

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH URUGUAY

1. In accordance with its terms of reference the Committee conducted the consultation with Uruguay under paragraph 4(b) of Article XIII (Unrevised). The Committee had before it: (a) the "basic document" prepared by the secretariat; and (b) documents provided by the International Monetary Fund. In conducting the consultation the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The discussion with the Committee was completed on 30 May 1960. The present report summarizes the main points discussed during the consultation.

### Consultation with the International Monetary Fund

2. 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. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the Executive Board decision taken at the conclusion of the 1959 consultation with Uruguay under Article XIV of the Fund Agreement, and the background material prepared in connexion with that consultation as well as a supplementary paper giving information on recent developments. 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 made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision taken at the conclusion of the 1959 consultation with Uruguay under Article XIV of the Fund Agreement, and the background material prepared in connexion with that consultation. The consultation was concluded on September 18, 1959. The Fund has also provided a supplementary paper, dated April 21, 1960, to supply background information on recent developments.

"With respect to Parts I to III of the Plan for Consultations, Uruguay continues to require measures to stop a serious decline in its monetary reserves. Reserves declined during 1959 despite the existence of severe restrictions. The Fund hopes that Uruguay will examine measures to deal with this situation, including its fiscal and monetary policies."

### Balance-of-Payments Position and Prospects

3. In his opening statement, the full text of which is attached as an Annex to the report, the representative of Uruguay expressed his Government's intention to continue its efforts in liberalizing imports. He described the measures which had been taken by his Government to achieve this objective and the general fiscal and monetary reforms which had been instituted with a view to ensuring high levels of employment and rapid economic development consistent with internal price stability. Despite the adverse circumstances in which these reforms had been undertaken some measure of success was already visible. The fiscal budget which had been in deficit for about a decade had shown a surplus in 1959 and the budget of the central administration had been in balance. It was hoped that budgetary deficits could also be avoided in future years. In another important move, all provisions for fixing the rate of foreign exchange had been rescinded by the Exchange Law adopted on 17 December 1959. The purchase or sale of foreign exchange were now regulated by the free play of supply and demand. As a further result of the measures with the entry into force of the Law, more imports had been liberalized and all discrimination had been abolished. Furthermore, the Government, in accordance with the objectives of the Exchange Law, was moving towards the gradual elimination of all bilateral agreements providing for bilateral payments. These changes were a clear indication of the Government's desire to free trade to the largest possible extent of import restrictions. The recent liberalization was even more remarkable if one considered that the country had been relying on artificial exchange regulations and trade restrictions for a long time, and that in 1959 Uruguay had suffered extensive damage from unfavourable weather conditions and floods. These adverse conditions, through their effect on agricultural production and exports and consequently on import needs, had resulted in a considerable trade deficit and had contributed to the continued deterioration of the foreign exchange position during 1959. With export earnings of less than \$100 million in 1959, which was equivalent to about 40 per cent of average annual imports during the period 1950-54, and in view of the continued unsatisfactory foreign reserve position, the Government had not found it possible to liberalize all imports. On 30 April 1960 total foreign exchange liabilities amounted to US\$131.9 million, with obligations in convertible currencies amounting to US\$80.5 million and in agreement currencies to US\$51.4 million. Although it had been estimated that export earnings during the current year would reach about US\$180 million, and thus show a considerable improvement over last year, but falling short of export earnings in the years before 1957, the reserve position continued to be precarious and the full effects of the measures intended to stimulate exports of agricultural products were not likely to exert their influence in the near future. Nevertheless, the

Government was hoping fully to liberalize imports during the current year. At the present time liberalization had reached a level of about 78 per cent of the total value of average actual imports during 1957-1959 and was even higher (88 per cent) for essentials.

4. As a result of the reform of the foreign exchange markets, agricultural exports were expected to recover and increase. Under the system of regulated exchange rates the often unfavourable exchange treatment given to certain agricultural exports had acted as a disincentive to exporters. In addition to the generally greater attractiveness of exports following from the institution of the free exchange market, the Government had adopted a plan for the improvement of agricultural and livestock production, involving an annual expenditure of 80 million pesos. Another plan for the improvement of agricultural and livestock production, financed with funds from the International Bank for Reconstruction and Development, to the amount of US\$7.5 million, was already in operation. Other measures to increase export earnings included the encouragement of tourism, for which there appeared to be favourable prospects, through the development of the road network particularly to seaside resorts and the building of hotels. During 1959, 200,000 foreign tourists had visited Uruguay and foreign exchange earnings from tourism had amounted to US\$30 million.

