

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/R/20
13 May 1968

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XII:4(b) (UNREVISED) WITH URUGUAY

1. In accordance with its terms of reference, the Committee conducted the consultation with Uruguay under paragraph 4(b) of Article XII (unrevised). The Committee had before it a background paper provided by the International Monetary Fund, dated 1 February 1968, a decision by the Executive Board of the IMF, and background material supplied by the Government of Uruguay (BOP/78 and Addenda 1 and 2).
2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was completed on 25 April 1968. This report summarizes the main points of the 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 IMF to consult with them in connexion with the consultation with Uruguay. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Uruguay. The statement was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of February 28, 1968 taken at the conclusion of its most recent Article XIV consultation with Uruguay, and particularly to paragraphs 2-5 which read as follows:

'For more than a decade, Uruguay has experienced both a high rate of inflation and a very low rate of growth. Investment, in real terms, has declined. Bank credit has risen rapidly to both the public and private sectors and wages have increased at a fast pace. There have been recurring balance of payments difficulties, resulting in a large accumulation of short-term foreign debt and a steep decline in working balances in foreign exchange. Exports have undergone wide swings, and although they developed satisfactorily in the years 1964-66, they were still below the levels registered in the period prior to 1957. In 1967, exports slumped again, reflecting in part the adverse effects on production of poor weather conditions and declines in international prices. Large-scale capital flight has in many years contributed to the weakness of the balance of payments.

'In November 1967, the authorities adjusted the official exchange rate from Ur\$99 to Ur\$200 per U.S. dollar, thereby laying the basis for a comprehensive financial plan designed to bring about a sharp reduction in the rate of inflation and the attainment of a satisfactory balance of payments performance. The program consists of an integrated set of fiscal, credit, balance of payments, and trade policies. It calls for a reduction in the fiscal deficit, the pursuit of a restrained credit policy, and the implementation of balance of payments policies consistent with the maintenance of incentives for exports. The Fund is pleased to note the expressed determination of the authorities to adhere firmly to the program that has been established and to adopt whatever other measures may be necessary to ensure achievement of the objectives being sought.

'Full adherence to the program should help Uruguay to achieve the balance of payments surplus that has been programmed, thereby providing the resources needed to meet the sizable debt service payments falling due this year and in raising reserve holdings to a mere adequate level. The Fund notes that other debt operations will be kept under surveillance, with a view to avoiding a rapid rise in the country's external debt servicing burden.

'The Fund welcomes the re-establishment of a unified exchange market and the expressed intention of the authorities to maintain this system in the framework of a liberal payments regime. The measures taken to reduce import prohibitions may be expected to produce beneficial results both in terms of strengthening the fiscal situation and improving the allocation of the country's resources. The Fund notes the intention of the authorities to review the system of import prepayments and advance deposit requirements with a view to eliminating them as conditions permit. The Fund does not object, on a temporary basis, to the multiple currency practices maintained by Uruguay.'

"The general level of restrictions and import surcharges of Uruguay which are under reference does not go beyond the extent necessary to achieve a reasonable rate of increase in its net foreign reserves."

Opening statement by the representative of Uruguay

4. In his opening statement, the full text of which is contained in an annex, the representative of Uruguay outlined the history of the economic crisis through which his country had been passing, over the past several years, and referred to the comprehensive stabilization programme which had been undertaken as from November 1967 with the specific objectives of reducing the rate of inflation, fostering exports and stimulating investment. With respect to

the balance-of-payments position and prospects, he noted that in the trade sector there were both long- and short-term difficulties which had combined to make 1967 an especially difficult year; losses on exports of wool and meat were so severe that it is doubtful whether a trade deficit can be avoided even in 1968, especially in view of the Government's determination to avoid reintroduction of the restrictions and prohibitions which were very largely lifted as a part of the stabilization programme adopted at the year end. Other measures taken to restore equilibrium included the adjustment of the exchange rate in November 1967, the reorganization of banking activity, notably through the establishment of a central bank, the promulgation of new regulations limiting creation of credit, the introduction of a budget which substantially reduced the fiscal deficits of recent years, the introduction of new taxes, new measures to improve tax collection, and efforts to obtain increased resources through the sale of saving bonds rather than continued resort to credits from the Central Bank. To stimulate investment and growth, development plans had been drawn up, aimed especially at providing more adequate infra-structure, at improving agricultural productivity and at development of broader export markets, although success in this last endeavour would obviously depend to a very great extent upon concomitant action by Uruguay's principal trading partners to ensure reasonable access for Uruguay's products at remunerative prices. The representative of Uruguay next reviewed the steps by which his country had moved from the very restrictive import policies in force during the latter part of 1967 to the present import policy based on the principle of permitting all kinds of imports with one exception under a system of graduated import surcharges and consignations designed to regulate imports on a temporary basis. Surcharges were being maintained for the time being, but this policy too was to be reviewed. The representative of Uruguay stated that no discrimination is practised with respect to treatment of imports from different countries other than the special treatment accorded to the Latin American Free Trade Association trading partners. This system was not regarded as representing an ideal or final policy but a transitional arrangement for the period during which stabilization was being achieved.

