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.