5. The representative of Uruguay stated that the Government was a staunch believer in economic freedom, having regard to the fact that past experience with a planned economy and considerable State intervention had led to unsatisfactory results. Uruguay was steadily progressing along the road to trade and exchange liberalization and had made some considerable progress. The Government would continue to proceed towards the gradual elimination of restrictions.

6. The Committee thanked the representative of Uruguay for the comprehensive and informative statement. They welcomed the readiness which the Government of Uruguay had shown in introducing reform measures for dealing with a fundamental balance-of-payments disequilibrium and with which the Government had approached other far-reaching reforms in order to encourage the rapid development of a structurally sound economy. The Committee particularly welcomed the elimination of discrimination in the import control system in connexion with the changes introduced under the Exchange Law of December 1959. They also welcomed the statement of intention to remove the remaining import restrictions at the earliest possible time and possibly not later than by the end of the current year. They noted, however, that the system of deposit requirements and the application of various levels of exchange withholding taxes continued to make the control arrangements complex. If import surcharges were used this would introduce an additional element of complexity. It was felt that insofar as these measures had been adopted to protect domestic industries, this purpose could, where such protection was necessary, better be served by the use of tariff measures.

7. The representative of Uruguay agreed that for the protection of industries tariff measures were in principle preferable to non-tariff measures. For that reason the Government of Uruguay had taken steps to review and re-organize the tariff. This review had, however, not yet been completed and other measures had to be provided in the Law to deal with situations as they arose. The Government continued to pursue its objective of freeing imports from restrictions to the greatest possible extent. The maintenance of a number of trade controls had, however, been necessary in view of the low level of reserves and because of the necessity to proceed with the dismantling of import restrictions gradually so as not to cause undue hardship to industries which had long been operated in a restricted market. Although the Government had had to provide for the safeguarding of the balance of payments and for measures to cushion the impact of the recent reforms on industries, many of the protective measures provided for under the Law were of a permissive nature only, and the Government was determined to follow as liberal a trade policy as possible.

8. In discussion of the reasons for the decline in imports during 1958 and 1959, the representative of Uruguay explained that this decline had mainly to be attributed to the tightening of import restrictions following a record trade deficit in 1957 and a crisis in the exchange market in October of 1957. The restrictions on imports were the direct result of the very large decline in export earnings. The latent import demand in 1958 and 1959 had almost certainly exceeded actual imports. In 1957 and 1958 recessionary forces in the world economy had significantly contributed to the decline in export earnings, particularly from wool, the largest single export commodity of Uruguay. Despite measures by the Government to counteract the decrease in exports, they further declined in 1959 as a result of a decrease in agricultural production due to adverse weather conditions and natural disasters. The wheat crop had, for example, been almost completely lost and Uruguay, normally an exporter of wheat, had become a net importer of this commodity in 1959. Also, the relatively unfavourable exchange treatment for wool and meat exports had led to the withholding of supplies by exporters in the expectation of more depreciated exchange rates. It was noted that this was an important factor in a marked reduction in the amount of these products available for export. He further explained that the substantial decline in export earnings from raw wool in 1959, by about 40 per cent as compared with 1958, was primarily attributable to a decrease in the volume of exports. Exports of raw wool in the first eleven months of 1959 had amounted to 34.9 million kgs. to the value of US\$34.1 million as compared with exports of 50.1 million kgs. and US\$55.2 million in the corresponding period in 1958. In reply to a question concerning the application of countervailing duties by one country on wool tops imported from Uruguay, the representative of Uruguay explained that this countervailing duty had been abolished in December 1958 when the reason for the use of this measure had disappeared, but that exports to that market continued to be relatively small as compared to total exports of wool tops.

9. A member of the Committee asked whether the effective buying rates resulting from the combination of a single exchange rate and exchange taxes at rates varying according to the type of export products in question were essentially different from the previous multiple exchange rate system. The representative of Uruguay replied that the present system was essentially different from the previous system, and this view was borne out by the descriptions and comments made on the present system in the course of this consultation. In this connexion, the Uruguayan representative stressed again the liberal nature of the economic and financial policies being pursued by his Government. He added that the export taxes or withholdings were intended to facilitate the transition to an entirely normal exchange system. He made it clear that in regard to wool, processed goods were subject to payment of the tax which was levied in proportion to the raw wool content in the finished product. The level of the export levy was adjusted every sixty days in accordance with such fluctuations as might take place in world prices and in the value of the currency.

