.i.f. price of the goods in the case of non-essential products, luxury articles and goods which compete with domestic products;

- (iii) prohibiting entirely or partially for periods of six months with the possibility of extension, the imports of goods which are not essential, which are luxury or which compete with domestic products.

In the course of the previous consultations in this Committee, Uruguay explained in detail the methods followed in applying the restrictions laid down in the aforementioned Act. It explained also how in practice the system of prior deposits had been eliminated and replaced by a system of consignations in terms of the Decree of 1 December 1967 which authorized the Central Bank to require consignations in national currency in respect of imported goods. By Circular No. 48 of the same date the Central Bank abolished prior deposits and introduced the system of consignations in virtue of the powers conferred on it by the above-mentioned Decree of the Executive.

It is the policy of the Government, as was mentioned already in the previous consultations with Uruguay in this Committee, to abolish the system of consignations as soon as economic conditions permit. For the moment the system is being maintained unchanged as regards its method of application, and it was recently extended for six months.

In Uruguay there is no discrimination whatsoever in terms of the origins of imported goods. However, Uruguay, as a member of LAFTA, is obliged to respect the undertakings which it has given under the Treaty of Montevideo to the other countries of the region, and it is solely in virtue of those undertakings that it applies a special system of surcharges and consignations in the case of goods originating in the member countries.

Imports by the State or by State commercial or industrial undertakings are exempt from the payment of consignations. There is also a special system for imports of fuel and motor fuel by the ANCAP in virtue of the legislation which gives it a monopoly in this field.

IV. Effect of the restrictions

The import figures mentioned above and the increase which they reflect in respect of the past year, as well as the trend towards a greater increase in the future clearly indicate that the system of consignations is not proving a barrier to access to the Uruguayan market.

Nevertheless, it is important to reiterate the attitude of the Government of the Republic as shown in its economic and financial programme for 1968, which is that the system of consignations is essentially of a temporary nature.

As regards the application of surcharges provided for in the Act of 17 December 1969, the Government of the Republic, although it is considering the possible elimination of those surcharges within the framework of its liberalization policy, believes that at present it is essential to keep them fully in force, and it therefore makes an appeal to the CONTRACTING PARTIES to extend for a further period the waiver of the relative provisions of the General Agreement.

In reality, although it can be argued that the policy of stabilization practised by the Government of the Republic has already given extremely positive results which will continue over the short, medium and long term, there are some negative aspects on the financial side which make it essential to maintain the control machinery which is already being used by the Government.

The budget of the Central Government for 1969 showed a deficit amounting to Ur\$8.2 thousand 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\$1.9 thousand million less than had been foreseen. At the same time there was an unexpected expansion in expenditure to the extent of Ur\$1.9 thousand million; hence there was a deficit in cash of Ur\$3.8 thousand million which was Ur\$4.4 thousand million more than had been foreseen.

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

- (1) the issue of Treasury Bills for Ur\$1.4 thousand million;
- (2) a credit of Ur\$3 thousand 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. This increased the financial assistance from that institution from the Ur\$2 thousand million which had been planned to Ur\$3.8 thousand million.

At the same time the unfavourable trends in international wool prices led to a reduction in receipts from deductions in respect of 1968 (by Ur\$3.6 thousand million or a decrease of 33.3 per cent), notwithstanding the increase in the value of those exports.

Although the remaining cash receipts increased as compared with 1968 by Ur\$16.6 thousand million (47 per cent), they were nevertheless short of the figure which had been estimated by Ur\$0.8 thousand million.

On the other hand income from surcharges increased by Ur\$1.6 thousand million (64 per cent) as compared with 1968, which was an increase of Ur\$0.1 thousand million above the estimate.

The whole situation is such that it makes it essential for the Government of the Republic to retain in force this system of surcharges until such time as the economic and financial situation of the country makes it possible to abolish it. It is from this point of view more particularly that the Government of Uruguay hopes that it can count on the goodwill and understanding of the other contracting parties.

V. Conclusions

In conclusion, the Government of Uruguay hopes that the members of the Committee on Import Restrictions (Balance of Payments) will duly note the very great efforts made by Uruguay to achieve a beginning of economic stability in spite of numerous difficulties, more particularly those met with in marketing its most important export products.

In view of the new lines being taken in this type of consultation, Uruguay should like for its part to know to what extent the members of the Committee and the contracting parties of GATT individually and collectively are prepared to give effective help towards strengthening the economy of Uruguay so as to ensure the progressive liberalization of its trade.

The Government of Uruguay has been able to show that a national effort is essential in any process of regeneration but it believes that this is not the only factor. In this sense and as one of the developing contracting parties it has the right to appeal to the other contracting parties and in particular to the developed contracting parties, and ask them in all circumstances to follow the spirit and the letter of the General Agreement and especially the principles and objectives of Part IV. On the observance of those principles as regards trade and more particularly as regards its liberalization will depend in great part the final result of the efforts that are being undertaken by the Government of the Republic.