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April 2, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Uruguay - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Uruguay. This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Brachet (ext. (5)8600).

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INTERNATIONAL MONETARY FUND

URUGUAY

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983 Consultation with Uruguay

Approved by S.T. Beza and Manuel Guitian

March 30, 1984

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I. Introduction

The 1983 Article IV consultation discussions with Uruguay were conducted in Montevideo in several rounds from mid-November 1983 to end-January 1984. Discussions on a financial program for the period through April 1985, when the present two-year stand-by arrangement with the Fund is due to expire, took place at the same time. Work on this program has not been completed but the authorities expect to be in a position to resume discussions in the near future.

The representatives of Uruguay included the Ministers of Economy and Finance, Agriculture and Fisheries, Industry and Energy, Labor, and Planning; the President of the Central Bank; and other senior officials. The staff representatives who participated in some or all rounds of discussions were C. Brachet (Head-WHD), H. Arbulu-Neira (WHD), E. Kreis (FAD), R. Ramaciotti (WHD), O. Roncesvalles (TRE), C. Saint-Etienne (ETR), B. Stuart (WHD) and, as secretaries, Miss M. Fawcett (EXR), Miss P.F. ffrench-Mullen, and Mrs. E. Frolia (both WHD). The missions were assisted by Mr. L. Duran-Downing, the Fund resident representative in Montevideo.

Uruguay has had 13 stand-by arrangements from the Fund. The current arrangement, for two years and in an amount equivalent to SDR 378 million (300 percent of Uruguay's old quota and 230.8 percent of the current quota), was approved by the Executive Board on April 22, 1983. Purchases under this arrangement so far amount to SDR 151.2 million. As of February 29, 1984, total Fund credit outstanding to Uruguay was equivalent to 138.5 percent of Uruguay's quota (111.5 percent of quota excluding purchases under the compensatory financing facility).

Uruguay is a participant in the Special Drawing Rights Department and has received allocations totalling SDR 50 million. Current holdings are close to zero. Further information on Uruguay's relations with the Fund is presented in Appendix III.

II. Recent Developments and Performance Under Stand-By Arrangement

1. Background

Following a six-year period of strong economic growth, balance of payments surpluses and generally declining inflation, Uruguay's economic and financial position took a sharp turn for the worse from the second half of 1981. Output stagnated in 1981 and dropped by 8 2/3 percent in 1982; factor payments abroad rose sharply, and national income declined by more than 10 percent in 1982 (Table 1 and Chart 1). Unemployment, which had been less than 6 percent of the labor force in the second quarter of 1981, jumped to more than 14 percent in the fourth quarter of 1982 (Chart 2).

Table 1. Uruguay: Selected Economic Indicators

(Percentage changes at annual rates unless otherwise indicated)

	1979	1980	1981	Prel. 1982	1983 Proj.	1983 Est.
Gross domestic product 1/						
In current market prices	86.3	60.0	30.9	6.4	39.9	48.6
In constant 1978 prices	6.2	6.0	-0.1	-8.7	1.0	-4.8
GDP deflator	75.5	51.0	31.0	16.5	38.5	56.1
Prices, wages, and exchange rate 2/						
Consumer prices	83.1	42.8	29.4	20.5	29.1	51.5
Wholesale prices	77.1	28.6	14.9	33.5	...	73.8
Wholesale prices of domestic manufacturers	82.7	32.9	18.1	37.9	...	62.9
Wages - Public sector	61.2	66.5	26.8	7.9	...	28.3
- Private sector	67.1	67.1	35.2	6.6	...	35.6
Exchange rate (selling)3/	20.8	18.0	15.9	147.3	32.1	49.8
Employment 4/						
Labor participation rate 5/	52.8 7/	56.6	58.0	54.4	...	58.6
Unemployment rate 6/	8.1 7/	6.0	9.0	13.3	...	15.1

Sources: Central Bank of Uruguay; and Fund staff estimates.

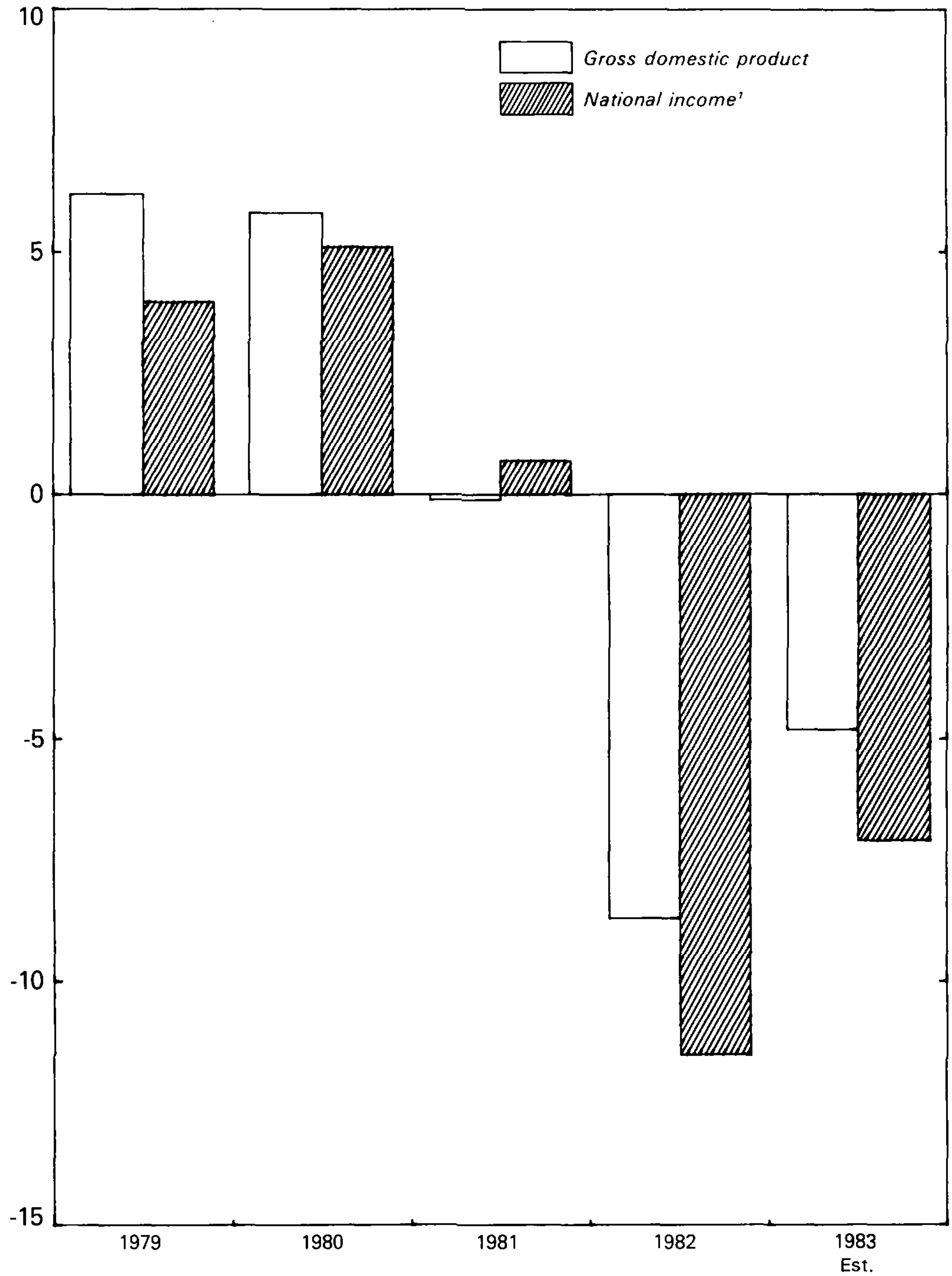
1/ Historical series differ from those in EBS/83/43 and SM/83/52 because of a recent revision of national accounts data using updated input-output coefficients for 1978.
2/ December to December.
3/ In terms of pesos per U.S. dollar.
4/ December.
5/ In percent of population 14 years and older.
6/ In percent of labor force.
7/ Second half of 1979.

CHART 1

URUGUAY

REAL GDP AND NATIONAL INCOME GROWTH

(Percent)



Sources: Central Bank of Uruguay, and Fund staff estimates.

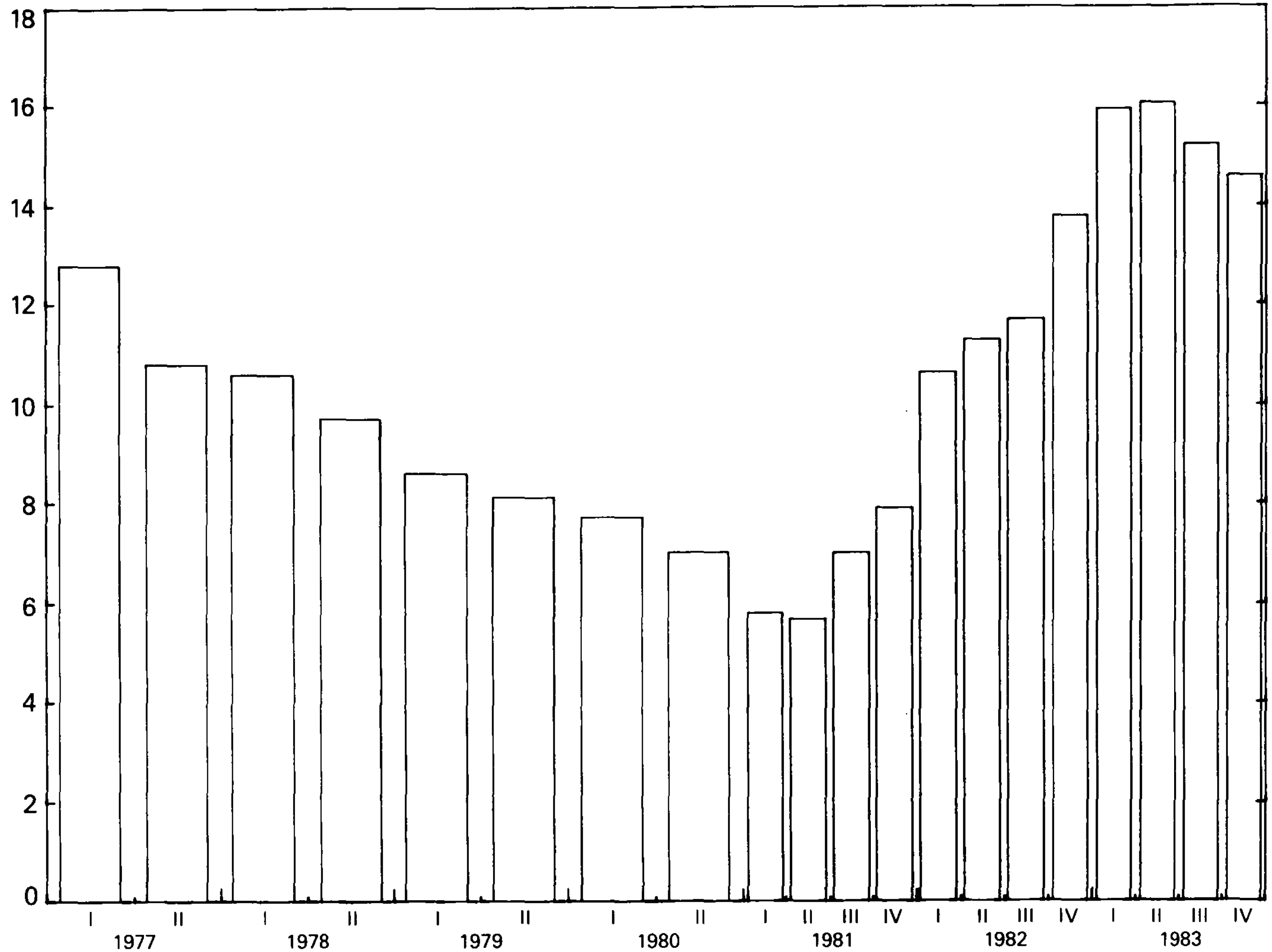
[1]Net national product adjusted for changes in the terms of trade.

CHART 2

URUGUAY

UNEMPLOYMENT RATE

(In per cent of labor force)



Source: General Directorate of Statistics and Census.

As discussed in EBS/83/43 of February 25, 1983, this abrupt reversal in Uruguay's fortunes can be traced to a number of reasons. The slowdown in the world economy that started in 1980 and the important changes in the economic situation of neighboring countries beginning in 1981 had adverse effects on Uruguay. In the main, however, the cost/price distortions arising from the inconsistency between incomes and exchange rate policy appear to have been the determining factor. Beginning in late 1978, the rate of depreciation of the peso vis-à-vis the U.S. dollar was slowed steadily, in accordance with a schedule for the exchange rate that was published several months in advance. The rate of increase in domestic costs and prices also was brought down--during the 12-month period to November 1982 consumer prices rose by 11 percent, compared with an increase of more than 80 percent during 1979--but nevertheless it far exceeded the pace of exchange depreciation, and there was a large real appreciation of the peso (Charts 3 and 4).