10. One member of the Committee noted that in 1959 about 10 per cent of exchange purchases from exporters and exchange sales to importers had been effected in the free market. He enquired whether these exchange transactions had been the result of the coming into force of the Exchange Law in the second half of December. The representative of Uruguay explained that these transactions in the free exchange market reflected primarily the liberalization measures which the Government had introduced during the year. For example, on 24 April 1959 a number of import commodities had been transferred for payments purposes to the free financial market and on 30 June 1959 the Government had simplified the exchange rate treatment for exports by moving all non-specified exports to the free financial market. In the discussion of the effects of the freeing of exchange rates on the development of exchange reserves it was pointed out that the marked increase in net exchange losses of the Bank of the Republic in recent years had largely been due to the policy of providing the Government and public enterprises with exchange (bought at the depreciated free market rate) at the relatively appreciated official market rate. On the other hand it was pointed out that following the freeing of the exchange market, budget expenditures would show a significant increase due to the less favourable exchange rate applicable to Government expenditures abroad and foreign debt repayments.

Alternative Measures to Restore Equilibrium

11. In describing the measures introduced by Uruguay to counteract the process of inflation and monetary expansion which had been particularly marked during the last two years and which had continued into 1960, the representative of Uruguay stated that emphasis had been placed on the limitation of credit expansion. Bank rediscount operations had been considerably restricted and commercial credit, largely through the introduction of more restrictive selective credit controls, had also been tightened. On the other hand, the Government continued its policy of giving favourable consideration to the increase in credit facilities for agricultural and livestock production. In the fiscal field the Government was attempting to eliminate budget deficits. Estimated increases in expenditure in the proposed four-year budget, as a result of the relatively larger Governmental expenditures abroad, debt repayment, and wage increases, following the reform of the exchange markets, were to be financed entirely by increases in taxation. To a large extent these increases were, however, nominal and did not reflect an increase in the real burden of these expenditures insofar as these payments had previously been covered as exchange losses. Nevertheless, the surplus in the fiscal budget for 1959 had primarily been achieved by a reduction in expenditures and more adequate tax collections without an increase in taxes then authorized.

12. Members of the Committee noted that the Government of Uruguay had instituted subsidies and fixed a maximum price for wheat, dairy products and fuel which appeared to be below cost, in order to cushion the impact of the exchange reform on the prices of these commodities. They enquired about the possibilities for the Government to eliminate these subsidies, which were financed by the allocation of 20 per cent of the proceeds of the withholding taxes on export proceeds. Members of the Committee also noted that the finance provided by the present allocation of proceeds from the withholding tax on export earnings appeared to be inadequate and they enquired about the sources of revenue from which these subsidies were to be financed. The representative of Uruguay explained that the maintenance of supported prices for wheat, dairy products and fuel was of considerable importance for the welfare of the country and that it did not seem possible to eliminate these consumer subsidies in the immediate future. He agreed with members of the Committee that present allocations from withholding taxes on export proceeds were not adequate for this purpose. However, a bill proposing an increase in funds for the operation of the subsidy scheme had been submitted to Parliament; import surcharges were a potential source of such funds.

13. Members of the Committee enquired about the reasons for the regular two-monthly review of withholding taxes on export proceeds. They observed that the possibility of frequent adjustments in the rate of this tax might well lead to undesirable fluctuations in the volume of exports. Exporters speculating on improved peso returns following a reduction in the withholding tax might tend to accumulate stocks for later disposal, especially if generous bank credit for the holding of such stocks were available as appeared to have been the case in Uruguay. Speculation appeared to have contributed to the sharp decline in wool exports after the brief increase in those exports, following the implementation of the Exchange Law. The representative of Uruguay explained that the withholding taxes which had been introduced in the currency and exchange reform had been conceived as a temporary and provisional measure to facilitate the shift from a system of rigid exchange controls to a free exchange market. The regular review of the operation of these provisional taxes had been decided upon

as a means to counteract speculation, and thus to contribute to relative price stability of this commodity in the internal market in the interest of peasant producers. Furthermore, the Government was trying to curb any undue expansion of credits, particularly for such speculative stock-piling activities, and appropriate measures had already been introduced in connexion with the more general tightening of credit. At the same time, the Government was making considerable efforts to increase and improve agricultural production, and thus increase export availabilities.

14. In reply to other questions concerning the prospects for an increase in meat exports, the second most important single export item, the representative of Uruguay explained that the Government attached considerable importance to the revival of exports of meat and meat products after the drastic decrease in exports of these products in recent years. The decrease in exports had largely been caused by the unfavourable exchange treatment for meat and the granting of meat subsidies which had kept domestic prices low relative to world prices. The Government had now abandoned such subsidies in order to counteract a further increase in the already very high level of meat consumption in order to increase the proportion of domestic production available for export. Also, the withholding tax on export proceeds of meat and meat products had been set at the lowest rate provided for under the Law, i.e. 5 per cent - withholding taxes on export proceeds ranging from 5 to 50 per cent. In other measures the Government had assisted in the reopening of a number of packing plants and thus contributed to the increase in exports of this product in 1959. The exports of meat and meat products continued to be much below the exports which had been registered during the first few years of the last decade and the Government was taking extensive measures to encourage the livestock industry in order to increase production and exports of these products.

