

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

RESTRICTED

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

U R U G U A Y

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) the basic document prepared for the consultation, BOP/16, and (b) the documents provided by the International Monetary Fund, noted in paragraph 2 below. The consultation was completed on 28 September 1962.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this 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 made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with Uruguay under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board decision of September 12, 1962, taken at the conclusion of its recent consultation with Uruguay, and particularly to paragraph 5, which reads as follows:

'The Fund welcomes the further simplification of the system of effective export exchange rates and the reduction in the use of bilateral payments agreements. The Fund hopes that action will be taken with little delay to liberalize further trade and payments arrangements, to unify export retentions, to abolish advance import deposit requirements, and to terminate the remaining bilateral payments agreements. In the meantime, the Fund does not object on a temporary basis to Uruguay's multiple currency practices.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with Uruguay. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of Uruguay

3. In his opening statement, the representative of Uruguay recalled that at the preceding consultation, in 1960, the delegation of Uruguay had stressed that Uruguay had been engaged in the task of giving a complete new structure to the domestic economy. Amongst the measures taken to that end, he particularly wanted to emphasize that a law instituting an exchange and currency reform had been approved with the result that the import system had been simplified and fully liberalized. Furthermore, all discrimination had been abolished. Thereby the Government of Uruguay had taken an important step towards eliminating its trade restrictions and directing its commercial policy along the lines advocated by IMF and GATT. These measures had been supplemented by plans to speed up the rate of economic development in Uruguay. The representative of Uruguay pointed out, however, that such a radical change in policy, although leading to long-term advantages could easily entail some short-term difficulties, particularly in view of the fact that the programme had been implemented in an unfavourable balance-of-payments situation. It had, therefore, been found necessary to introduce arrangements whereby imports of non-essential and luxury goods could be limited and the exchange available used for the importation of goods necessary for the development of the country.

4. During the time between the 1960 consultation and the present one, the Government of Uruguay had adhered, as far as possible, to the above-mentioned policy, and had never departed from the principle of free importation of all kinds of products and goods, in spite of the deteriorating balance-of-payments situation. Although exports had increased somewhat in 1960 and 1961, compared with the very low figure for 1959, there had nevertheless been a surplus of imports of \$195 million during these three years. The figures for the first six months of 1962 had further emphasized this trend. This situation must be seen against the background of the difficulties that Uruguay had experienced when trying to find a market for its export products and which had compelled it to have recourse to the provisions of Article XXIII of GATT. Taking into account the paramount importance of foreign trade for the balance of payments of Uruguay, it should be easy to judge to what extent the measures taken to maintain the country's economic equilibrium had been justified. The representative of Uruguay also recalled that the influx of tourists from neighbouring countries, which formed an important source of income for Uruguay, had for obvious reasons recently decreased to an alarming extent.

5. The representative of Uruguay recalled that the representative of his country had stressed during the 1960 consultation that his Government was a staunch believer in economic freedom, having regard to the fact that past experience with a certain amount of economic direction and State intervention had led to unsatisfactory results. The legal basis for the measures taken by Uruguay to

protect its balance of payments existed in the Exchange Law of 17 December 1959 which was a faithful reflection of this principle. Referring to bilateral payments agreements, he said that Uruguay had terminated the agreements with Brazil, Bulgaria, Hungary, Israel, Rumania and Yugoslavia and was shortly going to end the agreement with Argentina. The remaining four bilateral agreements were to be terminated as soon as possible, in accordance with the general principle adhered to by the Government of Uruguay.

6. The reason for the preoccupations of the Government of Uruguay in the foreign trade field was the deficit in its balance of payments, and the aim of the action taken was to safeguard the balance of payments in accordance with the provisions of Article XII of GATT. The Government of Uruguay was certain that the measures taken would ultimately lead to satisfactory results. It was willing to do its best to encourage imports into Uruguay. It must, however, draw attention to the difficulties encountered in securing access for its products in world markets. Positive results from the action taken by Uruguay under Article XXIII of GATT would be the best guarantee of a rapid increase in imports into Uruguay. In concluding his opening remarks, the representative of Uruguay stressed that his Government, when applying measures for balance-of-payments reasons, exercised great care not to harm the commercial interests of its traditional trade partners, and was always willing to consider carefully any representations that it might receive.

7. The Committee thanked the representative of Uruguay for his statement and expressed appreciation and understanding of the difficulties with which Uruguay was faced.