In the public sector, tax collections declined sharply in real terms in 1982, as real GDP contracted, while wages and social security benefits were indexed roughly to past price or wage inflation; the nonfinancial public sector thus moved from a small surplus in 1980 to a deficit of 10 percent of GDP in 1982 (Table 2 and Chart 5). In addition, in 1982 the Central Bank stepped up assistance to the Mortgage Bank to the equivalent of 8 1/2 percent of GDP 1/ and also took a number of measures to maintain the solvency of the commercial banking system. As corporate bankruptcies multiplied and many banks experienced severe financial difficulties, the Central Bank provided special financial assistance to the banks and in October 1982, announced that it would be prepared to purchase some of the loan portfolios of the commercial banks.2/ Also, in September 1982 an export prefinancing scheme was introduced, which involved an exchange rate guarantee from the Central Bank. These measures, in particular the lending to the Mortgage Bank,

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1/ Central bank lending to the Mortgage Bank was increased to mitigate the effects on employment of the fall in Argentine real estate investment in Uruguay from mid-1981 and to compensate for the discontinuation of treasury transfers to the Mortgage Bank of the proceeds of a 2 percent tax on wages.

2/ Under the terms of this scheme, the Central Bank in 1982 and early 1983 acquired some US$215 million in private sector debt owed to foreign-owned local commercial banks, out of the proceeds of about US$545 million in new medium-term loans from these banks' head offices. (The remaining US$330 million was passed on to the Treasury and to the Mortgage Bank.) The Central Bank also purchased some US$420 million in poor quality assets held by insolvent locally owned commercial banks (a quid pro quo for the acquisition of these banks by foreign financial institutions), in exchange for interest bearing central bank bonds or promissory notes denominated in the currency of the original loans, mostly in U.S. dollars. As a result of these operations, the Central Bank has on its books some US$635 million in private sector loans on which it receives virtually no income, and it has taken on about US$965 million in liabilities on which it pays market-related rates.

Table 2. Uruguay: Summary Operations of the Nonfinancial Public Sector

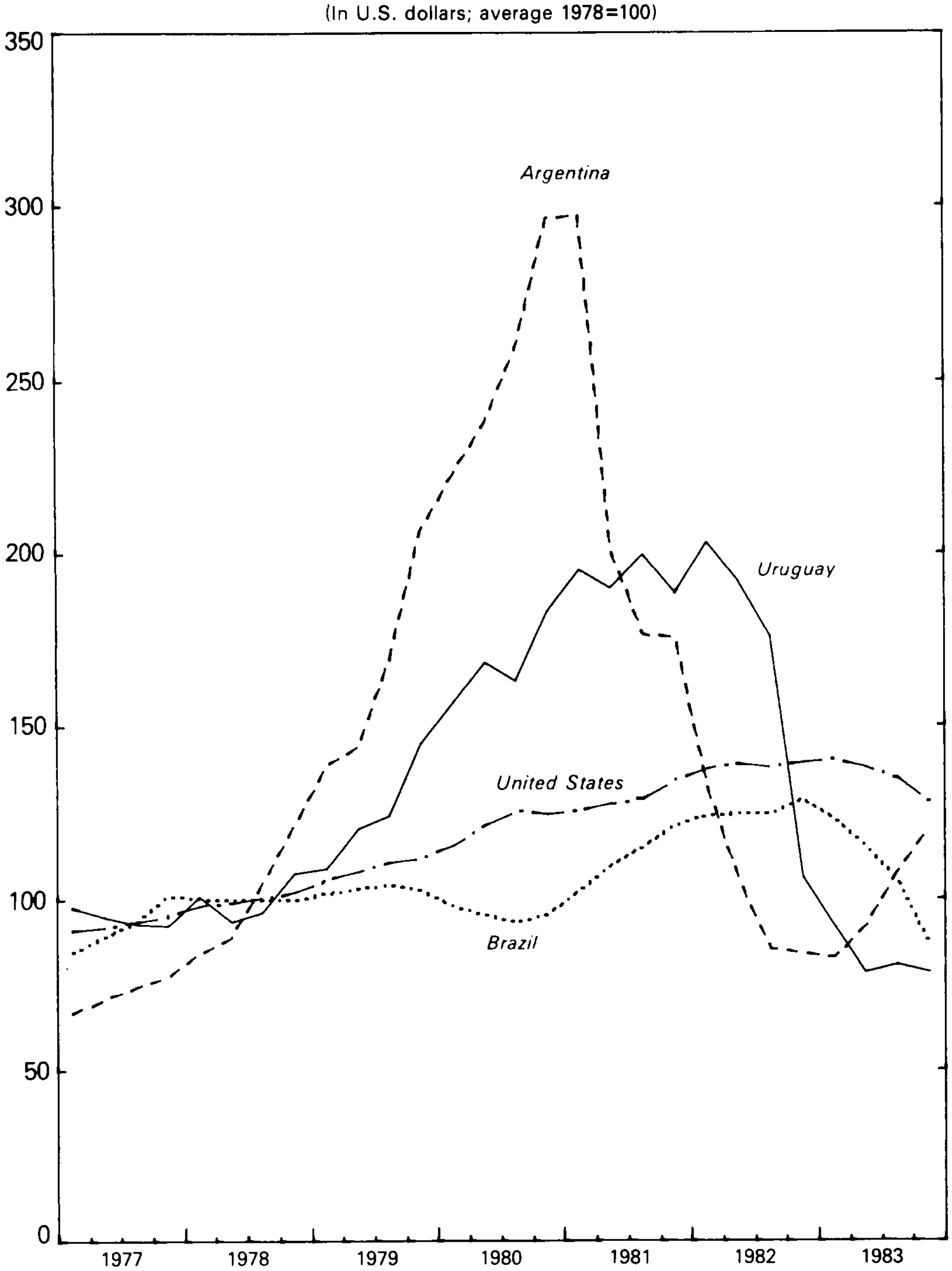
(As percent of GDP)1/

	1979	1980	1981	Prel. 1982	1983 Proj.	1983 Est.	Proj. 1984 2/
General government 3/							
Revenue	21.0	20.9	22.7	21.1	23.4	20.5	16.6
Current expenditure	18.0	18.3	21.4	26.7	22.7	21.6	19.3
Current account surplus or deficit (-)	3.0	2.6	1.3	-5.6	0.7	-1.1	-2.7
Public enterprises current account surplus or deficit (-)3/	1.9	3.0	2.3	0.9	1.4	0.7	2.3
Public sector savings	4.9	5.6	3.6	-4.7	2.1	-0.4	-0.4
Capital expenditure 4/	5.1	5.1	6.0	5.4	5.0	3.9	4.9
Nonfinancial public sector overall surplus or deficit (-)	-0.2	0.5	-2.4	-10.1	-2.9	-4.3	-5.3
Dollar-denominated bonds and bills 5/	-0.4	--	--	0.8	--	0.8	...
Other internal financing (net)	-1.1	-2.1	0.5	6.2	1.4	7.5	...
Other external financing (net)	1.7	1.6	1.9	3.1	1.5	-4.0	...
Memorandum item							
Total expenditure	23.1	23.4	27.4	32.1	27.7	25.5	24.2

Sources: Ministry of Economy and Finance; Central Bank of Uruguay; and Fund staff estimates.

1/ Excludes Salto Grande operations.
2/ Projection includes the effect of the public sector tariff and price increases as of January 1984 but excludes the effect of other measures being considered.
3/ After transfers between the general government and the public enterprises.
4/ Net of capital receipts.
5/ Held by residents and nonresidents.

CHART 3
URUGUAY
UNIT LABOR COSTS IN MANUFACTURING
(In U.S. dollars; average 1978=100)



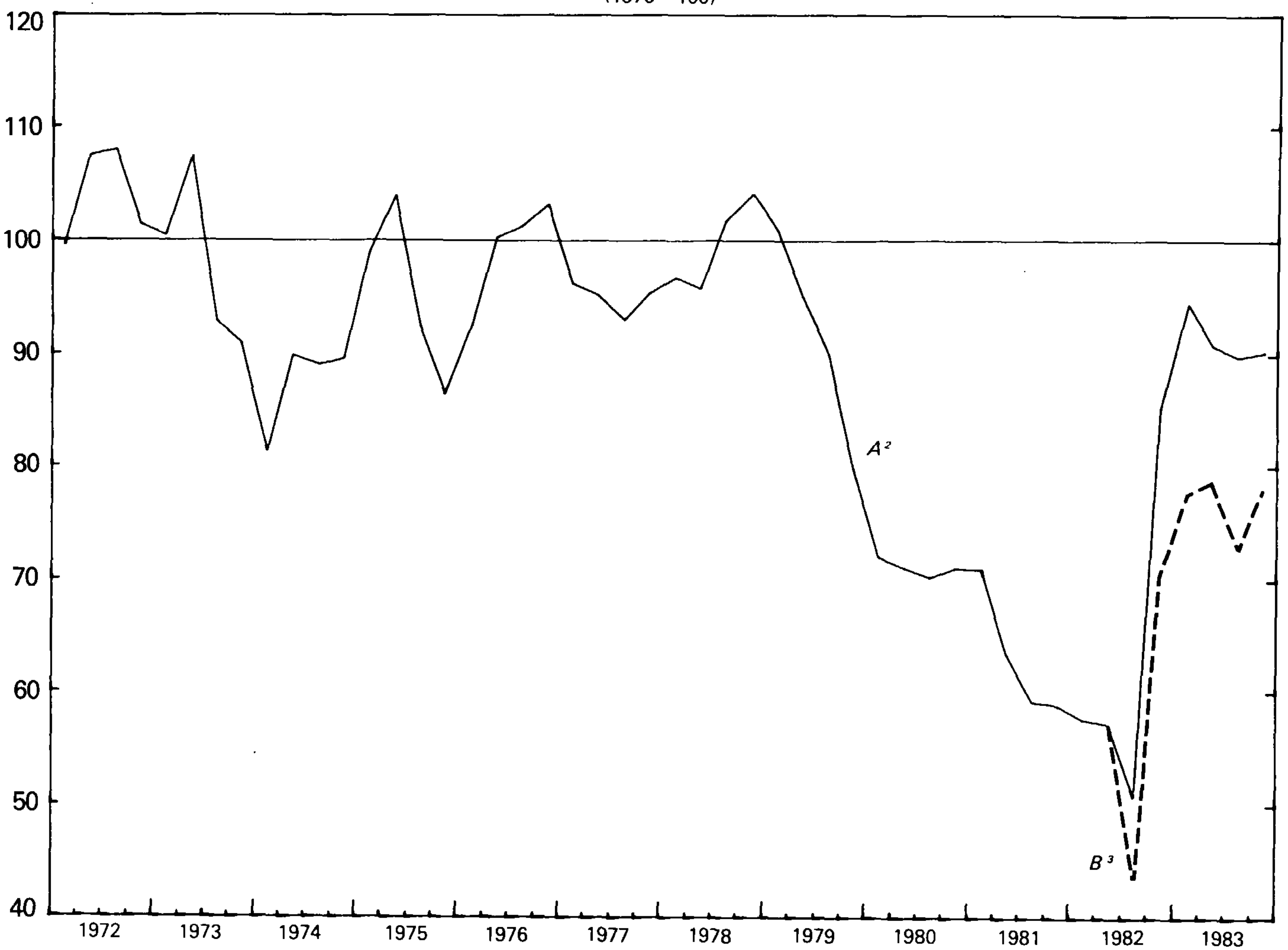
Sources: Central Bank of Uruguay, National Institute of Statistics (Argentina), Brazilian Institute of Geography and Statistics, IMF Data Fund; and Fund staff estimates.