Balance-of-payments position and prospects and alternative measures to restore equilibrium

5. Many members of the Committee expressed their gratification for the especially comprehensive and useful statement by the representative of Uruguay and welcomed the explanations given concerning the very encouraging programme adopted in Uruguay. The Government was commended on the extensive programme which it has enacted during the past few months with a view towards bringing about stabilization and stimulating growth of the Uruguayan economy. Hope was expressed that Uruguay might now emerge from the cycle of devaluation and renewed inflation, which had to some extent characterized the last few years, and be able to adhere to the stabilization programme which has been adopted. Various features of the programme were singled out for praise, including the extensive liberalization of imports, the reduction in the surcharge on freight shipments, the measures taken to increase public revenue and to reduce public expenditure, and the plans to promote greater productivity in export production.

6. At the same time, members felt that the period which lies ahead was still critical, given the past tendency for devaluation to be followed by rapid price increases which meant that within relatively short periods the currency was again overvalued. They felt that as internal inflation seemed to be the central problem, it was of utmost importance to watch over developments in the months ahead, to try to identify which were the principal sources of the tendency to inflation and to concentrate efforts on correcting the causes. The representative of Uruguay was asked whether he felt that it was past fiscal deficits, insufficient tax collections, excessive insulation of the Uruguayan market from import competition, too great expansion of private credit or the inflation of incomes which had posed the greatest dangers. Certainly all these factors would need watching. In reply the representative of Uruguay indicated that in his view the fiscal deficits had undoubtedly been a large factor in recurrent inflationary trends of the past, and he reminded representatives that one major feature of the current stabilization plan was to reduce this deficit in the coming fiscal year by about two thirds. He noted also that the latest devaluation had been by a very substantial percentage and that part of the idea had been to make this cut deep enough so that it would allow enough breathing space to permit the stabilization programme to take effect. Preliminary results on the price front had been encouraging, for though increases continued to some extent in December and January, there had been a sharp drop thereafter and in March the increase in prices was substantially smaller than it had been in previous months. He recalled that on this occasion devaluation had also been a measure taken not in isolation but as a part of a whole package of measures all directed towards stabilization.

7. Another suggestion as to causes for past price increases invited attention to the question whether reduction in government expenditure might not be among the matters deserving high priority. It was suggested that some adjustment in the distribution of manpower might result in increased productivity. In particular the fact that one fourth of the gainfully employed population was in government service suggested to some the desirability of a reduction in force in that sector. The representative of Uruguay replied that the measures envisaged to eliminate budget deficits did indeed include several designed to reduce expenditure as well as others looking towards increased revenue. A series of administrative measures sought to restrict the autonomy of administrative agencies in undertaking new expenditures. On the question whether Uruguay had an excessive bureaucracy, however, he cautioned against misinterpretation of the figures. The relatively high proportion of employment in public service cited included employees in the many State enterprises producing economic goods and services which in other countries may be privately produced. Nonetheless, the stabilization programme did include very radical measures on the question of staffing of governmental offices and enterprises. For example, new hiring by the State had been suspended except where the need was justified on security grounds or for educational purposes. Other needs for recruitment were to be met through redistribution of existing personnel unless specifically authorized by ministerial decree.

8. Members of the Committee welcomed these austerity measures as offering hope that fiscal deficits, excessive growth of credit, the stagnation of foreign trade and the various other accompaniments of inflation might be eliminated, for in the past inflation had not only prevented growth but had actually led to some decline in per capita incomes in certain past years. On the balance-of-payments side, some effects had been an excessive build-up of short-term debt and extensive controls on imports. The question was raised whether the present policy represented a real reversal of the past virtual embargo on imports and not merely another swing in a continuing cycle. The representative of Uruguay assured the Committee that the current programme represented a firm decision to adhere to policies of stabilization, and this inflexible determination included import policy as well as fiscal policy. Even the remaining charges on imports would be reviewed with a view to introducing further improvements, and there could be no doubt concerning the intention to continue in the present direction.

