Committee on Balance-of-Payments
Restrictions

DRAFT REPORT ON THE CONSULTATION UNDER ARTICLE XVIII:12(b)
WITH URUGUAY

1. In accordance with its terms of reference, the Committee has conducted a consultation with Uruguay under Article XVIII:12(b). The Committee noted that the previous consultation with Uruguay on its import restrictions had been held under the unrevised provisions of Article XII:4(b) in April 1968 (cf. BOP/R/20). In conducting the present consultation the Committee had before it a basic document supplied by the Government of Uruguay (BOP/107) as well as background material supplied by the International Monetary Fund.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation took place on 18 June 1970. The present report summarizes the main points of 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 International Monetary Fund to consult with them in connexion with this consultation with Uruguay. In accordance with the agreed procedures the representative of the Fund made a statement, which was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 20, 1970, taken at the conclusion of its most recent Article XIV consultation with Uruguay and particularly to paragraphs 2 to 5 (see Annex II).

"On May 27, 1970 the Fund has approved a stand-by arrangement with Uruguay authorizing the purchase of up to $13.75 million in foreign currencies over the next twelve months.

"In regard to the import surcharges, the Fund expects that the balance of payments and fiscal need for import surcharges of the magnitude presently maintained will be considerably diminished as the policies framed by the Uruguayan authorities prove successful."

Opening statement by the representative of Uruguay

4. In his opening statement the representative of Uruguay outlined his country's basic economic problems, the policies being pursued to combat inflation and to stabilize the economy and the progress that had been made in attaining the objectives
set. He also described the balance-of-payments position and prospects and the import control régime at present in force. The full text of the statement is contained in Annex I to this report.

Balance-of-payments position and prospects

5. Members of the Committee expressed appreciation for the very comprehensive and informative statement made by the representative of Uruguay. They congratulated the Uruguayan authorities on the marked improvement in the country's economic situation over the past three years, which was largely attributable to the policies pursued by the Government during that period, policies which were generally in line with the advice offered by international bodies such as IMF and GATT. They expressed the hope that the improvement would continue on the good course that had now been set. The Committee was particularly gratified to note the declaration included in the basic document for this consultation that: "... the Government proposes gradually to open the doors of the national economy to the fullest play of foreign competition and, at the same time, to continue its policy of liberalization. This policy, which is one of the essential elements in the economic thinking of the Government of Uruguay, is being followed not only because of the conviction that it produces tangible results, but also because it is considered to be inspired by the letter and spirit of the General Agreement in that freedom of exchange is an important factor in stimulating trade" (BOP/107, page 7). In other words, as had been reaffirmed by the representative of Uruguay, the policy being followed was aimed at restoring equilibrium through the expansion of exports and promoting the integration of the Uruguayan economy with the world economy.

6. In reviewing the balance-of-payments position, a member of the Committee drew attention to the significant recovery in exports in recent years which, in fact, reached the highest level in ten years and enquired to what extent this was attributable to the price policy that had been so resolutely pursued in 1969, and whether the reduction in export levies had played a part. He expressed the hope that these policies would be continued. On the other hand, the very marked rise in imports in 1969 had largely offset the gain in exports and, considering that there might be obstacles to the prolonged adherence to a rigid price policy, it would be interesting to know how the Uruguayan authorities viewed the future prospects in regard to the trade balance. As regards the other sectors of the balance of payments, receipts from tourism had been stable over the past few years; the Committee would like to be informed of any special measures taken to develop this branch of the economy. On the capital account, whereas the largest inflow in 1968 had been in the form of long-term government loans, the 1969 inflow to the public sector had been only one third as large, and a predominant position had been taken by short-term commercial credits. One would therefore like to know whether any steps were contemplated for the re-scheduling of external debts through, for example, the contracting of long-term loans with international institutions. The developments in the various sectors of the balance of payments had indeed resulted in a remarkable rise in foreign exchange reserves in the last four years. One would like to know whether the Uruguayan Government regarded the present trend of rapidly rising imports, coupled with a less rapid rise in exports, a cause for
concern in regard to the balance-of-payments prospects in the coming years, and
what measures — for example, an even more stringent price policy, adjustment of
the exchange rate — might be adopted to forestall a decline in reserves.

7. Another member of the Committee commented that the rise in gross national
product in real terms in 1969 bespoke the effectiveness and success of the
current economic programme. Partly owing to favourable weather conditions,
agricultural production had been good in that year and had contributed to an
increase in exports. It was to be hoped, however, that apart from weather condi­
tions, the price and other policies to increase agricultural production would soon
bear fruit and be reflected in increased export earnings. Uruguay had long proved
to be adept and efficient in exploiting its natural resources and one could expect
that it would be successful in further raising productivity and production in
agriculture, thus laying a firm foundation for further economic progress. The
substantial increase in imports in 1969 and their continued rise in the first
months of 1970 might be attributed to pent-up demand that had been built up in
previous years during which imports were subject to more stringent restriction,
and part of the current import demand could therefore be regarded as non-recurrent,
which would be a favourable sign with regard to import prospects for the future.