#### System and Methods of the Restrictions

15. Members of the Committee noted that under paragraph C of Article 2 of the Exchange Law the Government was authorized to prohibit imports in certain cases of goods which were not essential or were of a luxury nature and/or competitive with domestic products. The representative of Uruguay pointed out that the Government would impose such restrictions only in circumstances where this would appear to be justified; furthermore, the Law provided that such restrictions were to apply only for a limited and defined period of time. In the Decree of 17 February 1960 the Government had set out the conditions and circumstances in which such restrictions might be applied. For example, a product would only be considered to be competing with the domestic industry if, while offering the same characteristics and technical features or conditions of use as the imported product, it were to be regularly produced domestically, with the further qualification that it be available in sufficient quantities. It was felt by members of the Committee that this feature of the Law could give effect to import restrictions not in conformity with the provisions of the General Agreement. In this connexion, members noted that the decision whether to impose such restrictions appeared to be made after consulting with representatives of business and industry, who could be expected to have an interest in protection. The representative of Uruguay explained that his Government had no intention of resorting to these provisions except in the case of absolute necessity. The conditions for deciding whether a product was a luxury item or a competing product to which such measures might be applied had been worked out by a

Mixed Commission of high-ranking Government officials from various Ministries in consultation with representatives from the Chambers of Commerce and Industry. In its proceedings due account was given to consumer as well as producer interests. The representative of Uruguay stated that this review was soon to be completed. Notwithstanding the establishment of rules and regulations for the implementation of the Exchange Law the Government was planning to proceed with the liberalization of imports and the elimination of most restrictions by the end of the current year.

16. Members of the Committee enquired whether the Government in proceeding with the liberalization of trade, had envisaged the elimination of prior deposit requirements and surcharges. The representative of Uruguay explained that, although the Government was pursuing the objective of trade liberalization on a broad basis, in view of the adverse effect which such a move might have on the balance-of-payments position it was not yet considered possible to dispense with the possibility of regulating imports through prior deposit requirements and surcharges. Members of the Committee expressed the view that the use of such devices as withholding taxes on export proceeds, prior deposit requirements, had the same effects as the devices used in the former exchange system. As long as such measures were in operation trade could not be considered as being truly liberalized. It was pointed out therefore that the actual progress by Uruguay towards trade liberalization might not be as general or widespread as might at first appear. Members of the Committee expressed the hope that the Government of Uruguay would re-examine the effect of these measures on trade and would proceed with their elimination in accordance with the improvement in the foreign reserve position.

17. Members of the Committee noted that there had been a considerable shift in recent years in the direction of exports from Uruguay. Exports to Eastern Europe which had accounted for about 9 per cent of total exports in 1957 had increased to 23 per cent and 33 per cent respectively in 1958 and 1959. At the same time there had been a corresponding decrease in exports to Western Europe. The representative of Uruguay explained that the shift reflected largely a sharp increase in direct shipments of wool to Eastern Europe. Exports to Eastern Europe during the first few months of 1960 had, however, been on a small scale. Out of total exports of US\$37.9 million during the first three months of 1960, only US\$4.5 million had gone to Eastern Europe. A member of the Committee thought that the increase in direct shipments of wool to Eastern Europe in 1958-59 might reflect no more than a change-over by the Eastern European countries from their previous practice of importing Uruguayan wool through the entrepôt trade in the Netherlands to the new practice of making direct purchases. In discussion of the proportion of trade conducted under bilateral arrangements, the representative of Uruguay reaffirmed that his Government was striving towards a reduced reliance on bilateral trade and payments arrangements. The proportion of total trade which was at present conducted under bilateral agreements (including trade with neighbouring countries) was less than 20 per cent. Since the abolition of controlled exchange markets, the attractiveness of exports to bilateral account countries had been considerably diminished. It was expected therefore that the proportion of such trade would soon show some further decrease, and that bilateral agreement in the near future would only have a nominal value. Members of the Committee observed that the fairly large and sudden variations in the sources of

supply for imports and sudden shifts in the direction of exports which had characterized Uruguay's trade in some recent years had, of course, had adverse effects on trade. The Committee welcomed therefore the progress which had been made in eliminating discriminatory restrictions and the reduction in the reliance on bilateral trade practices.