9. Members of the Committee referred to the conclusion reached at the twenty-fourth session recommending that increased emphasis be given in the consultations to the examination of ways of fostering expansion in the exports of developing countries in balance-of-payments difficulties. In this connexion it was noted that Uruguay had some time ago established an inter-ministerial commission to survey and promote exports of manufactured goods. At the time it had appeared that this commission had been given no adequate staff, and more recently nothing had been heard of its work. The question was asked whether this would not be a good time for Uruguay to revive the commission and expand it into a high-quality export promotion agency, possibly supported by technical assistance obtained through the International Trade Centre, perhaps as a project financed by the UNDP, and with appropriate standing, perhaps in the Planning and Budget Ministry. This question led also to an enquiry as to what had been done to follow up and utilize the results of the study which the International Trade Centre had conducted for Uruguay in 1966 concerning development of non-traditional exports. The representative of Uruguay agreed that export trade promotion had important implications for the future of Uruguay's exports, as did the assistance which trade partners could give to Uruguay. For the time being, the emphasis in Uruguay's development plan was on revival of traditional exports which offered the only immediate hope of substantial export expansion. However, it was true that a special agency for promotion of non-traditional exports had been established on an inter-ministerial basis. It was also true that modest successes were being achieved in that direction. Under the new constitution Uruguay now had a separate Ministry of Industry and Commerce which included a general directorate for foreign trade and a special department concerned with exports. That reorganization had eliminated the need for an inter-ministerial body and had resulted in the transfer of export promotion activities into the new ministry where it was assured of adequate staffing. Good use was being made there of the study by the International Trade Centre, which was even now being acted upon.

10. Other members of the Committee concurred in the thought that export promotion deserved Uruguay's serious attention, especially in view of evidence that past inflation and its accompanying fiscal policies had discouraged investment in basic export industries. Special mention was made of wool in this connexion and the question was asked whether the continued use of export retentions, for fiscal reasons, was compatible with the expansion of exports of this basic source of foreign exchange earnings. The representative of Uruguay noted that retention of a part of the export proceeds from wool was a long-standing system in Uruguay and was thought not to have negative effects if kept within normal limits; in the recent reform the position of producers had as a matter of fact been improved as compared with the recent past. In his view climatic conditions had been the source of the real trouble last year; nevertheless various incentives to increased production had recently been adopted. The recent budget also contained several further measures to improve the position of wool growers, which are under study. For example, tax abatements were to be available to producers for agricultural improvements and non-productive use of land was to be taxed more heavily.

System and methods of the restrictions and effects of the restrictions

11. Members of the Committee, whilst appreciating the substantial liberalization which had been effected in Uruguay's import restrictions, called attention to the great variety of charges still burdening imports into Uruguay and asked about the prospects for reduction and simplification of the multiple charges payable on imports. They expressed their hope and confidence that the internal measures recently undertaken, if fully implemented, could make it possible for the Government of Uruguay progressively to liberalize its remaining import restrictions, and especially eventually to remove the surcharges. They asked what concrete steps toward import liberalization the Government proposed to take in 1963 in consonance with its standby agreement with the IMF. The representative of Uruguay noted that to a great extent the apparent multiplicity of measures under discussion resulted from recent changes in the system and that at present the only charges in effect in most cases were duties and import surcharges, with the addition, in certain cases only, of consignations and, in the single case of motor vehicles with foreign-made tyres, an advance deposit. There were no requirements for prior authorization of imports and no absolute prohibitions of any kind of imports, except motor vehicle kits. He noted that some 70 per cent of Uruguay's imports were free of surcharge and that the minimum surcharge had been reduced from 30 to 10 per cent; the maximum surcharge was applicable only to luxury goods. As to consignations, these had been introduced only for the purpose of regulating the rate of imports. Importers who kept their imports within prescribed limits in relation to their past importations were not subject to consignations, which in any case were a form of prepayment eventually refundable to the importer. The older system of advance deposit had been completely eliminated except in the one case of imported vehicles with foreign-made tyres, which constituted the one case of protection accorded to national production, and a not very important case at that.