8. Members of the Committee also referred to the shortfall in fiscal revenue
from the expected level in 1969 and the excess of expenditure above the level
forecast, and expressed the hope that the attempt to improve the situation in
this regard in 1970 would be successful as this would help to bring about a slower
growth of the money supply. In 1969 the large increase in money supply had been
cushioned by a rise in the public's propensity to hold cash balances. A further
easing of the liquidity base in 1970 and the next year would most likely lead to
greater pressures on imports. It was therefore to be hoped that the fiscal and
monetary policies would be continued or even more energetically pursued so as to
lessen unduly heavy calls on the foreign exchange reserves, and to avoid recourse
to commercial policy measures which were contrary to the Government's declared
objective of furthering trade liberalization and detrimental to economic growth on
a sound basis. It would also be desirable if greater reliance could be placed on
domestic sources for budgetary revenue by way of increasing direct and indirect
taxes, rather than on levies that impinged on foreign trade. Above all, since the
continued rise in domestic prices — even though at a relatively moderate rate —
would already have substantially offset any increase in productivity that might
have been achieved and constituted a severe disincentive to exports, the export
tax on agricultural products should be reduced.

9. A member of the Committee noted that according to the statement contained in
the basic document (BOP/107), the objectives of the current stabilization policies
included: (a) an increase in reserves by $29 million in 1970, (b) exchange
stability, (c) limitation of the rise in prices to 15 per cent, and (d) maintaining
domestic liquidity in 1970 at the 1969 level. He expressed the view that these
objectives seemed not to be mutually consistent and might not all be attained.
The Uruguayan delegation was invited to comment on this point as well as on the
steps that might be taken in the event of any one of the objectives not being
realized. Another member of the Committee pointed out that present indications
were that the rise in prices in 1970 was likely to exceed the 15 per cent envisaged and enquired whether any steps were being considered should this limit be substantially exceeded.

10. A member referred to the statement in the basic document that one of the "basic assumptions" of the current stabilization programme was to prevent salary increases in the private sector this year and wished to know the relative importance of the private and public sectors in the Uruguayan economy and whether parallel restraint applied in the public sector.

11. In response to the above comments and questions the representative of Uruguay supplied supplementary information or clarification, in particular the following:

Export policy: There had been no change in the legal basis of the measures affecting exports since the last consultation was held in 1968. The Government remained determined to take all measures available to stimulate the expansion of exports. New formulae were being examined and were likely to be adopted before the end of 1970.

Tourism: Receipts from tourism had increased from $35 million in 1964 to $45 million in 1965 and had since remained at the same level. Outward payments on this account had amounted to $35 million in 1964 and had fluctuated between $18 and $20 million since 1965. The Government's policy had consistently been to foster the development of this branch of the economy. The establishment of a Ministry of Tourism bore out the importance attached to this matter, and a positive programme of construction of roads and hotels was being implemented with a view to attracting an increasing number of tourists, especially from neighbouring countries.

Agricultural production: The considerable increase in agricultural production in 1969 had not only been due to favourable weather conditions but mainly due to the successful implementation of the agricultural plan, which provided for a substantial rise in productivity and output. As regards the prospects for 1970 production was expected to exceed the 1969 level.

Domestic prices: The Government firmly believed that all the objectives set for this year in the monetary and fiscal fields, as well as those relating to prices and reserves, would be attained. Between 1968 and 1969 the rate of price increase had been brought down from 137 per cent to 15 per cent while wages increased also moderately and reserves mounted. There was no reason to doubt that similarly satisfactory progress would be achieved in 1970. At least in regard to prices the Government was determined to hold the line, and the forecast had been proved correct during the first six months of the year, in spite of a substantial increase in the tariffs for certain public services.
Wages policy: Similarly, the wages policy would also be rigidly followed, in the private sector as well as in the public sector. The Productivity and Incomes Board created under a public law had, for the first time in Uruguay, enabled the regulation of wages in the private sector on a national scale and ensured the effective implementation of the Government's stabilization policy and programme. Wages in the public sector were of course subject to more direct control by the Government, and the policy pursued since the beginning of the year had been to permit a certain measure of adjustment to take account of the rise in prices.

12. Members of the Committee congratulated the Uruguayan Government on its successful implementation of the stabilization programme. It was noted that Uruguay, which had faced for a very long period major problems of development, had, by a series of radical and sharp changes in economic policy, succeeded in curtailing domestic inflation beyond expectation. This success, achieved against great odds and not without difficulty, had been followed almost immediately by increases in production. This had laid a firm foundation for further economic growth, which would be assured if the same policies were continued and, where necessary, intensified, and if the plans being formulated for improving agricultural efficiency were also carried out.