18. One member of the Committee noted that imports which had been shipped before authorization was obtained from the licensing authorities were subject to import fines to the amount of 10 to 50 per cent of the c.i.f. value of imports. Such fines could be considerable impediments to trade especially if the licensing authorities delayed decisions on import applications. Members of the Committee enquired in this context about the average time which elapsed between application for an import licence and a decision on the application by the licensing authorities. The representative of Uruguay explained that in recent months the average delay between the application for an import licence and the decision on the application had been less than forty-eight hours. This compared with a delay of eight to ten days before the simplification and liberalization of the import control system under the Exchange Law. Import fines did therefore not significantly affect trade. They had primarily been introduced to permit an orderly settlement of import applications which had been carried over from the time antedating the adoption of the Exchange Law. It was hoped that the remainder of these applications which were still awaiting approval could be decided upon during the current year.

#### General

19. The Committee thanked the delegation of Uruguay for the spirit of co-operation with which they had engaged in the consultation and for the information they had supplied. The Committee expressed appreciation for the new orientation of the policies of the Government following the adoption of the Exchange Reform Law, as explained by the delegation of Uruguay. Members of the Committee noted with satisfaction the progress that had been made in reducing discriminatory import restrictions and the intention of the Government to eliminate import prohibitions by the end of 1960 and the intention to reduce further the proportion of trade and payments conducted under bilateral arrangements. They noted that various measures possible under the Exchange Reform Law (prior deposit requirements, withholding taxes on export proceeds, import surcharges) might have effects similar to those that the Government was desirous of avoiding and stressed the importance of applying the provisions of the Exchange Reform Law in a way that would result in enduring fundamental improvements in Uruguay's trade and external financial position.

20. The representative of Uruguay thanked the Committee for the understanding with which it had consulted with his country and assured the Committee that he would bring the comments and suggestions which had been made by members of the Committee during the consultation to the attention of his Government for careful consideration.

ANNEX

Statement by the Uruguay Delegation

Original: Spanish

I.

The Government of the Oriental Republic of Uruguay is engaged in the task of giving a completely new structure to the domestic economy. To that end, in the economic and financial field, the national debt has been unified and systematized and about sixty different issues have been consolidated; the fiscal deficits of the last ten budget years have been brought under control; the budget for the central administration has been balanced (this objective was already attained in 1959 and strengthened for future budget years as a result of the income and expenditure budget estimates which are being examined by the Parliament); a wide, rational fiscal reform has been programmed and rules have been laid down for selective controls of rediscount; more specifically, a law instituting an exchange and currency reform has been approved with the result that the foreign trade system has been simplified and fully liberalized, while "all the provisions fixing exchange rates or giving power or authority to fix such rates have been rescinded, purchases or sales of foreign exchange being regulated by the free-play of supply and demand".

Thus, the Government of Uruguay has taken an important step forward towards eliminating existing restrictive systems and the adjusting of its policy in this field to the rules commonly advocated by such international institutions as the International Monetary Fund and the General Agreement on Tariffs and Trade.

Such orderly measures which are intended to ensure economic stabilization, have been supplemented by plans for the implementation of highly productive projects which are likely to speed up the rate of economic development of the country and to increase our foreign exchange earning capacity.

It should also be stated that since the informal consultations which were held under GATT in 1959 in connexion with the problem raised by the classification of supplying countries into Groups A and B instituted under the emergency system introduced after the abolition of the exchange market in October 1957, the Government of Uruguay has made substantial progress in the field of liberalization. All discriminations have been abolished and, as a result of a number of administrative decisions, the rules set forth under the Law of 17 December 1959 have promptly been made effective.

It must be made clear, however, that while the above-mentioned Law instituting an exchange and currency reform is fundamentally based on the principle of free importation, our unfavourable balance-of-payments situation and the low level of our foreign exchange reserves - which, as can be foreseen, will continue until the measures which are being applied in order to strengthen the domestic economy yield the desired results - have naturally compelled us to provide, under the same Law, for devices designed to limit

imports of non-essential and luxury goods in accordance with our foreign exchange availabilities. In this respect, the provisions which enable the Executive Power to require previous deposits and to institute impositions and prohibitions in connexion with the importation of certain items for a limited period of time and in specific cases, are covered by Article XII of the General Agreement by reason of the fact that they are intended to safeguard our balance-of-payments equilibrium. On the other hand, the firm determination of the Government of the Republic to continue liberalizing imports to the greatest extent possible is reflected in the higher percentages already achieved, notwithstanding the unfavourable circumstances in which implementation of the Law has been initiated.