12. Further interest was expressed by members of the Committee in learning more about the way in which the surcharges were applied, about the level of these charges in relation to that originally authorized by the CONTRACTING PARTIES in 1961, and about the expected further use of surcharges. The representative of Uruguay confirmed that under the latest decision by the CONTRACTING PARTIES on Uruguay's import surcharges the use of surcharges was authorized only up to 30 June 1968 and within the original terms and conditions. He did not think there had been any increase in the rates of surcharges beyond what was authorized. What Uruguay would request, when the Committee came to examine the question of extension of the surcharges, would be authority to maintain the actual surcharges for some additional period of time subject to the other conditions previously established.
13. Members of the Committee also expressed interest in the consular fees which they understood represented a substantial additional charge upon imports into Uruguay notwithstanding the fact that the universal elimination of such fees had long been a general objective of the CONTRACTING PARTIES. The representative of Uruguay acknowledged that his Government was well aware of the importance which the CONTRACTING PARTIES attached to change in this area and stated that a substantial modification of the present régime was planned for the near future, as he had mentioned at the last session of the CONTRACTING PARTIES. He noted that the proceeds of consular fees were, however, earmarked to cover certain specific governmental expenditures and that a change in the existing system would have to be gradual, so that no complete elimination could be expected in the near future. Eventual elimination of the fees was intimately connected with the more general question of tax collection, but some improvements could be expected soon.
14. A question was also asked about the use of fixed valuations as a basis for assessment of charges on motor vehicle imports. The representative of Uruguay confirmed that values of motor vehicle imports specified in Article 3 of the Decree of 9 January 1968 were officially assessed on a fixed basis, but he confirmed that these prices were subject to periodical revision.
15. Members of the Committee then turned to the question of certain features of Uruguay's import system which they felt might imply some discrimination, possibly to an increased degree. It was noted for example that the change from the system of prior deposits to that of consignations appeared to have introduced discrimination in favour of LAFTA partners. To some members of the Committee such discrimination, as provided for under Circulars 48 and 67 of the Central Bank, involved a practice which could not be justified on balance-of-payments grounds. It was noted that the consignment system which contained this unwelcome element had been described as a temporary measure, yet Circular 67 appeared to continue the system for at least another six months. Assurances were sought that the system would be allowed to expire on 30 September 1968 and that if it were continued it be made non-discriminatory. The representative of Uruguay confirmed that the consignment system was intended to be temporary and that it was more favourable to imports from LAFTA countries than others. He disagreed however that these practices were discriminatory and felt that Uruguay was fully justified in maintaining

this preference to LAFTA imports, not only because the free trade arrangement was consistent with the encouragement which the American Republics were given towards economic integration by the Punta del Este Declaration but also because of the favourable reception which LAFTA had received within GATT, as reflected in the decision of the CONTRACTING PARTIES on 18 November 1960 and in the note taken by the CONTRACTING PARTIES of successive reports on LAFTA submitted to GATT.

16. Another question involving discrimination which was put to the representative of Uruguay concerned bilateral payments agreements, which it was understood had been recognized by the Uruguayan Government itself as not having brought beneficial results. The question was asked whether any such agreements were still maintained and if so when they would be terminated. The representative of Uruguay replied that all had been terminated except certain interbank agreements, not commercial agreements between governments. No new commercial agreements were being signed and only a few of the older bank agreements still existed.

Conclusions

17. The Committee thanked the representative of Uruguay for his very full and clear explanation of recent developments in Uruguay and for the assurances he had given concerning Uruguay's inflexible determination to adhere to the course set by the stabilization programme. They wished Uruguay success in pursuing the very difficult objective of bringing inflation to a halt through continued attention to the vital questions of reducing expenditure for non-productive purposes, of increasing public revenue and of increasing the volume of investment in export production. They hoped that the pursuit of these objectives would be accompanied by continued movement towards a simpler import system with no reintroduction of controls or prohibitions. The representative of Uruguay thanked the Committee for its good wishes and promised to convey to his Government the comments and views which had been expressed.

Annex

STATEMENT BY AMBASSADOR DR. HECTOR GROS ESPIELL, DURING THE URUGUAY
CONSULTATION ON 25 APRIL 1968

1. On three previous occasions, in May 1960, in September 1962 and in November 1965, Uruguay held consultations under Article XII of the General Agreement in the Committee on Balance-of-Payments Restrictions.

This is being done again, with the object of examining how its economic policy, especially the present system of imports, can be adjusted to the standards of the General Agreement, and also to comply with the Resolution adopted by the CONTRACTING PARTIES on 17 November 1967 (L/2940; W.24/16; SR.24/11, page 168).

2. This consultation will come under the Plan of discussion, which is still in force, adopted by the CONTRACTING PARTIES in 1958 (Seventh Supplement, pages 97 et seq.).