CHART 4

URUGUAY

REAL EFFECTIVE EXCHANGE RATE, 1972-83[1]

(1976 = 100)



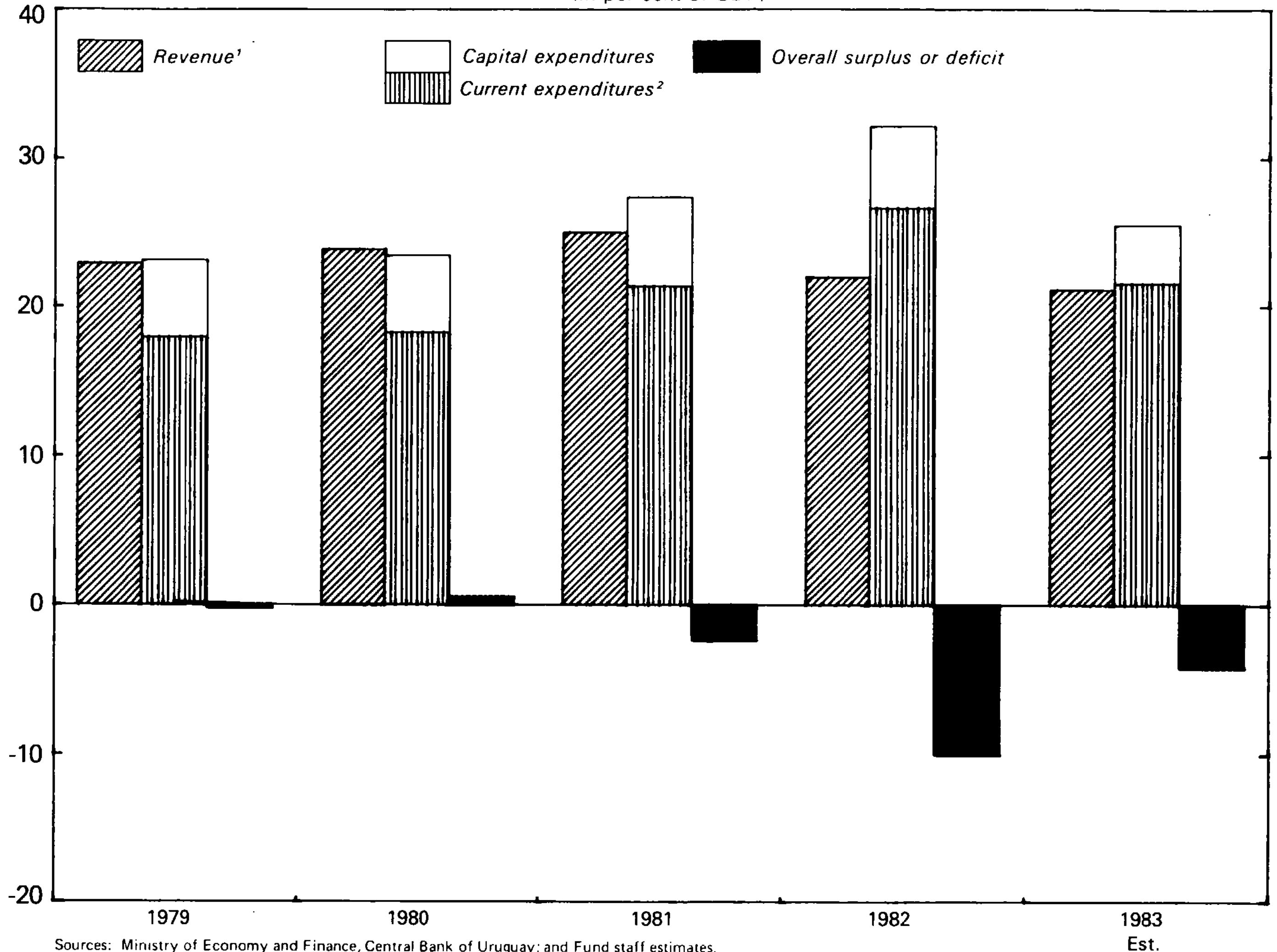
Sources: Central Bank of Uruguay, IMF, *International Financial Statistics* and *Direction of Trade*; and Fund staff estimates.
[1]A decline in the value of the index represents an appreciation of the peso.
[2]A = Effective exchange rate computed using official exchange rates of partner countries.
[3]B = Effective exchange rate computed using parallel exchange rates for the Argentine peso and Brazilian cruzeiro beginning in July 1982.

CHART 5

URUGUAY

PUBLIC SECTOR OPERATIONS

(In per cent of GDP)



Sources: Ministry of Economy and Finance, Central Bank of Uruguay; and Fund staff estimates.

[1]Includes the current surplus of the public enterprises.

[2]General government.

had a substantial cost in 1982, raising the financing needs of the nonfinancial public sector and Central Bank taken together to over 19 percent of GDP (Table 3).

Notwithstanding a marked decline in private investment, the external current account deficit remained around 7 percent of GDP in 1982. At the same time, private capital outflows worsened markedly, as a rapidly widening public sector deficit and a sharp increase in central bank credit expansion resulted in a major weakening of confidence. Despite a sharp increase in the external public debt in 1982, the balance of payments moved into a deficit of US$800 million, close to 14 percent of GDP (Charts 6 and 7).

2. The program for 1983

As a series of attempts at corrective action in the course of 1982 had failed to redress the situation, in late 1982 the authorities adopted a comprehensive adjustment program that was supported by the current stand-by arrangement. The market-oriented, outward looking thrust of the economic strategy pursued since 1973 was reaffirmed, and measures were adopted to improve domestic demand management and to adjust the external position. The objectives of the program were a marked improvement in the balance of payments and a return to relative price stability once corrective price adjustments had worked their way through the economy. It also was expected that the program would lay the basis for a recovery of economic activity.

The main features of the program were: (1) a renewed effort at improving resource allocation; (2) a virtual withdrawal of the Government from the process of wage determination in the private sector (except for the minimum wage); (3) a sharp reduction in the borrowing requirements of the nonfinancial public sector; (4) a scaling down of official external borrowing; and (5) a deceleration of central bank credit growth to a rate consistent with the balance of payments and inflation objectives.

The improvement in resource allocation was predicated on: (1) the freeing of the exchange rate in late November 1982 that permitted a substantial depreciation of the peso;1/ (2) a further liberalization of the trade system, including the narrowing of the range of import duty rates from 10-75 percent to 10-55 percent and the elimination of the system of minimum import prices; and (3) realistic prices for goods and services produced or marketed by the public sector.

1/ Central bank intervention was to be limited to preventing erratic market fluctuations and to meeting the foreign exchange cost of the export prefinancing scheme. (The balance of payments deficit programed for 1983 was predicated principally on the unwinding of this scheme.)

Table 3. Uruguay: Public Sector Deficit Adjusted for Central Bank "Fiscal Expenditures"

	1982		Est. 1983		Proj. 1984	
	Millions of NUr$	Percent of GDP	Millions of NUr$	Percent of GDP	Millions of NUr$	Percent of GDP
Nonfinancial public sector's financing needs	12,919	10.1	8,251	4.3	14,739	5.3 1/
Central Bank						
Foreign exchange costs (net)	1,618	1.3	12,290	6.5	7,076	2.5
Interest on foreign debt and on bonds and notes issued in connection with the "portfolio purchase" scheme 2/	(860)	(0.7)	(3,300)	(1.8)	(9,396)	(3.4)
Interest on private banks and BROU foreign-currency deposits	(...)	(...)	(...)	(...)	(432)	(0.2)
Subsidies arising from 1982 "export pre-financing scheme"	(--)	(--)	(2,448)	(1.3)	(--)	(--)
Interest on consolidation loan	(--)	(--)	(69)	(--)	(...)	(...)
Assistance to Mortgage Bank	(1,295)3/	(1.0)3/	(6,989)	(3.7)	(920)	(0.3)
Foreign-exchange receipts (including interest on foreign reserves and Salto Grande repayments)	(-537)	(-0.4)	(-516)	(-0.3)	(-3,672)	(-1.4)
Local currency costs	10,238	7.9	4,563	2.3	6,964	2.5
Wages and other operating costs	(652)	(0.5)	(930)	(0.5)	(624)	(0.2)
Interest on bills issued in connection with the "portfolio purchase scheme"	(74)	(--)	(370)	(0.2)	(570)	(0.2)
Assistance to private banks	(...)	(...)	(...)	(...)	(575)	(0.2)
Interest on private banks and BROU reserve deposits	(8)	(--)	(2,000)	(1.0)	(2,895)4/	(1.1)4/
Interest on consolidation loan (NUr$)	(--)	(--)	(23)	(--)	(...)	(...)
Assistance to the Mortgage Bank (NUr$)	(9,504)5/	(7.4)5/	(1,240)	(0.6)	(2,500)	(0.9)
Interest (net) to be received from BROU	(--)	(--)	(--)	(--)	(-200)	(-0.1)
Central Bank financing needs	11,856	9.2	16,853	8.8	14,040	5.0
Total public sector financing needs	24,777	19.3	25,104	13.1	28,779	10.3

Sources: Ministry of Economy and Finance; Planning Secretariat; Central Bank of Uruguay; and Fund staff estimates.

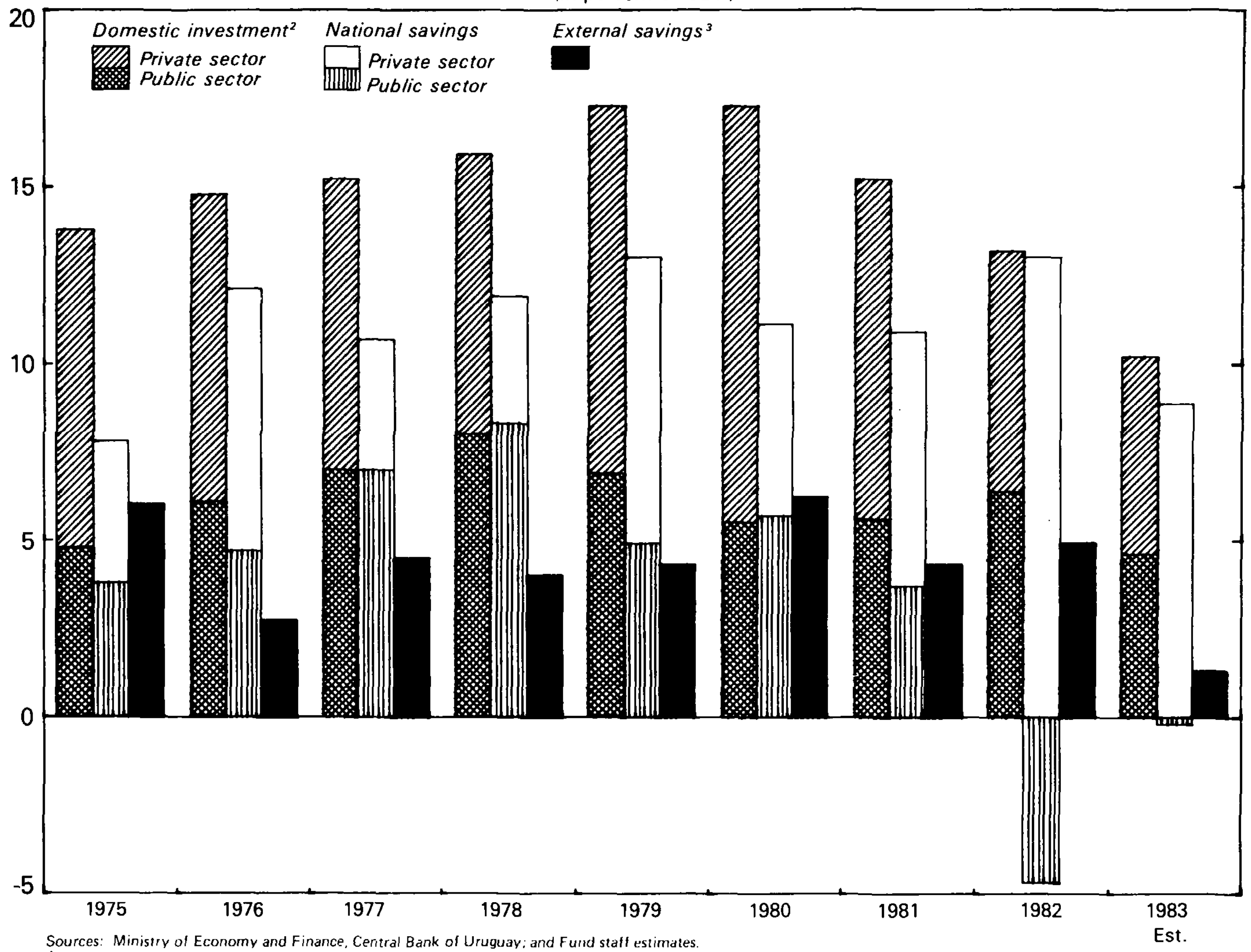
1/ January 1984 estimate (before tax measures but after public sector tariff and price increases), based on officially approved public investment program.
2/ Through 1983, includes assistance to private banks in local currency.
3/ Direct assistance from the Central Bank (NUr$113 million) plus Mortgage Bank's foreign indebtedness (eventually assumed by the Central Bank).
4/ Assuming payment of interest on excess reserves maintained by the Bank of the Republic.
5/ Before write-off of interest charges on Mortgage Bank's debt to the Central Bank (which eventually appeared as a loss in the Central Bank's profit and loss statement).

CHART 6

URUGUAY

SAVING AND INVESTMENT

(In percent of GDP)[1]



Sources: Ministry of Economy and Finance, Central Bank of Uruguay; and Fund staff estimates.

[1]At current prices.

[2]Includes changes in inventories; public sector investment data derived from national accounts.