## II.

The substitution of the administrative system of import quotas by a system of "free importation of all classes of merchandize articles, products and goods" (Article 2 of the Law of 17 December 1959) in a market which had long been used to artificial exchange regulations and to trade restrictions was likely to have a strong impact on our foreign exchange availabilities, in particular if the experiment had been undertaken at a time when our foreign exchange reserves were in sharp decline.

It is a well-known fact that our trade balance is the main item of our balance of payments and our trade deficits have recently been considerable and were at a peak in 1959 as a result of a decline in our exports attributable to unfavourable weather conditions at the beginning of the year. Statistical returns relating to purchases and sales of foreign exchange provide a good illustration of this situation (see table 1). Our total gold and exchange reserves also show a marked decline (see table 2).

Thus our general exchange reserves, including futures transactions, show a considerable deficit (see table 3). While official export estimates for the current year (US\$180 million) indicate a minor imbalance (the disappearance of contraband, due to the exchange reform, will ipso facto bring about a decline in the previous import level resulting from fictitious rates of exchange), it can be stated that, failing support for the strengthening of our foreign exchange reserves, the picture is still far from satisfactory, considering that the full effects of the measures intended to stimulate exports of agricultural and livestock products will not be felt immediately.

This justifies the cautious use of the practical methods instituted under the Law to regulate free importation and clearly illustrates the efforts undertaken by the Government of Uruguay within the framework of its policy of liberalization which now covers over 75 per cent of the value of imports (78 per cent of the total and 88 per cent of the former list of essentials of the first category), taking the three-year period 1957-1959 as a reference basis and it is believed that full liberalization can be achieved during the current year.

III.

The Government has also enacted other parallel measures with a view to achieving the best possible readjustment.

In the monetary field, changes in fiduciary circulation have not been on the same scale as the rise in prices brought about by increases in exchange rates. While prices have increased significantly, the fiduciary issue during the period December 1959 to May 1960 (the most recent period for which statistics are available) has increased by 12 per cent. As of 31 December 1959, the total amount of money in circulation was 1,008 million pesos and the corresponding figure as of 12 May 1960 was 1,130 million pesos.

In particular, the rediscount rate with private banks has undergone basic changes during this short period of time. The following modifications have entered into force:

- (i) additional documentation giving evidence as to the ultimate use of funds obtained through rediscount operations is required;
- (ii) no document intended for the financing of importation or the purchase of certain luxury articles is accepted;
- (iii) no document may be presented for rediscount unless the amount involved is at least 5,000 pesos.

More recently an ad hoc Committee has been engaged in the task of drawing up a "Statute for Bank Rediscount" which limits the lines of operation of each bank and lays down technical regulations applicable to all rediscount operations. The Committee has just completed its work which is now being finally examined by the honorary Council of the Department of Issue of the Bank of the Republic. Bank rediscount which has loomed so large in our power of issue, representing percentage in excess of 70 per cent, now represents amounts which are less than 40 per cent of the total.

Due note should also be taken of the changes which have taken place in the fiscal field. After a number of budget years which yielded an unfavourable balance, a surplus of 50 million Uruguayan pesos was recorded in 1959 (see table 4). The favourable balance of the last year has been achieved without increasing existing taxes, as a result of a more adequate levy of taxes and a limitation of expenditure to the greatest extent possible, within the framework of a policy of austeriy. The general budget estimates for the years 1960-1963 (salaries, expenditure and income), which are fully balanced, have already been approved by the Cabinet and are being examined by the Parliament.

The credit policy has been moderately lightened and orientated especially towards a strengthening of credit for agricultural and livestock production. The Bank of the Republic is prepared for this and is using part of the resources obtained as a result of the exchange reform to increase cautiously

but constructively the support needed by this sector of the domestic economy. Its "Rural Credit Section" can be turned into a "Department for the promotion of agricultural and livestock production" in order to meet adequately the requirement of this fundamental item in the national wealth.

But, of course, the mainstay of our export capacity is provided by the Exchange Law itself which stimulates and promotes exports of products of the land through an appropriate adjustment of exchange rates which has restored agricultural production to its rightful and prominent place in the domestic economy. In addition to the support provided by this Law and the credit policy, the Executive Power has adopted a plan involving the expenditure of 80 million pesos for the improvement of agricultural and livestock production (fertilizers, the development of the dairy industry, increases in livestock numbers, the creation of pastures, stud farms; water adduction systems, etc.). This plan has to be reconciled with and adapted to "the plan for the improvement of agricultural and livestock production", involving an amount of 7.5 million US dollars, which has been approved by the International Bank for Reconstruction and Development and is being implemented.

Similarly, in the field of agricultural and livestock production, the slaughtering of breeding cattle for export and/or consumption has been prohibited in order to increase production.