In reality, this consultation, in view of the present position of the Uruguayan economy and the system in force, is not held to justify restrictions - because in practice there are hardly any - under the terms of Article XII, but to bring out the difficulties which exist and to show the firm will of the Government to overcome them, by means of a national effort which is the primary and necessary element, and international co-operation and understanding, already made manifest, for example, by the International Monetary Fund, the Intra-American Development Bank and the Agency for International Development, a spirit which, we do not doubt, will also be present here.

3. Before going into a special analysis of the topics included in the Plan referred to above, the delegation of Uruguay, which sent the GATT secretariat the texts of the governmental decisions now in force, would like to point out that its Government envisaged, mainly as from November 1967, a realistic and effective economic plan for an adequate national development together with the adoption of measures to cope with and restrict the process of inflation, thus achieving a reasonable stability.

These measures, taken in particularly difficult circumstances, at times when it looked as though there would be a very acute economic crisis, included in a wider series of catastrophes, when repeated, unusual natural calamities (drought, floods, etc.) were accompanied by the negative action of external factors which prevented the appropriate placing of exportable balances, have, in the short period of time during which they have been applied, given encouraging results.

The complete currency stability achieved in these six months, the substantial and immediate increases of exports, especially of wool, the progressive recovery of the gold reserves of the country as a consequence of the scrupulous fulfilment of its engagements abroad, the recuperation of more than \$40 million hoarded by the public, generally abroad, the confidence and support obtained from international financial organizations, the creation of an internal climate of trust and will to work and progress, and the beginning of a substantial reduction in the rhythm of the cost of living as from March of last year, are results which have been achieved without a shadow of doubt. This is not all, but it shows the beginning of a slow and difficult path towards stability and recuperation which will have to be followed without hesitation.

This new economic policy, as regards foreign trade, is directed towards a radical promotion of exports and their rational and programmed diversification; as regards imports, it is intended to strengthen the full, already established liberalization - without prohibitions, quantitative restrictions or discriminations of any kind - subject only, through the unavoidable pressure of the existing situation as regards the balance of payments - hence, temporarily - to the application of certain surcharges and consignations.

4. It cannot be denied that Uruguay has suffered and is suffering from 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 made very rapid strides while external conditions were favourable. Foreign capital flowed into the country, supplementing national savings to expand the basis of production. In the sphere of internal and external stability, progress was made towards an adequate distribution of income and wealth.

About the middle of the 1950's, there began a marked change. Production - particularly in the agricultural sector - decreased and our import capacity began to deteriorate. These changes had an adverse effect on the possibility of keeping up the rhythm of economic and social progress and the country embarked on a period of widespread and progressive inflation. In the process, there were serious losses in international reserves, the incentive to save was decreased and there was a substantial outflow of capital. The continuous fall in the rate of investment in real terms and the national and external instability of the economy contributed to a marked decline in the productive powers of the country. Large sectors of the community, especially among the lower-income brackets, were the victims of this process.

The problem which is now confronting Uruguay is to check serious inflation and at the same time to begin a process of bringing the rate of growth up to a more adequate level. As regards stimulation of the rate of growth, it is clear that what is required is an overall revision of the basic growth scheme of the country. The Government is well aware of the urgent necessity of stimulating a vigorous development, necessitating considerable expansion of investment to ensure 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 recuperation process are plans for: (a) reducing the inflation rate; (b) fostering the export drive; and (c) doing everything possible to increase investment.

It is vitally important to restore financial stability to obtain an increase in the rate of national savings and to provide a more rational basis for the adoption of decisions on investment.

The part of the programme designed to promote exports and diminish fiscal pressure required a serious adjustment in the rate of exchange in November 1967, from 99.00 pesos per dollar to 200.00 pesos per dollar, the effects of which have already been explained.

It is obvious that in a country such as Uruguay which depends so largely on external trade, foreign exchange policy is a basic element of its economic policy. Furthermore, in countries with an increasing rate of inflation, the importance of exchange policy in the development process is even greater. The Government of Uruguay is firmly convinced that the maintenance of a realistic exchange rate is a basic necessity to prevent a drain on capital, to eliminate speculative pressure in external trade and to promote the orderly development of the foreign sector. The realism of the exchange rate is essential as a yardstick for planning activities in both the private and the public sectors.

The Uruguayan programme includes an improvement in the position of external reserves which will make it possible to establish better order in the foreign commitments of the country. Although it cannot be said that the total of Uruguay's foreign debt is excessive, the accumulation of maturities in the forthcoming years constitutes a heavy burden. It is in relation to this problem that Uruguay has asked for help from the International Monetary Fund and adopted measures to increase its quota from \$30-\$55 million, which we have effected by making the relevant payments.

