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 infrastructure, 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 devaluations 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 asked the Committee to believe 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 offer 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 reforms 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 1963 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 regime 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 43 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. Uruguay felt fully justified in maintaining
this preference to LAFTA imports, however, 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 favorable reception which LAFTA had received within 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 inter-bank agreements, not commercial agreements between governments. No new commercial agreements were being signed and only a few of the older bank agreements still exist.

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 quantitative 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.