Lastly special stress should be placed on the potentialities of "tourism" as an invisible item, for the equilibrium of our balance of payments. During the last tourist season (December 1959 - February 1960) total receipts accruing to Uruguay were very substantial. Interim returns show that more than 200,000 tourists visited the country. On the basis of a very low per capita figure (US\$150) this would yield a total amount of US\$30 million. In view of the fact that the Government of Uruguay is making considerable efforts in order to improve and develop the road network in general and in particular the highways leading to Eastern beaches - which constitute the basis for Uruguayan tourism - it can be stated that the increase in tourist numbers during the next season will be very substantial and will bring about an increase in foreign exchange receipts. There are also very serious possibilities of building new hotels in outstanding touristic areas in Uruguay and recent foreign capital investments in Punta del Este - the main seaside resort in the country - justifies this statement.

#### IV.

The legal basis for the restrictions is to be found in the Exchange Law of 17 December 1959.

The Uruguayan Government, as we have said before, is imbued with a most liberal spirit. It is a staunch believer in economic freedom, as past experience, with a planned economy and considerable State intervention, has yielded unfavourable balances.

The Law instituting the exchange reform is a faithful reflection of this spirit. Apart from the question of import liberalization and the unification of exchange rates, the Government is eliminating export and import controls and granting facilities for importation under the provisions of Articles 4 and 5.

Article 4 provides as follows: "For the settlement of merchandise, importers may purchase foreign exchange in the market or use the funds which they own abroad or credit obtained for that purpose, subject to any limitations which the Executive Power may institute". In other words, imports can now be effected with foreign exchange purchased in the free market or supplied by foreign financing sources or with importers' exchange availabilities abroad.

Article 5 facilitates importation of essential items and provides as follows: "The Executive Power may grant temporary exemption from customs and additional duties, and charges imposed on or in connexion with importation, fees on transfers of funds abroad, and port taxes, in favour of goods listed in Article 1 of the Decree of 24 April 1959, as well as medicaments; X-ray films; X-ray and medical and surgical apparatus and equipment intended for institutions listed in paragraph A and B of Decree Law No.10384 of 13 February 1943; machinery, implements and other requisites for agricultural, livestock and poultry farming; pesticides and fertilizers".

Nevertheless, within the purview of mandatory exceptions from the general principle, Article 2 paragraph C authorizes the Executive Power "to prohibit generally or in specific cases, for a period not exceeding six months, in whole or in part, imports of classes of merchandise, articles and goods which are not essential or are of a luxury nature and/or are competitive with domestic products. This legal provision has been regulated by a Decree of 17 February 1960 which defines limitatively the circumstances and conditions under which a specific item can be regarded as non-essential. A product can be determined to be competing with the domestic industry if it is "produced regularly and in sufficient quantities by said industry, offers the same characteristics and technical features or conditions of use as the imported product. Production shall be deemed to be regular and sufficient whenever such production is usual and typical, and sufficient to meet a substantial part of domestic consumption at cost prices and/or sales prices commensurate with the c.i.f. prices of the imported product". As the foregoing clearly indicates, the measures taken by Uruguay in relation to this aspect of the activities of the domestic industry conform fully and with the maximum of guarantees for the contracting parties to the terms of Article XVIII of the General Agreement. As regards the determination as to whether a product is a luxury item, the above-mentioned Decree refers to existing provisions in the field of taxation.

Finally it can be stated that the legal and administrative bases for the restrictions imposed are contained in the Law of 17 December 1959 and in the Decrees enacted by the Executive Power. All those are brought to the attention of the export and import trade by means of notices from the Bank of the Republic which are available to delegates.

As regards payments and clearing agreements, Uruguay still maintains such agreements with a number of countries. Our country's requirements in the field of exchange have compelled us to enter into such bilateral agreements. The present lines of policy followed by the national authorities and the law instituting an exchange reform are leading to the gradual elimination of all bilateral agreements expressed in agreement currencies.

V.

The reasons for the maintenance of our restrictions are to be found especially in our foreign exchange situation which showed a deficit of US\$131.9 million as of 30 April 1960 with the following breakdown; US\$80.5 million in arbitrage currencies and US\$51.4 million in agreement currencies. It is therefore clear that the purpose of the restrictions is to secure the equilibrium of our balance of payments and on the basis of this clear understanding and discussions with the contracting parties, Uruguay bases such restrictions on the provisions of Article XII:4(b) which concerns "restrictions to safeguard the balance of payments". However, it is the firm determination of the Government of the Republic fully to liberalize imports, as far as foreign exchange resources permit, and to that effect the Government is using the legal instruments afforded by the Law instituting an exchange reform, in the broad spirit of this Law. So long as domestic production does not increase substantially as a result of the measures and plans we have outlined and which will not bear fruit for some time to come - in view of the special characteristics of our agricultural and livestock production - Uruguay will be confronted with difficulties. The process of liberalization will have to be accompanied by an increase in our foreign exchange receipts which the new policy may bring about in various sectors.