I. Position and prospects of the balance of payments

In the first place we must analyze the present position of the balance of payments, in the light of evolution since the last consultation in 1965.

The position has steadily deteriorated. In 1965 - after successive and continued deficits in the trade balance from 1957 onwards, which had grown up to a cumulative total of \$489 million - a considerable recovery took place, exports having risen above imports by \$40 million.

This recuperation was the consequence of a cyclical rise in the international prices of wool, but, even more, of a substantial temporary increase in exports of meat, as a result of a series of internal measures and an accidental improvement in the position on the international market.

In 1966 this tendency was maintained and, although the value of exports was less than in 1965, the trade balance was favourable by more than \$30 million.

Naturally the surpluses of these two years had only a slight effect on the deficit accumulated in the balance of trade since 1951.

Unlike the years 1965 and 1966, the year 1967 was disastrous for Uruguayan exports.

In the first place, there was a very considerable decline in agricultural production due to bad climatic conditions. Twenty-five per cent of the production was lost and this coincided with a very difficult price position affecting the possibility of placing goods on international markets. It was a year in which even the scanty production could not find proper outlets. For example, in November 1967, the wool clip was still 25 per cent unsold.

In the three first quarters of 1967 there was a negative balance of almost \$9 million despite severe restrictions on imports. In the last few months there was a slight improvement, due mainly to the first effects of new governmental measures taken from October onwards.

But, because of the difficulty of agricultural recovery, the time required for the present economic policy to give its full export promotion results and because of the determination of the Government not to prohibit or put quantitative restrictions on imports, the estimates for 1968 will be negative. For example, the report of the Ad Hoc Committee of the Inter-American Committee on the Alliance for Progress on the Uruguayan Economic and Social Development Plan, assesses 1968 exports at \$130 million and imports at \$180 million, although it is not considered that the price of exportable Uruguayan products will recover from the depressed levels of 1967.

So far I have been referring to the balance of trade. The position as regards the balance of payments as a whole is no better.

Without making a detailed analysis of each of its items, taking into account export and import prospects, the possible position and projections of the monetary sector and the non-monetary sector, it is obvious that in 1968 the position of the balance of payments will be very difficult.

For example, an estimate has been made - and I am giving this only as an example - establishing the ordinary deficit of the balance of payments for 1968 at minus \$34.8 million, which includes income on exports, tourism and other services to a value of \$220 millions and expenditure on imports, tourism and other services, to a value of \$254 millions.

As a result of recent arrangements, a standby credit of US\$25 million has been granted by the IMF to support the 1968 balance of payments and the exchange policy. To this should be added a loan of US\$9.5 million from the same source as complementary financing for the decrease in income from exports. Total US\$34.5 million.

On the other hand, for the years 1969 and 1970, there may possibly be a substantial increase in exports as a result of larger exportable surpluses of meat, wheat and wool.

This increase presupposes the elimination of the sequels of the negative climatic factors which occurred in 1967, but it will also have to be the consequence of governmental measures for export promotion.

The adjustment of the exchange rate in November 1967 gave not only an immediate rise in exports which, between 6 November and 30 December, increased to 28,168,000 (of which 22 million for wool) as against only 5,516,000 in October, but also an immediate inflow of capital of more than \$50 million with all the positive consequences entailed thereby.

This improvement in export prospects, without ignoring the negative factors which hamper or impede the entries of Uruguayan exportable products, and the affirmation of a policy directed to promoting certain non-traditional exports - a policy shown in the economic and financial programme for 1968 - will make it possible to maintain the present system of absolute freedom of imports, without any discrimination or prohibition.

To conclude this survey of Point I of the Plan of Consultation, I should like to point out that at present in Uruguay there exist no quantitative restrictions, prohibitions or discrimination of any kind on imports, despite the balance-of-payments difficulties; this clearly shows the will to strengthen and maintain a liberal policy and the desire to apply not only the letter of the General Agreement, but also its spirit.

II. Other measures for public rehabilitation

1. Using its legal powers to regulate credit and banking activities in general, the Central Bank, set up by the new Constitution in force since 1 March 1967, the powers of which are laid down in articles 23, 24, 30 and 41 of Law 13608 of 8 November 1967, has recently issued a series of provisions which can be regarded as basic for a reorganization of banking activity and a rehabilitation and canalization of credit.

For instance, it has been forbidden for private banks to carry out dealings that may be against the interest of the country, by fixing a selective system of private bank dealings (circulars No. 10 and 11), by suppressing overdrafts on current accounts and requiring details on the whole of the credit (circular No. 12).