System and methods of restriction

13. Members of the Committee also noted the affirmation in the documents available that there no longer existed in Uruguay any quantitative import restriction. Some members pointed out, however, that the various other commercial policy measures in force nevertheless constituted effective obstacles to trade. They commented on the complexity of the Uruguayan import régime which was found difficult to comprehend to officials and traders in foreign countries. Some members expressed regret that in spite of the successful implementation of the stabilization programme, the Government still found it necessary to maintain its present import control system with all its paraphernalia, in particular the discriminatory arrangements which had been the subject of discussion on a number of previous occasions. In reply the Uruguayan representative stated that in reality the system had remained exactly as it had been at the time of the last consultation in 1968. Indeed, apart from the few minor adjustments which had been reported to the CONTRACTING PARTIES, it was the same system that had been examined in this Committee on several occasions; there could, therefore, be few mysteries left about the mechanism.

14. In response to questions concerning (a) advance import deposits and (b) prepayment for imports, the representative of Uruguay stated that most imports had, since 15 January 1968, been exempted from the advance deposit requirement and the regulation, nominally applicable to a few products, was no longer being applied in practice. As regards the prepayment (consignaciones) for imports, there had been no change in the system since the last consultation, and a number of categories of imports, such as imports by the public sector, those financed by institutional loans, automobile kits, etc. were exempt from the requirement. Members of the Committee enquired as regards the distinction between the advance deposits and the
"consignaciones" and the prospects of the "consignaciones" being eliminated in the near future. They considered that, having regard to its limited incidence on imports on account of the vast range of imports exempt from it, the system merely added to the complexity of the system without yielding much real, meaningful benefit. On the other hand, the uncertainty constituted a major concern for the trading community, especially foreign suppliers of new types of products. Having regard to its declared temporary nature, it was to be hoped that serious thought would be given by the Uruguayan authorities to the possibility of its abolition in the near future. The representative of Uruguay explained that the system of "consignaciones", which had been introduced in 1967, was indeed very akin to that of the advance deposit which, as noted above, had fallen into desuetude. Its purpose was to reduce to a minimum the direct, quantitative regulation of imports. Its incidence on imports was indeed minimum, and it constituted in reality no significant obstacle to trade.

15. The Committee also discussed the possible discriminatory effects of the exemption of tied-aid financed imports from the requirement and its evident inconsistency with Article I of the General Agreement. One member pointed out that 98.5 per cent of Uruguay's imports being exempted from the requirement any such diverntional effects must be negligible. The representative of Uruguay replied that the exemption related to imports of capital goods financed by loans and involved no differentiation as between supplying nations as such.

16. In the light of the discussion members of the Committee reiterated their hope that the "consignaciones" system, which evidently no longer served any useful purpose, should be eliminated at an early date. The representative of Uruguay stated that his Government was actually engaged in a thorough review of the whole import control system and that a new system, more flexible and more suited to the needs of the economy, might be adopted in the near future. The views that had been expressed in this Committee would no doubt be taken into account by his Government in the formulation of the new policy and measures.

17. Members of the Committee referred to the recent termination of four bilateral payments agreements, including three with contracting parties to GATT, and enquired about any steps that might be taken in regard to the one remaining agreement. In reply the representative of Uruguay stated that it was his Government's intention not to enter into any new payments agreements and that the remaining one, with Bulgaria, might be terminated when it became possible to do so next year. Recently concluded agreements (with Bulgaria, Israel, Romania and the USSR) were trade agreements aimed at facilitating and promoting trade without exchange provisions that might cause trade diversion.

Conclusion

18. The Committee noted with satisfaction the successful implementation by the Government of Uruguay of its comprehensive stabilization programme, and expressed the hope that continued adherence to the objectives set would lead to further improvements in the balance of payments, thus enabling the consolidation and completion of the liberalization of imports.
19. The Committee, noting from the explanation given by the Uruguayan delegation that the prepayment for imports (consignaciones) at present in force exerted only limited effects on imports and contributed insignificantly to the balance of payments, urged the Uruguayan authorities to take early steps to eliminate this measure.

20. The Committee's views on the import surcharges as a balance-of-payments measure are contained in a separate report. While it recommended the renewal of the waiver, the Committee hoped that the Uruguayan Government, in operating the surcharges, as well as other commercial policy measures, would bear in mind the adverse effects of the protection afforded by them on the efficiency of the economy.

21. The Committee expressed appreciation for the open and active participation of the Uruguayan delegation in this consultation. The representative of Uruguay stated that he had taken due note of the comments made which he would convey to his Government for attention.

Annex I: Opening Statement by the Representative of Uruguay

Annex II: IMF Board Decision