Lastly as regards the measures taken in accordance with Article XII:3(c) Uruguay has already taken considerable care not to cause prejudice to the trade or economic interests of our traditional trade partners and where complaints have been made sympathetic consideration has always been granted.

It is with considerable satisfaction that Uruguay appears before the Committee on import restrictions to safeguard the balance of payments to consult under the plan for consultations under Article XII:4(b).

After a long period of nearly two decades, our country is doing away with a system of strict and severe exchange controls in the field of importation which are the object of this consultation and have brought in their wake import quotas and preferential exchange treatment.

Today, less than six months after the enactment of the Law of 17 December 1959 we are in a position to show to the contracting parties, with a feeling of justified optimism, all the complete plans which have materialized in such a short period of time and the spirit with which the Uruguayan Government deals with the problems with which we are all equally concerned.

We are convinced that an examination of the situation conducted in this atmosphere of mutual understanding, without excluding a thorough analysis, cannot but yield positive results.

Uruguay hopes to derive from this friendly exchange of views favourable conclusions which will be given full consideration by our national authorities and will make it possible for us, within the shortest possible period, to achieve a high level of increased co-operation with this international body.

Basically we can say that Uruguay is steadily progressing along the road to trade and exchange liberalization and is making considerable and continuing progress, and proceeds within the framework of a cautious evolution which will facilitate to an ever-increasing degree the consultations that we are glad to hold with the contracting parties in accordance with the provisions of Article XIII of the Agreement.

TABLE 1

EXCHANGE PURCHASES AND SALES BY THE BANK OF THE REPUBLIC

(Equivalent in millions of dollars)

YEAR	<u>PURCHASES</u>			<u>SALES</u>			BALANCE
	EXPORTS	OTHER	TOTAL	IMPORTS	OTHER	TOTAL	
1954	211.3	56.6	267.9	254.4	66.3	320.7	- 62.8
1955	192.5	47.1	239.6	222.4	59.2	281.6	- 42.0
1956	229.5	37.2	262.7	244.7	55.2	299.9	- 33.2
1957	113.8	34.9	148.7	214.3	55.1	269.4	-120.7
1958	143.7	21.1	164.8	139.5	31.9	171.4	- 6.6
1959	79.2	19.0	88.2	139.6	31.5	171.1	- 72.9
							<u>-338.2</u>

TABLE 2

TOTAL GOLD AND EXCHANGE AVAILABILITIES

(in millions of Uruguay pesos)

Date	Cash	Abroad	<u>In the Dept. of issue</u>	<u>Gold and Exchange availabilities of the Banking Dept.</u> <sup>1</sup>
December 1954	24.5	71.3	248.3	83.7
" 1955	24.5	54.6	248.3	12.6
" 1956	24.5	10.4	248.3	39.2
" 1957	32.1	-	240.7	10.5
" 1958	32.1	25.0	215.7	- 18.3
" 1959 <sup>2</sup>	335.3	107.0	724.9	- 13.3

<sup>1</sup>In millions of dollars

<sup>2</sup>Amounts in Uruguay pesos have been adjusted in accordance with the new par value instituted under the Law of 17 December 1959

TABLE 3

The General Exchange Situation of Uruguay

D: Deficit

A: Availability

Equivalent in US\$ ('000,000s)

<u>As of 30 April 1958</u>	<u>As of 30 April 1959</u>	<u>30/4/1960</u>
Situation . . . . D 83.3 . . . . .	D 104.2 . . . . .	D 132.-
Gold earmarked: abroad . . . . . A 16.5 . . . . .	A 16.5 . . . . .	A 16.5
Overall situation . . . . . D 66.8 . . . . .	D 87.7 . . . . .	D 115.5
Gold holdings in Montevideo . . . . . A 21.1 . . . . .	A 21.1 . . . . .	A 21.1

TABLE 4

CLOSING BALANCES OF THE CENTRAL ADMINISTRATION BUDGETS

(in millions of Uruguay pesos)

<u>Budget Year</u>	<u>Income</u>	<u>Expenditure</u>	<u>Balance</u>
1954	453.6	503.4	- 49.7
1955	485.5	505.1	- 19.6
1956	515.4	516.3	- 0.9
1957	664.9	709.2	- 44.3
1958	699.9	794.2	- 94.3
1959	899.2	841.5	- 57.7