Recently other provisions were adopted by the Central Bank in order to regulate liquidity. Of these the following should be mentioned:

- (a) raising of the bank minimum cash reserves to levels compatible with the cash requirements of the banks, fixing them at 40 per cent for deposits at sight and 20 per cent for deposits on term;
- (b) utilization of part of the cash resources of the banks for deposits in the Central Bank or for investments which the Central Bank will indicate as preferential;
- (c) increase in the month of December of up to 5 per cent of private banking deals and also credits for special rediscounts, in order to make it possible to increase credit according to seasonal requirements;
- (d) to direct credit support by means of new special entries for rediscounts.

Provisions have also been issued for the rehabilitation of the banking system: amalgamation of private banks, increase of capital, uniform accountancy, etc., and for the promotion of bank savings: increase in the bank interest rates, etc., which are expected to make an efficient contribution to the better use of the resources of the private and public banking system.

2. (a) The unsatisfactory fiscal behaviour during the last few years has unquestionably affected the price trend. The Government is aware that fiscal policy is an essential element in reaching effective internal stabilization.

After examining the terms of the budget recently approved and the general targets proposed, the Government, through the Ministry of Finance, proposes a two thirds reduction of the fiscal deficit of the year 1967, maintaining the use of credit financing at that level within strictly legal limits.

The fiscal deficit in 1967 represented 21 per cent of expenditures and it is proposed to bring this figure down to 7 per cent in 1968, paying it off by recourse to credit taken from savings.

(b) The reduction of the deficit depends on the effective increase in fiscal income.

It is estimated that this income, as a consequence of the new taxes contained in the budget which came into force on 1 January 1968 and of the administrative steps taken to improve tax collection, will amount to 34,000 million pesos. Tax collection, from November 1967 and specially since the entry into force of the present budget has notably increased. For example, in January 1968 taxes collected were 250 per cent greater than in the same month of the previous year. The tendency continued in February.

(c) As regards income from surcharges on imports and rebates on exports, a substantial increase will be obtained, according to projections that have been carried out, as a consequence of the high rebate margin fixed in the sector of traditional exports, recently increased by the devaluation of last November and the liberalization obtained in the sector of imports with high surcharges.

(d) The financing of public expenses by credit from the Central Bank has been replaced by Government bonds intended to obtain savings funds. The system of these securities in national and foreign currency of which we have previously made mention, and which came into application on 12 January last, brought into the public treasury during the first month about 1,000 million pesos, half of which sum corresponds to bonds in Uruguayan pesos and the rest to the sale of foreign currency to the Bank of the Republic.

(e) The Government, both in drawing up the budget and in parliamentary negotiations, has put forward its best efforts to cut down current expenses and to make economies under every item, aware of the importance of such a matter in any programme of stabilization.

In spite of such economies, the Ministry of Finance is proposing to order administratively that current expenses must be authorized, so as to have another channel for making additional economies during the execution of the budget.

3. After a detailed review of the national economic situation and of recent experience, the Uruguayan Government has concluded that efforts should be concentrated on the short- and medium-term aspects. Accordingly a National Plan of five-year targets (1968-72) has been drawn up, in implementation of the Ten-Year Plan, with an economic and financial programme for 1968 and an investment and development promotion programme for the same period.

As already stated in Section 1, the immediate objective is to create the necessary conditions to permit a recovery of the economic development rate. First and foremost, this requires action to stabilize the economy in order to check the rapid rise in prices already recorded, without thereby creating any tendency towards recession.

Certain reforms are necessary for attainment of this objective, including a re-orientation of the public sector in order to ensure greater efficiency, and a programme of public investment in infra-structure projects for the country's development which will employ manpower during the stabilization period. At the same time special attention is being given to greater agricultural productivity which is essential for economic take-off. Encouragement is also being given to traditional industries, in order to reduce unemployment still further.

Because of the fact that its own 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 agriculture in the short and medium term, for recovery in that sector is a prerequisite, having regard to present circumstances, for a sound industrialization process and for rapid and sustained economic development in the long term. The Government has already taken a wide range of measures in this sector and it is hoped that they will yield immediate and positive results. (See the Investment and Development Promotion Programme, 1968, Part IV, page 14.)

All this calls for concomitant action by our principal clients in other countries to open up their markets and ensure reasonable access at remunerative prices for Uruguay's exports.

III. System and methods of the restrictions

1. The legal basis for the restrictions applied in 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. (a) Since November 1967 the new economic policy has in practice 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 with the exception of those on motor vehicle assembly kits. Accordingly the possibility mentioned in paragraph 1(c) of this section has not been invoked and the Government's policy is not to reintroduce any prohibitions or restrictions of this kind.