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

8. Members of the Committee pointed out that there had been a considerable improvement in the financial situation of Uruguay since the 1960 consultation. The rate of inflation had slowed down; and, following the restoration of confidence in the economy of Uruguay, there had been a net inflow of capital from abroad. The figures supplied by the IMF showed that the net foreign assets of the Bank of the Republic at the end of June 1962 were about \$110 million, equal to about seven months imports. The gross reserves amounted to about \$200 million corresponding to almost one year's imports. It was felt that the reserve position at the end of June allowed some scope for the relaxation of the present restriction and it was to be hoped that the general tendency in the economic policy of Uruguay would be towards such relaxation. However, it was noted that there appeared to have been some deterioration since then.

9. In reply to a question about the export outlook for the next few years, the representative of Uruguay said that exports of wool had been unusually high in 1961 as stocks representing a considerable part of the foregoing year's clip had been exported that year in addition to the regular exports. It was thus clear that wool exports in 1962 were going to be considerably below the 1961 figure. The exports of meat seemed, on the other hand, to offer good possibilities

of improvement and would partly compensate for the decrease in wool exports. It was, however, not possible for him to give any exact figures in this context. Since 1956, the number of cattle had increased by approximately 16 per cent from 7.4 to 8.7 million head in 1961. This seemed to suggest prospects for an increase in meat production to about 330,000 tons in 1962.

10. The representative of Uruguay explained, in reply to a question about the possibilities of increasing exports of wheat, that the policy of his Government in regard to wheat had completely changed since 1959. Before that year, the production of wheat had been promoted, but the Government of Uruguay had subsequently decided to concentrate its efforts on the production of wool and meat, the export prospects for which were considered to be better.

11. Members of the Committee asked whether the sharp increase in imports during the first six months of 1962 could be attributed to some special factor, and what the forecasts were for the rest of 1962. The representative of Uruguay said that the increase in imports was accounted for by a rise in the imports of raw materials, and particularly by imports of motor vehicles and parts which rose from \$9 million in the first half of 1961 to \$17 million during the corresponding period of 1962. In order to limit the imports of these latter goods, regarded as non-essential, a decree had been issued on 26 July 1962 whereby the surcharges on a large range of motor vehicle parts and accessories had been raised.

12. Members of the Committee pointed out that the forecast for 1962 in the IMF material envisaged a decrease in the net foreign assets of Uruguay of \$20 million (apart from the effects of capital movements) although the foreign assets figure for the first half of the year did not show any decline at all. They inquired whether this was due to a seasonal trend in the reserve situation of Uruguay. The representative of Uruguay said that the corresponding figures for the last few years had shown a similar development, i.e. a surplus during the first six months but a deficit during the second half of the year. He said that in all likelihood this pattern would be repeated in 1962.

#### Alternative measures to restore equilibrium

13. Members of the Committee asked if the Government of Uruguay had, in view of the financial pressures contemplated the possibility of some reduction in the expenditure on social services, which was amongst the highest in the world, or of increasing taxation. The representative of Uruguay replied that it would be a very difficult problem for his Government to withdraw social services, of which the country was very proud, now they had been established, even if the expenditure involved might seem high in present circumstances.

14. Members of the Committee pointed out that the two main problems facing Uruguay seemed to be the promotion of economic growth and the development and maintenance of a climate of financial stability. Some members suggested that the Government of Uruguay might be relying too heavily on restrictions and too little on fiscal and monetary measures in order to control excess demand.

For example, the increase in bank credits seemed to have been a major factor in encouraging imports of consumer goods. They asked whether the Government of Uruguay intended to continue its stabilization programme. The representative of Uruguay confirmed that the stabilization programme was to be continued. He also pointed out that measures had been taken to limit credits and consumption. These included the increase in compulsory bank deposits and the imposition of new taxes. The Government had furthermore as far as possible opposed new salary and wage increases.

15. A member of the Committee, while appreciating the steps that Uruguay had taken towards liberalizing its trade, regretted that in many cases the liberalization measures had been accompanied by increases in the tariff surcharges. In this connexion, he pointed out that so far no substantial steps had been taken to eliminate the surcharges which, in accordance with the terms of the waiver of 8 May 1961, were to be completely abolished before 1 July 1963. He also suggested that the export retention system prevailing in Uruguay might well have a limiting effect on the country's exports. Another member asked the representative of Uruguay to confirm that it remained the policy of the Government of Uruguay to apply the surcharges only until the new tariff had been prepared. The representative of Uruguay regretted that he did not know when the revision of the full tariff schedule would be completed.