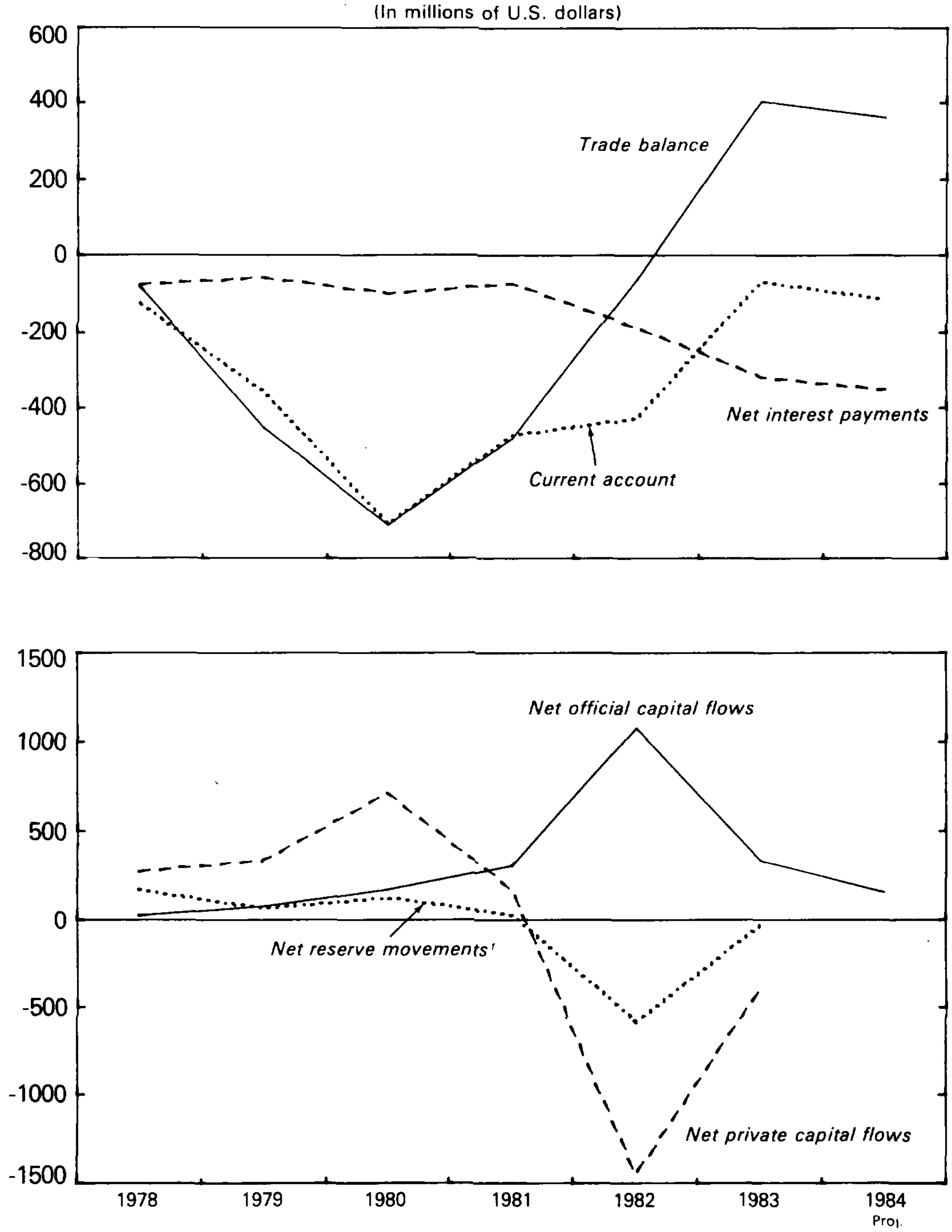
[3]Current account balance of payments deficit adjusted for transactions related with the Salto Grande bi-national entity.

CHART 7

URUGUAY

SELECTED BALANCE OF PAYMENTS FLOWS

(In millions of U.S. dollars)



Sources: Central Bank of Uruguay; and Fund staff estimates.

[1]The evolution of the overall balance of payments was similar to that of the net reserve movements in 1978-79; the overall balance showed surpluses of U.S.$ 181 million in 1980 and U.S.$ 12 million in 1981 and deficits of U.S. $ 800 million in 1982 and U.S. $ 136 million in 1983.

The deficit of the nonfinancial public sector was to be reduced from 10 percent of GDP in 1982 to 3 percent of GDP in 1983 and about 1 percent of GDP in 1984. Various revenue measures were announced in late November 1982, including increases in most taxes, the extension of the value added tax to many services, and the introduction of taxes on traditional exports. Expenditure was to be cut substantially. Wage raises in the public sector were limited to 15 percent in January 1983 (similar to that granted to the private sector in the wake of the float of the peso) and subsequent increases were to be determined by the availability of resources, within the constraint imposed by the need for a substantial reduction in the public sector deficit. Increases in social security benefits also were to be limited to 15 percent, payable in two stages during the year.

The compression of the borrowing requirements of the public sector, in turn, was to make possible a marked slowdown in the rate of central bank credit expansion. This slowdown was to be facilitated further by a drastic curtailment of central bank assistance to the Mortgage Bank. Legal reserve requirements were to be introduced and the authorities were to adjust these requirements and to engage in open market operations as necessary to meet the policy goals.

With these changes in exchange rate and financial policies, it was expected that the current account deficit of the balance of payments would decline somewhat in 1983 and 1984, and that private capital flight would abate rapidly. The need for net official external borrowing therefore was projected to fall, from more than US$1 billion in 1982 to around US$450 million in 1983 and about US$100 million in 1984. The balance of payments deficit was to be limited to no more than US$100 million in 1983, and approximate balance was to be achieved in 1984.1/

3. Developments under the 1983 program

The authorities felt that in broad terms the policies underlying the program had been adhered to. There had been a major adjustment in the public finances in 1983, together with a substantial real exchange rate correction and balance of payments improvement.

Nevertheless, the end-1983 program limits for the public finances were exceeded and inflation was much higher than projected originally. By the latter part of 1983, it was clear that large imbalances in the nonfinancial public sector remained. Also, the Central Bank continued to face difficulties of its own, in part because of greater than anticipated problems associated with the collection of interest and recovery of principal of the private sector assets it had agreed to purchase in 1982. Therefore, additional measures would be needed if the goals of balance of payments equilibrium with relative price stability were to be achieved.

1/ The balance of payments target for 1983 was made adjustable, however, to up to a deficit of US$180 million in case of a shortfall in actual compared with projected net recourse by the public sector to external financing.

During the first half of 1983, adjustment was far more pronounced than had been planned as net official external financing fell short of the amounts originally contemplated. In that period, the deficit of the nonfinancial public sector was kept well below the ceiling under the program, dropping to 2 percent of GDP at an annual rate. The end-June balance of payments and net domestic assets tests--adjusted for the shortfall in official foreign financing--were exceeded slightly; however, these departures were more than fully explained by delayed disbursement of the first tranche of the medium-term loan negotiated with foreign banks in parallel with the program, and the Fund agreed to waive these targets (EBS/83/177, August 18, 1983). All other performance criteria at the end of June were observed, and Uruguay was in compliance with all performance criteria of the program at the end of September (Table 4).

Where the greatest difficulties were encountered in the implementation of the program was in the public finances. For 1983 as a whole, the deficit of the nonfinancial public sector narrowed to about 4 percent of GDP--a major improvement from the previous year; yet some of the ground that was gained in the early part of the year was lost in the second half of 1983, and the improvement for the year as a whole was less than originally sought. In 1983, spending was reduced by 6 1/2 percent of GDP, more than had been planned, but the lower than anticipated level of economic activity and imports caused general government revenue (especially in the Central Administration) to fall well below projection.

As early as the middle of the second quarter, it was apparent that steps would have to be taken if the quarterly targets of the program were to be met. Some substantive measures were taken, including cuts in spending. However, there was reliance on the receipt of special one-time payments from the rest of the public sector (including transfers of previous years' profits of the Central Bank and the Bank of the Republic); also, the collection of some taxes was advanced and certain payments, for example part of the wage bill, were delayed. These various actions were sufficient to make possible compliance with the limits on the borrowing needs of the Central Administration and of the entire nonfinancial public sector as of the end of September. However, some of these actions were of a one-time nature, others had to be reversed in the fourth quarter, and there was an unplanned wage increase of about 15 percent for public sector employees in September, so that the end-year limits were exceeded by wide margins.

There was little progress in reducing the financing requirements of the Central Bank in 1983, and the combined imbalances of the nonfinancial public sector and the Central Bank (as defined in Table 3) amounted to 13 percent of GDP in 1983. There was a substantial reduction in assistance to the Mortgage Bank, but this was all but offset by increases in costs related to: (1) the unwinding of the export prefinancing scheme; (2) the portfolio purchase scheme; (3) the servicing of external loans at the same time that lending to the public sector was virtually interest-free; and (4) interest payments on commercial banks' reserve deposits.

Table 4. Uruguay: Performance Under 1983 Program

(In millions of currency units)

	First Half			First Three Quarters			Calendar Year		
	Program	Actual	Margin (-) or Excess (+)	Program	Actual	Margin (-) or Excess (+)	Program	Actual	Margin (-) or Excess (+)
Change in Central Bank net foreign assets (U.S. dollars)	-90.0	-149.1	59.1	-150.0	-102.5	-47.5	-100.0	-143.7	43.7
Less: downward adjustment 1/	-40.0	--	-40.0	-60.0	--	-60.0	-80.0	--	-80.0
Adjusted change in net foreign assets, BCU	-130.0	-149.1	19.1	-210.0	-102.5	-107.5	-180.0	-143.7	-36.3
Change in Central Bank net domestic assets (new Uruguayan pesos)	588	2,125	1,537	1,730	495.0	-1,235	3,329	4,465	1,136
Plus: upward adjustment 1/	1,040	--	-1,040	1,560	--	-1,560	2,080	--	-2,080
Adjusted change in net domestic assets	1,628	2,125	497	3,290	495.0	-2,795	5,409	4,465	-944
Deficit, nonfinancial public sector (new Uruguayan pesos) 2/	3,300	1,772	-1,528	4,600	2,305	-2,295	5,500	6,831	1,331
Deficit central administration (new Uruguayan pesos) 2/	2,500	2,313	-187	3,200	2,225	-975	3,500	5,631	2,131
Net increase in public sector external debt (U.S. dollars)	345.0 3/	84.1	-260.9	410.0 3/	235.5	-174.5	460.0	344.3	-115.7
Change in short-term public external debt (U.S. dollars)	50.0	-13.5	-63.5	50.0	-345.8	-395.8	50.0	-359.2	-409.2
Adjusted 4/	50.0	-13.5	-63.5	-314.7	-345.8	-31.1	-314.7	-359.2	-44.5

Sources: Ministry of Economy and Finance; Planning Secretariat; Central Bank of Uruguay; and Fund staff estimates.

1/ Maximum adjustment possible on account of any shortfall in actual compared with projected net official external borrowing.

2/ For purposes of monitoring the program, the deficits of the nonfinancial public sector and the Central Administration were measured from below the line and foreign exchange transactions were accounted for at an accounting exchange rate of NUr$26 per U.S. dollar. The deficits shown in this table are different from those shown in Tables 2 and 3, which are derived from above the line, with transactions in foreign exchange accounted for at actual exchange rates.

3/ Indicative only at the end of the first three quarters of 1983. Any excess over these limits is to give rise to an equivalent upward adjustment in the net foreign assets test, and to a downward adjustment in the net domestic assets test as of the same testing dates. Unlike in the balance of payments, for purposes of this test, non-U.S. dollar-denominated flows are valued at the exchange rate of the U.S. dollar against other currencies on December 31, 1982.

4/ Limit is adjustable downward, including to negative values, for any substitution of medium-term external debts for existing short-term debts.

In a situation in which confidence was weak and inflationary expectations strong, deposit interest rates that were on average more than 10 percent above the observed rate of inflation failed to bring private capital outflows to a halt, and money and quasi-money actually declined in nominal terms in 1983 (Table 5). Even with tighter than programed credit policies consumer prices last year increased by more than 50 percent, compared with the 30 percent originally forecast (Chart 8).

To an extent, the low level of confidence stemmed from the difficult conditions prevailing in the region. In particular, the restrictive trade and payments practices adopted at one time or another by Uruguay's neighbors tended to heighten uncertainties about the country's ability to maintain an open trading and financial system, which gave rise to capital flight. Also, the present period is one of political transition in Uruguay, with elections expected in November 1984 and transfer of power to an elected government in March 1985. This political process became increasingly important in the formation of expectations in 1983, and the task of economic management was complicated correspondingly.

However, the high degree of uncertainty in 1983 also was due in large part to delays in the implementation of the program and weaknesses in economic policy. There was heavy central bank financing of the Treasury and of the Mortgage Bank in December 1982 and an initial hesitation in determining the rate of the emergency export taxes announced on the day of the float and the level of the export tax credits that were to replace previous export rebates and subsidies. The reintroduction of legal reserve requirements (discontinued in 1979) and the resumption of open market operations, which were central to the maintenance of control over the growth of credit, only took place after a delay of several weeks. Also, in the period immediately after the Central Bank stopped intervening in the foreign exchange market, there was a lack of coordination between the exchange market operations of the official financial institutions; in the period December 1983 to March 1984, the Bank of the Republic--the state owned commercial bank--increased its foreign exchange position by some US$70 million. Finally, in the course of the year, evidence of growing difficulties in adhering to the fiscal component of the program tended to cast doubt on the ability of the Government to carry out the adjustment effort.

These uncertainties were reflected in the behavior of the foreign exchange market. At first, the exchange rate was highly volatile, peaking at NUr$40 per U.S. dollar in early January 1983, representing a depreciation of almost 200 percent (in terms of pesos per U.S. dollar) relative to the value of the peso on the eve of the float. The exchange market remained unstable for a time, but as policies took hold and the outlook for foreign financing improved, the peso appreciated substantially, with the exchange rate stabilizing within a narrow band of NUr$31-34 per U.S. dollar in the period March to July. In July, political developments and growing public awareness of the problems in the public finances brought renewed pressures on the exchange rate. From

CHART 8

URUGUAY

12-MONTH INFLATION RATE

(In per cent)

Source: Central Bank of Uruguay.