(b) With respect to consignations and prior deposits, by a decree dated 1 December 1967 the Central Bank was authorized to require consignations in national currency on imports, notwithstanding the corresponding prior deposits. Immediately thereafter the Central Bank abolished the existing system of prior deposits and under Circular No. 48 dated 1 December 1967, in order to control the volume and rate of imports on a temporary basis, a consignment was established in respect of imports authorized at that time, equivalent to 200 per cent of the c.i.f. value, and applicable to imports which over the period 1 December - 31 March 1968 are in excess of 20 per cent of the amounts normally imported in the period 1 July 1966-31 October 1967.

The consignment requirement was further eased under Circular No. 51 of 21 December 1967.

Circular No. 54 of 11 January 1968, containing implementing regulations for article 7 of the decree of 9 January 1968, pursued the same objective and amended the percentage rate of the consignations applicable to certain non-essential or luxury goods which had been authorized for import by the decree of 9 January. Lastly, Circular No. 67 of 1 April 1968, within this same general structure, established definitive regulations for the consignment system, amended it in certain respects, and organized the entire system resulting from the three decrees (dated 6 November, 1 December and 9 January). The system is designed to regulate the rate and volume of imports, while ensuring possibilities for importing any goods without prohibition, with the exception of motor vehicle assembly kits as referred to above.

Imports of all goods are free of consignations, provided the import volumes are maintained within specified limits based on imports in earlier years. Any imports over and above these limits are subject to consignations, at rates depending on the type of merchandise.

Under this system the consignations are payable only in a few cases, and most imports are not subject to these requirements. The system is designed solely to control the volume and rate of imports, as a temporary measure.

In the economic and financial programme for 1968 the following statement is made in this connexion:

"The authorities consider that this measure is temporary and is in conformity with the set of import liberalization measures. Nevertheless, in the coming year and in the light of progress in the stabilization and development programme, and more particularly in the balance of payments, the system of prior deposits will be re-examined with a view to abolishing it as soon as possible."

Under paragraph 2 of the decree of 9 January 1968, prior deposits have been abolished except with respect to vehicles imported with foreign exchange coverage.

This measure is in line with the policy of liberalizing imports, while at the same time avoiding any increase in the cost of goods because of the high interest rates charged by the banks for financing deposits.

(c) With respect to the third possibility provided for under the law of 17 December 1959 - namely the application of import surcharges - these are being maintained for the time being on certain goods but in the Programme mentioned above the Government has stated its intention of reviewing the system.

3. No discrimination is made in Uruguay on imports according to the origin of goods. There is no difference in treatment of imports from different countries or currency areas.

Because of the fact, however, that Uruguay is a member of the Latin American Free Trade Association (LAFTA), the Montevideo Treaty and implementing regulations pursuant to it are in force, providing in particular for a special system with respect to surcharges and consignations (articles 3 and 8 of Circular 67).

4. Imports by the State, State-trading enterprises or State industries are exempt from prior deposits and consignations.

Special treatment is also provided for fuel imports by ANCAP, under the petroleum import monopoly established by law.

IV. Effects of the restrictions: protective effects of the restrictions

1. Under the system established pursuant to the Law of 17 December 1959, there are no import prohibitions for protective reasons.

The application of surcharges is, however, permitted inter alia on 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; the Economic and Financial Programme for 1968 states that a review is to be made of the system of protection, including the present system of surcharges, with a view to establishing a rational tariff mechanism that will encourage domestic activity in the context of greater efficiency in industrial activities (paragraph 23, page 11).

2. Accordingly, the present situation can be considered as being a transitional phase, pending the effects of measures already taken to improve the general economic situation, in particular measures to promote exports and to overcome the disastrous effects of the drought and floods already mentioned, so as to improve the balance-of-payments position from 1969 on. 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.

3. As may be seen, by having applied a minimum level of restrictions to ensure balance-of-payments equilibrium (import surcharges on certain goods, prior deposits and consignations in certain exceptional cases), 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 channels of trade;
- (iii) to prevent the importation of commercial samples or prevent compliance with patent, trade mark, copyright, or similar procedures.

V. Conclusion

The foregoing describes the Government's intentions and the relatively positive results already achieved.

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

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

At the same time, 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 ensuring this but, of course, first and foremost the developed countries, which so far as my country is concerned have an inescapable duty to liberalize their markets and ensure better conditions of access and prices there for Uruguay's exportable surpluses.