#### System and methods of the restrictions

16. Members of the Committee referred to the fact that prior deposits were not levied on imports from member countries of the LAFTA with which Uruguay had negotiated concessions. This gave rise to apprehension concerning the adverse effects of such measures on both the Uruguayan balance of payments and the trade of other contracting parties. Prior deposits were imposed as a temporary balance-of-payments measure but the fact that they were subject to negotiation within the LAFTA could easily lead to their being maintained for negotiating purposes when they had ceased to be justifiable on balance-of-payments grounds. Furthermore, the fact that they were required for imports from some countries but not others could divert trade from the cheapest sources of supply and thus could adversely affect the balance of payments by requiring a greater foreign exchange expenditure for imports. The matter was of particular concern to exporters in non-LAFTA countries who were faced with the loss of traditional markets. Without prejudice to the legal aspects of the question which had not yet been resolved by the CONTRACTING PARTIES, members of the Committee urged the elimination of the discrimination in the application of prior deposits.

17. Members of the Committee recalled the decision of the International Monetary Fund of 12 September 1962 and urged Uruguay to liberalize its trade and payments arrangements, unify its export retentions, abolish advance import deposit requirements, and terminate the remaining bilateral payments agreements in accordance with that decision.

Effects of the restrictions

18. Members of the Committee pointed out that Uruguayan restrictions, in addition to providing a source of revenue, also tended to protect industries which otherwise would probably have found it difficult to withstand competition from abroad. They hoped that this consideration would not make it more difficult for the Government of Uruguay to remove these restrictions when the balance-of-payments situation permitted such a step.

General

19. The Committee thanked the representative of Uruguay for the co-operative manner in which he had engaged in the consultation, and expressed understanding of the problems, internal as well as external, with which Uruguay was confronted. It noted the statement by the representative of Uruguay that his Government was willing to do its best to facilitate imports to Uruguay. The Committee felt that the maintenance of fiscal and monetary stability was essential for a higher rate of economic development and the strengthening of the balance of payments. It urged Uruguay to place increased reliance on fiscal and monetary measures rather than trade restrictions as a means of maintaining equilibrium. Without prejudice to the legal aspects of the question, the Committee invited Uruguay to eliminate discrimination in the application of measures designed to safeguard the balance of payments. The Committee welcomed the reduction in the use of bilateral agreements by Uruguay and expressed the hope that it would be possible for Uruguay shortly to terminate its remaining bilateral agreements.

20. The representative of Uruguay thanked the Committee for the understanding and sympathetic manner with which the consultation had been conducted. He stressed that Uruguay intended to continue to follow - despite temporary difficulties - a liberal foreign trade policy and assured the Committee that he would bring the comments and suggestions made by members of the Committee during the consultation to the attention of his Government.

ANNEX

IMF Executive Board Decision of 12 September 1962.

ANNEXInternational Monetary Fund Executive Board Decision  
Taken at the Conclusion of the Fund's Consultation  
with Uruguay on 12 September 1962

1. The Government of Uruguay has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. In the last 12 months, the Uruguayan economic situation has shown further improvement. With larger exports, due in part to special circumstances, and a sizable inflow of short-term capital, foreign exchange reserves increased even though imports rose again after some decline. The government sector maintained a surplus. Control over credit to the private sector, especially from the Bank of the Republic, was improved considerably. The cost of living rose by a substantially smaller proportion than during the year before, but wages were still rising by very large percentages. More progress was made with the implementation of a development program.
3. The Fund welcomes the progress made in the past 12 months by the Uruguayan Government in its efforts to establish monetary stability and thus to create a firm basis for economic development. Much of this progress was due to higher budgetary revenues from the introduction of new taxes and improved tax collection. It is noted that development expenditures will be financed from current tax revenues and from the proceeds of foreign assistance. The Fund emphasizes that the maintenance of fiscal and monetary stability and further progress in reducing the rate of advance of wages and salaries are essential for a higher rate of growth and the strengthening of the balance of payments.
4. The complexity of the system of effective exchange rates has been further reduced. The authorities have indicated that further progress will be made in the simplification of these rates as soon as possible. Six bilateral agreements have been terminated and negotiations to eliminate one other agreement are far advanced. The remaining four agreements are to be terminated as soon as possible.
5. The Fund welcomes the further simplification of the system of effective export exchange rates and the reduction in the use of bilateral payments agreements. The Fund hopes that action will be taken with little delay to liberalize further trade and payments arrangements, to unify export retentions, to abolish advance import deposit requirements, and to terminate the remaining bilateral payments agreements. In the meantime, the Fund does not object on a temporary basis to Uruguay's multiple currency practices.
6. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Uruguay.