Table 5. Uruguay: Summary Accounts of the Central Bank

(In millions of new Uruguayan pesos)

	NUr$26=US$1		
		Dec. 1983	
	Dec. 1982	Proj.	Actual
Net foreign assets 1/	-3,133	-5,733	-6,869
Net domestic assets	12,943	18,283	17,407
Net credit to public sector	8,800	12,212	23,784 2/
Credit to commercial banking system	6,161	6,161	7,431
Credit to Mortgage Bank	9,902	12,122	14,985
Credit to private sector	1,095	7,161	12,738
Net unclassified assets	-426	3,451	5,295
Medium- and long-term foreign liabilities	-7,710	-14,210	-32,726 2/
Counterpart SDR allocations	-1,438	-1,438	-1,438
Liabilities to commercial banking system 3/	-3,441	-7,249	-12,662
Currency issue	9,810	12,550	10,538
Memorandum items			
Money and quasi-money	101,351	...	99,313
Money	11,805	...	12,757
Quasi-money	89,546	...	86,556

Source: Central Bank of Uruguay.

1/ With gold valued at US$42 per troy ounce.

2/ Includes the refinancing by foreign bank creditors of short- and medium-term external obligations of the nonfinancial public sector, which have been assumed by the Central Bank.

3/ Excludes cash in vault.

mid-July to early December, the Bank of the Republic intervened in the exchange market at the request of the monetary authorities, at first on an ad hoc basis and then under a crawling peg system; during this period the peso depreciated from NUr$34 per U.S. dollar to NUr$39 per U.S. dollar. The intervention turned out to be very costly, however, and revived doubts about the appropriateness of the exchange rate itself.

The end-year balance of payments target was met, once adjustment was made for the shortfall in official borrowing. The reduction in the deficit on the current account of the balance of payments was larger than originally projected. In the first half of the year, imports fell off sharply, and the current account moved into approximate balance. For 1983 as a whole, the current account deficit is estimated to have declined to close to 1 percent of GDP from 7 percent of GDP in 1982. The trade account moved from a small deficit in 1982 to a large surplus in 1983, more than offsetting the increase in interest payments on the external debt. There continued to be a large deficit on travel account in 1983, ascribable to the pronounced decline in Argentine and Brazilian tourism and increased travel abroad by Uruguayans to take advantage of the large differentials that prevailed during most of the year between the official and parallel exchange rates for the currencies of Uruguay's neighbors (Table 6).

In the first half of 1983, economic activity remained more sluggish than had been hoped and, for the year as a whole, real GDP declined by almost 5 percent. However, signs of a pickup in activity, particularly in export-oriented industries, began to emerge in the third quarter of the year. Real GDP rose at a seasonally adjusted annual rate of 2 1/2 percent in that quarter and the recovery is believed to have continued, supported in late 1983 and early 1984 by a sharp increase in tourism. Employment increased and, notwithstanding an increase in the labor participation rate, the unemployment rate declined from a peak of 16 percent in the second quater of 1983 to 14 1/2 percent in the final quarter of the year.

III. Report on Discussions

In the policy discussions that took place over the period November 1983 to January 1984, the authorities stressed that the Administration was committed to the restoration of both internal and external equilibrium, along with the recovery of output, by the time it would hand over power to an elected government (expected to be in March 1985). Their intention, therefore, was to take the measures needed to consolidate the gains of 1983 and to correct the deviations from the path of their program that had become manifest in the second half of the year. The authorities also noted that considerable progress had been made over the years in correcting relative price distortions, opening up the external sector, and doing away with other structural impediments to growth. Their view was that the 5 percent average annual increase in real GDP of the period 1976-80, following a lengthy period of economic

Table 6. Uruguay: Summary Balance of Payments 1/

(In millions of U.S. dollars)

	1979	1980	1981	1982	1983 Proj.	1983 Est.	Proj. 1984
Current account	-357	-709	-470	-426	-343	-69	-116
Trade balance	-452	-711	-480	-64	-1	407	363
Exports, f.o.b.	788	1,059	1,215	1,023	1,159	1,057	1,104
Imports, c.i.f.	-1,240	-1,770	-1,695	-1,087	-1,160	-650	-741
Factor services	-58	-100	-74	-188	-368	-318	-353
Other	153	102	84	-174	26	-158	-126
Capital account	409	880	471	-374	243	-67	...
Public sector	76	170	303	1,072	455	330	145
Medium- and long-term	83	160	222	472	885	701 2/	125
Short-term	-7	10	81	600	-430	-371	20
Private sector	333	710	168	-1,446	-212	-397	...
Financial	128	293	101	14	...	-180	...
Nonfinancial 3/	205	417	67	-1,460	...	-217	...
SDR allocations	11	11	11	--	--	--	--
Overall balance	63	182	12	-800	-100	-136	...
Valuation adjustment	--	-60	13	215	--	102	--
Official reserve movement (increase -)	-63	-122	-25	585	100	34	...
Memorandum items 4/							
Current account/GDP	-6.2	-10.2	-7.0	-7.3	-5.8	-1.2	-1.9
Overall balance/GDP	1.1	2.6	0.2	-13.7	-1.7	-2.4	...

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ With gold valued at SDR 35 per fine troy ounce and other foreign assets of the Central Bank valued at average exchange rates for each period. If, as provided by the program for monitoring purposes, gold is valued at US$42 per fine troy ounce and other Central Bank foreign assets are valued using the exchange rates of December 31, 1982, official reserve movements in 1983 become US$43 million and the valuation adjustment US$101 million--yielding an overall deficit of US$144 million instead of US$136 million.

2/ Does not reflect the refinancing in the third quarter of 1983 of US$117 million in Central Bank short-term foreign liabilities.

3/ Includes errors and omissions.

4/ For the purpose of these ratios, U.S. dollar GDP has been estimated using an Uruguayan peso/U.S. dollar exchange rate that is constant in real terms at its average 1976 level (these ratios therefore differ from those that emerge from the national accounts).

stagnation, was traceable in good measure to these efforts. Accordingly, their intention was to make further progress in this area as a means of supporting the recovery of economic activity that appeared to be underway.

1. Exchange rate and trade policies

In the first round of policy discussions in November 1983 the authorities emphasized the importance of assuring that the level of the exchange rate was appropriate and they indicated that steps would be taken to eliminate the possibility that the value of the peso was being maintained at an artificially high level. On December 2, 1983 the Bank of the Republic ceased to intervene in the exchange market and began to operate solely on the account of its clients as any other commercial bank. It also agreed, as local private commercial banks had done a few months earlier, not to increase its own foreign exchange position until market conditions had become more orderly. From the same date, the authorities determined that all exchange needs and debt operations of the public sector would be centralized in the Central Bank, which henceforth would be a purchaser in the market to the extent of these requirements. Except for these purchases, the Central Bank would intervene in the market only to prevent erratic fluctuations in the exchange rate, within the limits set by the objectives for the balance of payments.

In the six weeks that followed this change in exchange arrangements, the peso depreciated by 17 percent (in terms of local currency per U.S. dollar) and from mid-January to the end of February the exchange rate remained about stable at NUr$46-47 per U.S. dollar. In the first two months of the year, there was a loss of US$11 million in official reserves. At the time of the policy discussions in January, the authorities had not yet decided on their balance of payments objectives for 1984. However, it should be noted that under a float conducive to approximate balance of payments equilibrium for the year as a whole, the Central Bank probably should be a net purchaser in the exchange market in the early months of the year, when earnings from exports and tourism are at their peak.

In the area of trade policy, the temporary export tax introduced in late 1982 was reduced by about one third in December 1983. The objective was to replace it gradually with a modernized form of the farm income tax (IMAGRO) that would take more adequate account of land returns than either the export tax or the existing farm income tax, which was suspended when the export taxes were introduced in late 1982. The refunding to exporters of indirect taxes paid in the production process, which entails high costs to the Treasury, also was to be discontinued. On the import side, to reduce effective protection in accordance with the December 1978 plan of gradually relaxing import restraints, the range of duty rates--already narrowed at the beginning of 1983--was to be reduced further. More generally, trade policies would continue to be geared to fostering efficiency in domestic industries and combating domestic inflationary pressures.

2. Present financial policies

The authorities were convinced that the success of the adjustment depended crucially on the resumption of the effort to reduce imbalances in the public sector. This would require addressing such imbalances not only in the nonfinancial public sector but also in the Central Bank.

In the nonfinancial public sector, public enterprise prices were raised by an average of 29 percent in January 1984, and these prices would continue to be raised not only to reflect increases in costs but also to strengthen the enterprises' ability to contribute to the financing of their investment outlays. Public sector wages and social security benefits were to fall further in real terms in 1984, contributing to a decline of more than 1 percent in public sector spending. Public sector wages were raised by 9 percent in January 1984; it was the intention of the Government to raise wages only twice more during the course of 1984 and by amounts that would be attuned to the target of slowing inflation to 35 percent (from December 1983 to December 1984) and to the objective of reducing public outlays. Adjustments in social security benefits are tied by law to the behavior of wages a year earlier. This link pointed to a 30 percent increase in benefits in 1984, which would be less than projected inflation and would be financed by the normal growth of employers' and employees' contributions. However, the authorities said that they would not hesitate to raise contributions to prevent the system from placing undue pressures on the finances of the central administration.

On the basis of policies in place in January 1984, the outlook was for the deficit of the nonfinancial public sector to decline considerably from the deficit in the second half of 1983. However, it would rise from the average of just over 4 percent of GDP in 1983 to above 5 percent of GDP in 1984; in particular, in the absence of additional tax measures, government revenue would decline from an average of 20 1/2 percent in 1983 to 16 1/2 percent in 1984.

Turning to the other aspect of the fiscal problem, the financing needs of the Central Bank would decline from 9 percent of GDP in 1983 to 5 percent of GDP in 1984, reflecting a further drop in assistance to the Mortgage Bank that would offset the higher costs associated with the portfolio purchase scheme. Nevertheless, on the basis of existing policies the borrowing needs of the nonfinancial public sector and Central Bank taken together would amount to more than 10 percent of GDP in 1984, down only moderately from 13 percent in 1983.

In 1982 and 1983, the imbalances in the public sector had been financed by growth of the monetary base, use of external financing, and net foreign reserve losses. The authorities recognized, however, that financing would be limited in 1984 and beyond. Net recourse to external financing by the public sector in 1984 would have to be scaled down significantly if Uruguay's repayment capacity was to be preserved. Also, there was little if any room for further reserve losses--short of continuing to draw down Uruguay's gold stock (currently about 2 1/2 million troy ounces). Moreover, if a noticeable deceleration of inflation was to be achieved, money growth would have to be kept in check, although the authorities felt that following the sharp reduction in real money balances in 1983, some real increase might be expected this year. (In mid-February, the authorities announced a target for M-2 growth during 1984 of 42 percent, which they saw as consistent with the inflation target of 35 percent.) Overall, the limited foreign financing that was available, plus the expansion of central bank credit that would be consistent with the targeted reduction in inflation, suggested that the financing needs of the nonfinancial public sector and the Central Bank would have to be reduced to about 3-4 percent of GDP, or by about 7 percentage points of GDP.

3. Possible policy changes

By end-January 1984, the authorities had not yet made firm decisions on how to address the fiscal problem. A tax package had been under consideration for some time, with a potential yield of somewhat more than 2 percent of GDP. Its passage, however, was being delayed for fear of triggering adverse public reactions at a time economic activity was showing signs of improvement. Other than this tax package, the authorities saw little room for further adjustment in the nonfinancial public sector, unless there were a stronger than anticipated recovery of production, sales, and imports. They noted that expenditure of the sector already had dropped to 25-26 percent of GDP in 1983, close to the average of the period 1976-81, and that public sector tariffs and prices already were to be raised significantly in real terms in 1984. In the general government, wages and social security benefits now accounted for over 70 percent of total spending, and with the real declines experienced in 1983 and projected for 1984, further expenditure cuts had to be ruled out.

As for the means of reducing the financing gap of the Central Bank, the authorities thought that action could be taken along three lines.

First, the Central Bank could suspend interest payments on bank reserve deposits. Although this measure would affect banks' costs adversely, and the attendant effects on spreads would lead to some combination of a rise in lending rates or a decline in deposit rates, it had a potential yield of as much as 1 1/3 percentage points of GDP at an annual rate.1/

Second, the financial position of the Mortgage Bank, which had received more than US$600 million in assistance from the Central Bank since 1982, would be reviewed carefully.2/ The question was whether it would be possible not only to curtail assistance to the Bank in

1/ On February 20, 1984, the Central Bank stopped remunerating legal reserve deposits.

2/ The most recent firm data on the Bank's flow of funds were for 1982.

1984 but also to begin collecting interest on past assistance and to agree to a schedule for the repayment of principal. It was noted that the Mortgage Bank already had started to collect rents on housing built in 1981-82, and the Bank was capturing resources in the financial market where it competed against other financial institutions through indexed certificates of deposit and its readjustable mortgage bonds.

Third, an effort would be undertaken to recover part of the portfolio of private assets purchased by the Central Bank and to begin collecting interest on the assets involved. The authorities felt it would be relatively easy to collect against claims on the tradable goods sector, and in particular agriculture, because of the benefits this sector had derived from the exchange rate correction. Collecting against claims on the nontradable goods sector was likely to be more difficult, however, as a large portion of these claims was denominated in U.S. dollars and had risen sharply in peso terms as a result of the depreciation of the peso.1/ In either case, a quantification and analysis of the quality of the portfolio that had been acquired would be necessary--a task that was yet to be undertaken. The Central Bank was not equipped to handle a commercial loan portfolio, and consideration was being given to commissioning out the administration of these assets to the former claimholders.

In the January round of discussions, the authorities were not in a position to provide assurances about the amounts that might be collected from the Mortgage Bank and from private debtors. However, they indicated that it was their intention to take strong action in this area, with a view to bringing down the combined deficit of the nonfinancial public sector and of the Central Bank toward the 3-4 percent of GDP thought compatible with inflation of about 35 percent and with approximate balance of payments equilibrium in 1984. If collections eventually should fall short of the requisite amount, it might be necessary to incur a balance of payments deficit in 1984.

4. Incomes policy

The authorities stressed that attainment of the price objective this year would depend crucially on continued moderation in wage awards. In the private sector, their attitude would be governed by the twin preoccupation of extending the recent downward trend in unemployment and of limiting cost pressures, following the corrective exchange rate and public sector price action of December 1983-January 1984. The authorities would take a tough stance in the setting of public sector wages, to give a guide to the private sector. Aside from this, the authorities believed that, given the considerable slack that remained

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1/ As Uruguay's financial position weakened in 1982, there was a heavy "dollarization" of the economy. Assets and liabilities denominated in U.S. dollars declined in 1983, but still accounted for over one half of total financial intermediation at the end of 1983.

in the economy, a freely working market was likely to yield wage adjustments compatible with the goals of improved employment and inflation. Accordingly, they would continue in 1984-85 with the policy begun in 1983 of not intervening in the process of wage determination in the private sector, except for adjusting the minimum wage. As for domestic price policy, flexibility was to be maintained in the administration of the few prices that continued to be controlled (certain food items and medicines).

IV. Short-Term Prospects

The authorities were encouraged by the return to positive economic growth in the third quarter of 1983 and by the rise in employment. These developments had a counterpart in the financial market. After a period of more than 18 months during which both real and nominal money balances had declined, the demand for financial assets appeared to have strengthened markedly beginning in late 1983. (In the first two months of 1984, bank deposits increased by more than 15 percent, or by more than the increase in consumer prices during this period.) As for inflation, another surge of corrective price adjustments was expected in early 1984, reflecting the depreciation of the peso in December 1983 and January 1984 and the increase in public sector prices in January.1/ However, the authorities believed that there would be progressively less need for corrective price adjustments during 1984, and that with continued wage restraint the rate of inflation would decline substantially in the course of the year.

With an additional effort in the fiscal area, the inflation objective should be compatible with the achievement of approximate balance in Uruguay's external operations in 1984. The current account deficit was projected to widen somewhat because of the anticipated recovery of activity, but a tight monetary policy would help limit capital outflows or possibly induce some capital repatriation. The authorities noted however, that, as the year advanced, confidence might tend to be influenced less by the stance of policies than by the proximity of the elections and by uncertainties about economic management after March 1985.

The refinancing of obligations coming due in 1983 and 1984 that was agreed with commercial banks last year would provide some debt relief in 1984. The authorities nonetheless did not view the maturity structure of Uruguay's official external debt as fully satisfactory, in part because the grace periods and repayment schedules obtained from bank creditors in the rescheduling of 1983 were relatively short.2/

1/ Consumer prices rose by more that 7 percent in January and 4 percent in February.

2/ A discussion of Uruguay's external debt position, of the 1983 renegotiations, and of prospective debt service payments is provided in Appendix I.

The bunching of debt service payments in 1985-86 made it undesirable for Uruguay to undertake substantial new borrowing at commercial terms in 1984. Emphasis therefore would be placed on securing financing from multilateral or bilateral development agencies, while recourse to the market, including the domestic placement of dollar-denominated bonds and bills, would be scaled down to no more than US$100 million.

V. Medium-Term Outlook

Changing conditions in Uruguay's neighbors make it unlikely that Uruguay will return soon to the rates of output growth of the second half of the 1970s; however, if industrial country markets remain open to Uruguay's exports, it would not seem unreasonable to expect Uruguay to achieve a rate of economic growth of the order of 3-3 1/2 percent a year on average through the end of the decade, about twice the projected rate of increase in population.

Based on historical experience, such a growth of output would entail a ratio of investment to GDP of around 14-15 percent, compared with a level of about 10 percent in 1983. This in turn would suggest the need for approximate balance or small surpluses in the public sector (including any surpluses or losses accounted for in the Central Bank) as there probably would not be sufficient private sector saving to finance the public sector and an increase in private investment. Private sector investment would have to rise to about 10 percent of GDP--in the view of the authorities, public sector investment probably should not exceed 4-5 percent of GDP--while private sector saving has exceeded 10 percent of GDP on only a few occasions in the past several years.

If demand management and wage policy remain prudent, it should be possible to reduce steadily the rate of inflation over the medium term. Most of the corrective price action in principle should have been undertaken in 1983 and 1984, and most distortions in relative prices should have been eliminated. The liberalization of commercial policies that is being implemented also should prove of assistance in increasing the overall efficiency of the economy and in keeping price pressures in check.

Two balance of payments projections have been prepared for the period through 1989, with differing assumptions about private capital flows during the period 1985-89 (Table 7). In both scenarios it is assumed that the balance of payments would yield a cumulative increase in gross reserves of US$220 million in the period 1985-89, equivalent to Uruguay's repurchase obligations to the Fund. National saving is assumed to be the same in the two scenarios, and in both cases the public sector is assumed to maintain its outstanding stock of external debt unchanged in nominal terms throughout the period 1985-89. Thus

Table 7. Uruguay: Medium-Term Balance of Payments Projections

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989
			Scenario A				
Current account	-69	-116	18	25	43	53	62
Trade balance	407	363	370	380	395	400	410
Travel	-169	-142	--	--	--	--	--
Investment income	-318	-353	-367	-370	-367	-362	-363
Other services and transfers	11	16	15	15	15	15	15
Capital account	-67	...	-8	26	43	-4	-38
Public sector	330	145	--	--	--	--	--
Private sector	-397	...	-8	26	43	-4	-38
Overall balance 1/	-136	...	10	51	86	49	24
Memorandum items							
Current account/GDP	-1.2	-1.9	0.3	0.4	0.6	0.7	0.7
Overall balance/GDP	-2.4	...	0.2	0.7	1.2	0.6	0.3
IMF repurchases (in millions of U.S. dollars)	12	--	10	51	86	49	24
Imports (in millions of U.S. dollars)	650	741	800	860	920	990	1,060
Exports (in millions of U.S. dollars)	1,057	1,104	1,170	1,240	1,315	1,390	1,470

Table 7. Uruguay: Medium-Term Balance of Payments Projections (Concluded)

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989
			Scenario B				
Current account	-69	-116	-65	-69	-74	-80	-85
Trade balance	407	363	287	286	278	267	263
Travel	-169	-142	--	--	--	--	--
Investment income	-318	-353	-367	-370	-367	-362	-363
Other services and transfers	11	16	15	15	15	15	15
Capital account	-67	...	75	120	160	129	109
Public sector	330	145	--	--	--	--	--
Private sector	-397	...	75	120	160	129	109
Overall balance 1/	-136	...	10	51	86	49	24
Memorandum items							
Current account/GDP	-1.2	-1.9	-1.0	-1.0	-1.0	-1.0	-1.0
Overall balance/GDP	-2.4	...	0.2	0.7	1.2	0.6	0.3
IMF repurchases (in millions of U.S. dollars)	12	--	10	51	86	49	24
Imports (in millions of U.S. dollars)	650	741	883	954	1,037	1,123	1,207
Exports (in millions of U.S. dollars)	1,057	1,104	1,170	1,240	1,315	1,390	1,470

Sources: Central Bank of Uruguay; and Fund staff projections.

1/ From 1985, the overall balance of payments surplus is projected to be equivalent to Fund repurchases in respect of purchases outstanding as of January 31, 1984.

the current account outcome depends on private capital flows--larger inflows would be associated with larger current account deficits and higher rates of private investment and economic growth.1/

For the economy to grow at an annual average rate of about 3 percent, it is believed (given the projected rise in import unit values) that the U.S. dollar value of imports should rise on average by 7 1/2 percent a year through 1989--implying an elasticity of non-oil imports to real GDP growth of the order of 1 1/2 and only a marginal increase in the value of oil imports.2/ The value of exports is expected to rise at an annual average rate of 6 percent, while factor payments abroad are projected to remain around US$365 million throughout the period. Assuming that current difficulties in neighboring countries begin to lessen from 1985, and therefore that the travel account returns to approximate balance, the current account would yield small, albeit rising, surpluses during 1985-89 (Scenario A, Table 7). This outcome would be consistent with marginally positive cumulative private capital flows in the five-year period, with some variability from year to year.

Under Scenario B, private capital inflows would average about US$120 million a year in the period 1985-89, allowing for current account deficits that on average would be 1 1/2 percentage points a year larger than in Scenario A. The higher level of investment associated with this greater reliance on foreign savings would allow for a somewhat higher rate of growth of real output than in Scenario A--of the order of about 1/2 percent a year.

It is assumed in Scenario B that the greater reliance on foreign savings translates into a higher level of imports while the level of exports is the same as in Scenario A. There would be a sharp rise in imports in 1985, when the greater private capital inflow is assumed to begin, followed by an average increase of 8 percent a year in the next four years. It would probably be more realistic to assume that at least some of the additional growth would be export related; if so, higher levels of exports and imports would result, for a given level of the current account deficit and domestic growth.

It must be stressed that in Uruguay's present circumstances, projections of the private capital account for the years ahead are subject to a large margin of uncertainty. Developments in Argentina and Brazil have an important bearing on Uruguay's external position and both countries are faced with large adjustment needs of their own. Moreover, the possible forthcoming political changes in Uruguay heighten the speculative character of any medium-term balance of payments scenario.

1/ It is assumed that the different private capital flows in the two scenarios do not generate different factor payment streams, as might occur if the capital movements were associated with direct investment or repatriation of Uruguayan capital held abroad.

2/ With the coming on stream of a new hydropower plant in December 1982, all of Uruguay's power generation is now being provided by hydroelectric sources, which has led to a one-time reduction in oil import needs.

VI. Staff Appraisal

The economic program adopted by Uruguay in late 1982, and supported by a stand-by arrangement from the Fund, has brought about an improvement in economic conditions and has allowed Uruguay to begin recovering from the severe economic crisis of 1982.

At the core of the program was the adoption of a flexible exchange rate policy aimed at restoring the competitiveness of the economy, supplemented by renewed efforts to implement the trade liberalization program initiated a few years earlier. At the same time, the program sought a sharp reduction in the public sector deficit and in other claims on central bank resources, and a moderation in the rate of official external reserve losses.

There was a substantial fiscal adjustment early in the year and all performance criteria were observed through September 1983. However, it became increasingly difficult to adhere to the fiscal component of the program as the year advanced, and the end-December fiscal targets were exceeded. In addition, little progress was made in reducing the imbalances in the Central Bank. Despite high real interest rates and a tighter than programed credit stance, capital flight remained substantial, and inflation was higher than had been targeted. The high degree of uncertainty that prevailed in 1983, and the magnitude of the imbalances that had to be dealt with, resulted in a contraction of real GDP for 1983 as a whole, although developments in the last few months point to generally encouraging trends in output and employment.

Policies for 1984 are still being developed. The authorities' intention to adhere to the tenets of the program launched in late 1982 is to be welcomed, but it must be stressed that action must be taken quickly if serious setbacks are to be avoided. This is partly because of the short time left to the current administration but also because the deviations from the program path in the latter part of 1983 threaten higher inflation and renewed pressures on the balance of payments. Such a weakening of performance in turn almost certainly would undermine confidence and damage the chances for a revival of output and investment.

A major reduction in the prospective combined deficits of the nonfinancial public sector and of the Central Bank is essential for both economic stabilization and growth. Steps in this direction were taken in January 1984 through adjustment in public sector prices and tariffs and total public spending is expected to decline relative to GDP, following a sharp cutback in 1983.

A large financing gap remains, however, and the staff would urge the authorities to enact without delay the tax package currently under consideration, to take prompt measures to bring the finances of the Mortgage Bank under control, and to start collecting principal and interest on the private loan portfolio that the Central Bank has acquired from commercial banks. It is not clear whether these measures will be sufficient to achieve the objectives of strengthening the balance of payments and bringing down substantially the rate of inflation and further action may be needed. In this respect, it may be noted that even with enactment of the tax package being considered, government revenue relative to GDP would be less than in 1983, which was low by Uruguayan historical standards.

As for the growth of central bank resources, the staff would urge the authorities to avoid setting their credit policies on the basis of too optimistic projections for the demand for broad money balances. More specifically, the pickup in the demand for peso-denominated financial assets that occurred in recent months should not be taken as indicative of a trend.

A lasting reduction of inflation requires that there be a progressive deceleration in the rate of nominal wage adjustments. In this respect, given present conditions in the labor market, the authorities' intention to intervene as little as possible in the process of wage determination in the private sector is well advised; the authorities are right that the lasting improvements in real labor remuneration that are being sought can only be achieved through economic growth. Moreover, in the early stages of recovery and when unemployment remains high, priority ought to be given to job creation over real wage gains.

The correction in the external value of the peso that followed the adoption of a float in November 1982, and the policies that have been pursued subsequently, reversed to a very large extent the deterioration in the competitiveness of the economy that occurred in 1979-82, and have been instrumental in strengthening the balance of payments. However, a combination of domestic and external factors--not all of an economic nature--resulted in a continuation of uncertainty that was reflected in the exchange market throughout most of 1983. The staff believes that the authorities have been wise in dropping the crawling peg system for the exchange rate that was in place from July to November 1983, and opting in December for a more flexible exchange rate policy; the generally positive response of the market, as evidenced by the recent surge in demand for peso-denominated financial assets, would seem to bear this judgment out.

Despite increases in restrictive trade and payments practices abroad, Uruguay has managed to maintain complete freedom of exchange transactions on both current and capital account and to continue with its program of trade liberalization. The authorities are to be commended for these achievements and for their determination to maintain a free exchange system and to continue to reduce effective protection. This commitment to an open exchange and trade system is bound to serve Uruguay well.

Significant progress was made in 1983 in restructuring Uruguay's external debt, and reliance on net external borrowing was scaled down sharply. The 1983 renegotiation also covered 1984 maturities and, with an adequate economic program, Uruguay's net new borrowing requirements would be small this year. Nevertheless, Uruguay will face large debt servicing requirements beginning in 1985. Therefore, Uruguay will need to count on the continued cooperation of the international banking community in coping with its debt repayment schedule.

In summary, the authorities already can see the results of the adjustment that took place in 1983 in the balance of payments and in the mild recovery of economic activity that has been under way since the third quarter of last year. Imbalances remain large, however, and there is a pressing need for continuing with this adjustment effort in 1984. The staff would hope that Uruguay soon will be in a position to develop a program that will enable it to have recourse to Fund assistance either under the existing stand-by arrangement or possibly under a new arrangement.

It is recommended that the next Article IV consultation with Uruguay be held on the standard 12-month cycle.

External Debt Developments

1. Outstanding debt, maturity structure, and debt service payments

As economic imbalances mounted in 1981 and in 1982, the authorities resorted to large-scale foreign borrowing (mostly short term) which led to a doubling of the total stock of external debt from US$1.5 billion at the end of 1980 to US$3.1 billion at the end of 1982 (Table 8). Relative to GDP, the debt rose from 22 percent to 53 percent during this two-year period. Both public and private sector debt rose, although the former increased slightly faster and, as a share of the total, public sector debt went up from 70 percent of total debt in 1980 to 74 percent in 1982; the external public debt was US$2.3 billion in 1982, equivalent to almost 40 percent of GDP.

The maturity distribution of the debt greatly worsened in 1982, with the share of short-term debt in total debt increasing from just over 17 percent at end-1981 to 32 percent at end-1982. As a consequence, debt service obligations increased much faster than the stock of debt, and the public sector debt service ratio (including repayment of short-term debt) rose from less than 9 percent in 1980-81 to 47 percent in 1982 (Table 9).

Faced with prospective public sector debt service obligations of about US$1,300 million in 1983 (including the repayment of short-term obligations of the Central Bank) and US$591 million in 1984, Uruguay reached agreement with its foreign commercial bank creditors on July 29, 1983 to reschedule principal obligations equal to US$464 million in 1983 and US$111 million in 1984. Uruguay also reached agreements with neighboring central banks and a commercial bank not included in the group referred to above to reschedule US$64 million of principal obligations due in 1983. Contrary to initial intentions, which were only to refinance short-term obligations falling due in 1983, the rescheduling of obligations to commercial banks covered both short-term and medium-term debt, as well as maturities falling due in both 1983 and 1984; this was to ensure that all banks involved would participate in the refinancing in proportion to their original exposure (certain large creditors only had medium-term exposure in Uruguay).

The rescheduling of US$575 million of principal obligations represented 90 percent of original obligations owed to commercial banks falling due in 1983-84, while the US$64 million in principal obligations due to other financial institutions in 1983 represented 100 percent of original obligations. At the same time, Uruguay obtained a US$230 million medium-term loan from its commercial bank creditors, which was part of the financing package put together in parallel with the financial program supported by the Fund.

Table 8. Uruguay: External Debt and Foreign Currency Lending to the Economy, 1979-83

	1979	1980	1981	1982	Est. 1983
	(In millions of U.S. dollars)				
	I. External Debt				
Medium- and long-term debt	1,075.6	1,268.0	1,692.1	2,095.9	2,788.3
Public sector 1/	845.2	1,046.7	1,264.7	1,733.6	2,424.1
Private sector 2/	230.4	221.3	427.4	362.3	364.2
Short-term	157.6	253.0	362.6	1,001.0	532.9
Public sector	5.8	15.3	81.4	562.2	199.4
Treasury notes	5.0	--	--	84.4	123.7
BROU 3/	0.8	15.3	1.4	108.6	75.7
Mortgage Bank	--	--	80.0	165.0	--
COMIPAL	--	--	--	135.0	--
Salto grande	--	--	--	69.2	--
Private sector	151.8	237.7	281.2	438.8	333.5
Commercial banks	151.8	237.7	281.2	438.8	333.5
Total external debt	1,233.2	1,521.0	2,054.7	3,096.9	3,321.2
Public	851.0	1,062.0	1,346.1	2,295.8	2,623.5
Private	382.2	459.0	708.6	801.1	697.7
	II. Net Foreign Currency Lending to the Economy				
Total external debt	1,233.2	1,521.0	2,054.7	3,096.9	3,321.2
Plus:					
Foreign currency deposits	927.9	1,223.7	2,134.2	1,988.8 4/	1,559.8 4/
Held by nonresidents	288.3	514.6	956.1	868.4	700.8
Held by residents	639.6	709.1	1,178.1	1,120.4	859.0
Minus:					
Net foreign assets of the monetary authorities	306.5	428.2	453.2	-131.5	-164.6
Assets 5/	477.7	545.3	571.7	227.7	306.3
Liabilities	171.2	117.1	118.5	359.2	470.9
Minus:					
Gross foreign assets of the financial system (excluding monetary authorities)	355.6	363.6	662.1	567.2	501.5
BROU	152.6	171.0	152.4	122.9	146.9
Private commercial banks	203.0	192.6	509.7	444.3	354.6
Equal to:					
Foreign currency lending to the economy	1,499.0	1,952.9	3,073.6	4,650.0	4,544.1
	(As percent of GDP) 6/				
Medium- and long-term debt	18.6	18.3	25.1	35.8	49.1
Public sector	14.6	15.1	18.8	29.6	42.7
Private sector	4.0	3.2	6.3	6.2	6.4
Short-term debt	2.7	3.6	5.4	17.1	9.4
Public sector	0.1	0.2	1.2	9.6	3.5
Private sector	2.6	3.4	4.2	7.5	5.9
Total external debt	21.3	21.9	30.5	52.9	58.5
Public sector	14.7	15.3	20.0	39.2	46.2
Private sector	6.6	6.6	10.5	13.7	12.3
Foreign currency deposits	16.0	17.7	31.7	34.0	27.5
Nonresidents	5.0	7.4	14.2	14.8	12.4
Residents	11.0	10.3	17.5	19.2	15.1
Foreign currency lending to the economy	25.9	28.2	45.6	79.4	80.0

Source: Central Bank of Uruguay.

1/ Includes long-term debt of the Central Bank.
2/ Suppliers' credits (including short-term).
3/ Does not include deposits of nonresidents, which are included in net foreign currency lending to the economy. This presentation differs from the balance of payments, where flows include changes in deposits of nonresidents.
4/ Includes foreign currency deposits in the Mortgage Bank.
5/ Gold is valued at SDR 35 per fine troy ounce.
6/ For the purpose of these ratios, U.S. dollar GDP has been estimated using an Uruguayan peso/U.S. dollar exchange rate that is constant in real terms at its average 1976 level (these ratios therefore differ from those that emerge from the national accounts).

Table 9. Uruguay: Public Sector Debt Profile Projections, 1979-89

(In millions of U.S. dollars)

	1979	1980	1981	1982	Est. 1983	Projections 1984	1985	1986	1987	1988	1989
Public sector debt outstanding 1/	851.0	1,062.0	1,346.1	2,295.8	2,623.5	2,658.5 2/	2,346.7	1,982.0	1,592.9	1,156.6	847.3
Long and medium term	845.2	1,046.7	1,264.7	1,733.6	2,424.1	2,459.1	2,147.3	1,782.6	1,393.5	957.2	647.9
Short term	5.8	15.3	81.4	562.2	199.4	199.4	199.4	199.4	199.4	199.4	199.4
Public sector debt service 1/											
Long term	129.1	130.9	146.4	199.5	320.6	325.2	542.1	561.2	547.9	544.0	390.1
Interest	54.7	80.2	103.0	133.6	181.8	229.7	230.3	196.5	158.8	117.7	80.8
Principal	74.4	50.7	43.4	65.9	138.8	95.5	311.8	364.7	389.1	436.3	309.3
Short term	...	...	9.9	495.4	458.0	228.4	228.4	228.4	228.4	228.4	228.4
Interest	...	...	0.7	23.8	71.6	29.0	29.0	29.0	29.0	29.0	29.0
Principal	...	...	9.2	471.6	386.4	199.4	199.4	199.4	199.4	199.4	199.4
Total	129.1	130.9	156.3	694.9	778.6	553.6	770.5	789.6	776.3	782.4	618.5
Interest	54.7	80.2	103.7	157.4	253.4	258.7	259.3	225.5	187.8	146.7	109.8
Principal	74.4	50.7	52.6	537.5	525.2	294.9	511.2	564.1	588.5	635.7	508.7
Exports 3/	1,257.6	1,604.9	1,824.8	1,483.0	1,390.5	1,478.1	1,591.5	1,667.1	1,760.0	1,853.4	1,950.2
Debt service ratio											
Excluding IMF debt service	10.3	8.2	8.6	46.9	56.0	37.5	48.4	47.4	44.1	42.2	31.7
Long-term	10.3	8.2	8.0	13.5	23.1	22.0	34.0	33.7	31.1	29.9	20.0
Short-term	...	...	0.6	33.4	32.9	15.5	14.4	13.7	13.0	12.3	11.7
Including IMF debt service	10.3	8.2	8.6	47.0	57.3	38.8	51.2	52.9	52.0	49.6	36.9
Long-term	10.3	8.2	8.0	13.6	24.4	23.3	36.8	39.2	39.0	37.3	25.2
Short-term	...	...	0.6	33.4	32.9	15.5	14.4	13.7	13.0	12.3	11.7
Interest/exports 3/											
Excluding IMF debt	4.3	5.0	5.7	10.6	18.2	17.5	16.3	13.5	10.7	7.9	5.6
Including IMF debt	4.3	5.0	5.7	10.7	18.7	18.8	18.4	16.0	12.8	9.5	6.7
Interest/GDP											
Excluding IMF debt	0.9	1.2	1.5	2.7	4.5	4.3	4.0	3.2	2.5	1.8	1.3
Including IMF debt	0.9	1.2	1.5	2.7	4.6	4.6	4.5	3.8	3.0	2.2	1.5

Sources: Central Bank of Uruguay; and Fund staff estimates.

1/ After rescheduling of principal obligations to commercial banks and other financial institutions in 1983-84 but excluding debt to IMF.

2/ Including total disbursements of US$329.9 million in 1984, but excluding possible disbursements of US$110 million on new loans from commercial banks and the IBRD. Assuming an average original maturity of 10 years, a two year grace period and an average interest rate of 13 percent, the service on this additional borrowing (interest and amortization) would be US$7.2 million in 1984, US$14.3 million in 1985, US$25.3 million in 1986, US$34.2 million in 1987, US$31.4 million in 1988, and US$28.5 million in 1989. Projections for 1985-89 do not assume disbursements on long- and medium-term loans in those years.

3/ Exports of goods and services plus private transfers.

The total debt rose to US$3.3 billion, or 59 percent of GDP, in 1983, but because of the rescheduling, the maturity structure of the debt improved--the share of short-term debt in total debt was cut in half to 16 percent in 1983. There was a transfer of obligations to the public sector and private sector debt fell from US$800 million in 1982 to US$700 million in 1983, while the public debt rose from US$2.3 billion to US$2.6 billion, or from 74 percent to 79 percent of the total.

2. Terms of the commercial bank rescheduling/new medium-term loan

The rescheduled principal obligations of US$575 million are to be repaid in 17 quarterly installments, starting on August 7, 1985; each of the first five installments is to be equivalent to 4 percent of the total; each of the following four installments to 5 percent of the total; and each of the last eight installments to 7 1/2 percent of the total. The new loan of US$230 million, granted at the time of the restructuring, carried the same repayment terms; it was disbursed in two equal installments, the first on August 17, 1983 and the second in early December 1983.

Interest is to be paid quarterly beginning on November 7, 1983 either at LIBOR plus 2 1/4 percent or the prime rate plus 2 1/8 percent, in any of the seven currencies of repayment accepted by, and left to the option of, each creditor bank.

Commissions include: (1) a commitment fee of one half of 1 percent on the portion of the new loan that is undrawn; (2) a facility fee of 1 3/8 percent on the new loan, paid on August 17, 1983; and (3) various agent and administrative fees.

3. Debt relief

Taking into account the reduction in debt service resulting from the rescheduling of the debt, less the additional interest costs arising from the fact that the debt was rescheduled rather than repaid, the net cash savings were as follows:

	1983	1984
	(In millions of U.S. dollars)	
Rescheduled obligations	528	111
Nonfinancial public sector	(411)	(--)
Central Bank	(117)	(--)
Interest on rescheduling	24	93
Net cash savings	504	18

The debt service ratio, which in the absence of rescheduling would have risen to 93 1/2 percent in 1983, was kept to 57 percent after relief. The effect of the rescheduling operation on debt service in 1984 is much less.

	1983		1984	
	Millions of U.S. dollars	Percent of GDP	Millions of U.S. dollars	Percent of GDP
Debt service				
Before rescheduling	1,301	93.5	591	40.0
After rescheduling	797	57.3	573	38.8

4. Public sector debt profile projections

Public sector debt profile projections are presented in Table 9, based on the projected stock of debt at the end of 1984 given the existing pipeline. Because of the relatively short maturities and the short grace period for the restructured debt, the debt service ratio, including debt to the Fund, is projected to rise to 51-53 percent in 1985-87, from 39 percent in 1984, even though the projections do not assume any increase in short-term debt or disbursements of any new medium- and long-term loans in those years.

Uruguay: Main Indicators

	1980	1981	1982	1983 Prog.	1983 Prel.
(Annual percentage changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	6.0	-0.1	-8.7	1.0	-4.8
GDP deflator	60.9	31.0	16.5	38.5	56.1
Consumer prices 1/	63.5	34.0	19.0	38.5	49.2
External sector (in terms of U.S. dollars)					
Exports, f.o.b.	34.3	14.8	-15.8	13.3	3.3
Imports, c.i.f.	42.7	-4.2	-35.9	6.7	-40.2
Non-oil imports, c.i.f.	35.2	-8.6	-39.9	...	-39.5
Export volume	11.8	15.1	-4.1	10.0	3.1
Import volume	11.6	-12.0	-27.2	-10.5	-33.7
Terms of trade (deterioration -)	-5.3	-8.3	-1.9	-4.2	--
Nominal effective exchange rate (depreciation -)1/	9.6	23.4	24.7	...	-22.6
Real effective exchange rate (depreciation -)1/	26.8	14.1	--	...	-31.7
Central Administration 2/					
Revenue	77.5	42.2	-8.0	64.0	50.8
Total expenditure	83.0	45.6	39.9	13.6	18.5
Money and credit					
Domestic credit 3/	60.5	36.2	24.6	27.9	27.0
Public sector 3/	1.3	3.8	16.4	4.0	17.8
Private sector 3/	69.9	33.9	9.0	14.0	3.4
Money and quasi-money (M3)4/	61.3	41.9	-1.8	17.5	-2.0
Velocity (GDP relative to M3)	2.46	2.05	2.13	1.81	1.92
Interest rate (average annual rate, six-month savings deposit)	51.5	46.9	50.7	...	66.1
(In percent of GDP)					
Public sector savings 2/	5.6	3.6	-4.7	2.2	-0.4
Public sector deficit (-)2/	0.5	-2.4	-10.1	-3.0	-4.3
Central administration deficit (-)2/	-0.4	-0.9	-9.1	-1.9	-3.9
Domestic bank financing	--	0.2	8.0	1.0	3.0
Foreign financing 5/	0.4	0.7	1.1	0.9	0.9
Gross domestic investment	17.3	15.3	13.2	12.6	10.2
Gross national savings	11.2	11.0	8.4	7.7	8.9
External current account (deficit -)6/	-6.1	-4.3	-4.8	-4.9	-1.3
External public debt (medium and long term) inclusive of use of Fund credit 7/	15.3	20.0	39.2 8/	40.3 3/	46.2
Debt service ratio (in percent of exports of goods and services)9/	8.2	8.6	47.0	30.9	57.3
Interest payments (in percent of exports of goods and services)	5.0	5.7	10.7	16.0	18.7
(In millions of U.S. dollars)					
Overall balance of payments deficit (-)	181	12	-800	-100	-136
Gross official reserves (months of imports)	3.7	4.0	2.5	3.5	5.6
External payments arrears	--	--	--	--	--

Sources: Ministry of Economy and Finance; Secretariat of Planning and Coordination; Central Bank of Uruguay; and Fund staff estimates.

1/ Annual average.
2/ Includes foreign financed expenditure which is not registered in the central administration operations as officially reported.
3/ In relation to the stock of liabilities to the private sector at the beginning of the period.
4/ Includes foreign currency deposits valued at the annual average exchange rate of each year.
5/ Including dollar-denominated bills sold to residents and nonresidents.
6/ Based an actual average exchange rates.
7/ For the purpose of these ratios, U.S. dollar GDP has been estimated using an exchange rate for the Uruguayan peso that would keep the Uruguayan peso/U.S. dollar exchange rate constant in real terms at its average 1976 level.
8/ Includes short-term debt contracted in 1981 and 1982, but converted to medium term in 1983.
9/ External public debt only; total interest plus amortization of short-medium- and long-term debt, including IMF.

Uruguay - Fund Relations
(As of February 29,1984)

I. Membership Status

(a) Date of membership: March 1946
(b) Status: Article VIII

(A) Financial Relations

II. General Department

(a) Quota: SDR 163.8 million
(b) Total Fund holdings of new Uruguayan pesos: 381.2 million SDRs, equivalent to 232.7 percent of quota, of which:

Under:	Millions of SDRs	Percent of Quota
CFF	44.1	26.9
First credit tranche	31.5	19.2
Stand-by	61.6	37.6
Enlarged access	89.6	54.7

III. Current Stand-by Arrangement

(a) (i) Duration: From April 22, 1983 to April 21, 1985
(ii) Amount: SDRs 378.0 million
(iii) Utilization: SDRs 151.2 million
(iv) Unutilized balance: SDRs 226.8 million.

(b) Previous stand-by arrangements since 1974.

Uruguay has had 6 stand-by arrangements since 1974. The first one, for SDR 17.25 million, was fully utilized; no purchase was made under the next four arrangements. The last one, in the first credit tranche for SDR 31.5 million, expired on July 14, 1982 and was fully utilized.

(c) Special facilities.

A purchase of SDR 55.3 million under the compensatory financing facility was made in August 1982. A repurchase of SDR 11.2 million was made in February 1983 because of overcompensation under the August 1982 CFF purchase.

IV. SDR Department

(a) Net cumulative allocation: 49.98 million.

(b) Holdings: SDR 18,781, equivalent to 0.04 percent of net cumulative allocation.

Gold distribution: 59,052 ounces in four distributions.

Distribution of profits from gold sales: US$10.95 million.

(B) Nonfinancial Relations

V. Exchange Rate Arrangement: The currency of Uruguay is the New Peso. From December 26, 1978 to November 26, 1982, the peso was depreciated daily in accordance with a peso-U.S. dollar exchange rate schedule announced several months in advance. This exchange rate system was then replaced by a floating exchange rate system. On February 29, 1984, buying and selling interbank rates for the U.S. dollar, the intervention currency, were NUr$47.15 and NUr$47.20

VI. Last Consultation: The 1982 Article IV consultation was completed, and a request for a stand-by arrangement was approved by the Executive Board on April 22, 1983 (EBS/83/43). A waiver of performance criteria under the stand-by arrangement was approved by the Executive Board on August 23, 1983 (EBS/83/177). The consultation is under the standard 12-month cycle.

VII. Technical Assistance: In 1981-83 the Fiscal Affairs Department provided assistance to the Accounting General's Office in the introduction of a new accounting system for government operations and of new expenditure and debt operations recording procedures. A panel expert was stationed in Montevideo between June 1981 and July 1983.

VIII. Resident Representative: Mr. Luis Duran-Downing was stationed as Resident Representative in Uruguay during the period August 1981-December 1983. His replacement, Mr. Humberto Arbulu-Neira, was appointed in November 1983 and took up his duties in February 1984.

IX. Currentness of Data: Generally adequate. Conceptual and methodological problems with financial statistics are under discussion between Uruguay and the Bureau of Statistics.

Uruguay--Basic Data

Area and population	
Area	187,000 sq. kilometers
Population (mid-1983)	3.0 million
Annual rate of population increase (1975-83)	0.6 percent
GDP (1983)	SDR 5,189.0 million
	US$5,549.0 million
	NUr$190,816 million
GDP per capita (1983)	SDR 1,748

	1980	1981	Prel. 1982	Est. 1983
Origin of GDP		(percent)		
Agriculture	11.1	11.2	11.4	11.6
Manufacturing	25.2	24.2	21.6	20.9
Construction	5.2	5.1	5.0	4.1
Transportation and communications	6.9	7.1	6.7	6.5
Commerce	17.3	16.6	15.1	14.6
Other	34.3	35.8	40.2	42.3
Ratios to GDP				
Exports of goods and nonfactor services	15.0	15.0	14.3	23.7
Imports of goods and nonfactor services	21.3	18.9	17.2	19.3
Current account of the balance of payments	-6.1	-4.3	-4.8	-1.3
Central administration revenue	16.2	17.6	15.2	15.5
Central administration expenditure	16.6	18.5	24.3	19.4
Public sector savings	5.6	3.6	-4.7	-0.4
Public sector overall surplus or deficit (-)	0.5	-2.3	-10.1	-4.3
External public debt (end of year)	10.4	12.0	24.8	47.3
Savings	11.2	11.0	8.4	8.9
Investment	17.3	15.3	13.2	10.2
Money and quasi-money (end of year)	40.7	46.9	46.9	52.0
Annual changes in selected economic indicators				
Real GDP per capita	5.4	-0.7	-9.3	-5.5
Real GDP	6.0	-0.1	-8.7	-4.8
GDP at current prices	69.6	30.4	6.4	48.6
Domestic expenditures (at current prices)	72.5	26.8	5.4	38.2
Investment	66.4	12.3	-7.7	14.2
Consumption	73.8	29.7	7.7	41.7
GDP deflator	60.9	31.0	16.5	56.1
Wholesale prices (annual averages)	41.8	23.4	12.9	73.5
Consumer prices (annual averages)	63.5	34.0	19.0	49.2
Central administration revenues	77.5	42.2	-8.0	50.8
Central administration expenditures	83.0	45.6	39.9	18.5
Money and quasi-money	61.3	41.9	-1.8	-2.0
Money	50.9	12.5	19.6	8.1
Quasi-money	64.8	50.2	-6.7	-2.9
Net domestic bank assets 1/	60.5	36.2	24.6	27.0
Credit to public sector (net)	1.3	3.8	16.4	17.8
Credit to private sector	69.9	33.0	9.0	3.4
Merchandise exports (f.o.b., in U.S. dollars)	34.3	14.8	-15.8	3.3
Merchandise imports (c.i.f., in U.S. dollars)	42.7	-4.2	-35.9	-40.2

Central administration finances	1980	1981	1982	Prel. 1983
	(millions of new Uruguayan pesos)			
Revenue	14,955	21,260	19,552	29,486
Current expenditure	13,455	19,819	27,720	32,603
Current account deficit (-)	1,499	1,441	-8,168	-3,117
Capital expenditure	1,862	2,492	3,490	4,366
Overall deficit (-)	-363	-1,051	-11,658	7,483
Internal financing (net)	249	50	10,239	5,738
External financing (net)	333	943	338	186
Dollar-denominated bills and bonds	-219	57	1,081	1,559
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	1,058.5	1,215.4	1,022.9	1,056.8
Merchandise imports (c.i.f.)	1,769.8	1,695.7	1,086.8	650.0
Investment income (net)	-100.4	-73.8	-187.6	-317.8
Other services and transfers (net)	102.3	84.0	-174.6	-158.4
Balance on current and transfer accounts	-709.4	-470.1	-426.1	-69.4
Long-term capital (net)	742.6	371.4	499.9	524.0
Short-term capital (net), including errors and omissions	137.2	99.7	-873.3	-590.9
Allocation of SDRs	11.0	10.9	--	--
Overall balance	181.4	11.9	-799.5	-136.3
Valuation adjustment 2/	-59.7	13.1	214.9	102.2
Change in official net reserves (increase -)	-121.7	-25.0	584.6	34.1

International reserve position	Dec. 31 1981	Dec. 31 1982	Dec. 31 1983
	(millions of SDRs)		
Central Bank (gross)	490.6	207.6	291.6
Central Bank (net)	388.8	-118.0	-46.3

1/ In relation to the stock of money and quasi-money at the beginning of the period. Excludes contra-entry of SDR allocation.

2/ Includes an adjustment to allow for the difference between the price at which gold was bought or sold and the price at which it is valued for reserve purposes (SDR 35 per ounce).