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FOR AGENDA

EBS/83/43
Correction 2

CONFIDENTIAL

March 31, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Uruguay - Staff Report for the 1982 Article IV Consultation and Request for Stand-By Arrangement

In light of the postponement of the Executive Board consideration of Uruguay's request for a stand-by arrangement, the following revisions have been made in EBS/83/43 (2/25/83):

Page 1, para. 3, lines 5-7: for "SDR 37.8 million until May 20, 1983;
SDR 75.6 million until August 20, 1983;
SDR 113.4 million until November 20, 1983"
read "SDR 47.25 million until August 20, 1983;
SDR 94.5 million until November 20, 1983"

Page 3: Table 1 revised

Page 24: Table 6 revised

Page 29, para. 1, line 2: for "March --, 1983 to March --, 1985"
read "April --, 1983 to April --, 1985"

para. 2, line 2: after "EBS/83/43" add "as revised by EBS/83/43, Correction 2"

Page 38, para. 1, line 1: for "March --, 1983" read "April --, 1983"

para. 2(a), lines 2-4: for "SDR 37.8 million until May 20, 1983, the equivalent of SDR 75.6 million until August 20, 1983, the equivalent of SDR 113.4 million until November 20, 1983"
read "SDR 47.25 million until August 20, 1983, the equivalent of SDR 94.5 million until November 20, 1983"

para. 4, line 2: for "SDR 37.8 million" read "SDR 47.25 million"

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I. Introduction

The 1982 Article IV consultation discussions with Uruguay were conducted in Montevideo in the periods December 13-21, 1982 and January 4-11, 1983. Discussions on a request for a two-year stand-by arrangement in support of the authorities' economic program took place at the same time. The representatives of Uruguay in these discussions included the Ministers of Economy and Finance, Agriculture and Livestock, Industry and Energy, Labor and Planning; the President of the Central Bank; the presidents of the Mortgage Bank and of the Bank of the Republic; the chief executives of the largest public enterprises; and other senior officials. The head of the mission was received by the President of the Republic. The staff representatives were Messrs. Brachet (Head-WHD), Braz (WHD), Clement (ETR), Feltenstein (FAD), Kreis (WHD), and Ms. Toso (Secretary-WHD). The mission was assisted by Mr. Duran-Downing, the Fund resident representative in Montevideo.

In a letter dated February 1, 1983 (Attachment II), the Minister of Economy and Finance and the President of the Central Bank of Uruguay request access to Fund resources for the equivalent of SDR 378 million (300 per cent of Uruguay's quota of SDR 126 million) in the framework of a two-year stand-by arrangement. Of the amount requested under the arrangement, SDR 94.5 million would come from ordinary resources and SDR 283.5 million from borrowed resources. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement is required.

Uruguay's request is for the support of a program that is described in the attached letter and Memorandum of Understanding and is analyzed in this report. Under the requested stand-by arrangement, up to SDR 189 million, or 150 per cent of quota, would be available before April 1, 1984 with the following phasing: purchases shall not exceed SDR 47.25 million until August 20, 1983; SDR 94.5 million until November 20, 1983; and SDR 151.2 million until February 20, 1984.

Uruguay has had 12 stand-by arrangements from the Fund, the latest of which was in the first credit tranche and expired on July 14, 1982. Uruguay purchased its reserve tranche in May 1982 and its first credit tranche under this arrangement in July 1982. In August 1982, Uruguay also purchased SDR 55.3 million, or 45 per cent of quota, under the compensatory financing facility. The purchase was made with respect to a shortfall in merchandise export earnings for the year ended September 1982. At that time export data were available only through April 1982 and export earnings were estimated for the five-month period May-September 1982. Actual data for this period became available in January 1983, at which time it was established that Uruguay had been overcompensated to the extent of SDR 11.2 million. In accordance with the representations Uruguay had made at the time of its request for a CFF purchase in August 1982, the amount corresponding to overcompensation was repurchased on February 24, 1983. As of February 24, 1983, the Fund's holdings of new Uruguayan pesos stood at 160 per cent of quota, and 125 per cent of quota excluding holdings under the compensatory financing facility.

Full use of the requested stand-by arrangement would raise the Fund's holdings of new Uruguayan pesos to 460 per cent of quota upon expiration of the arrangement (425 per cent of quota excluding purchases under the compensatory financing facility) (Table 1).

Uruguay is a participant in the Special Drawing Rights Department and has received allocations totaling SDR 50 million. Current holdings are 3.4 per cent of net cumulative allocations. Further information on Uruguay's relations with the Fund is presented in Appendix I.

The 1981 Article IV consultation discussions with Uruguay were held in April-May 1981 and completed by the Executive Board on July 15, 1981. Discussions with the Uruguayan authorities on the 1982 Article IV consultation and on an economic program that could be supported by the Fund with a multiyear arrangement were initiated in March 1982; they stretched over an extended period during which there were important changes in Uruguay's underlying economic conditions and the emphasis of policies was shifted to cope with developments. The March mission was followed by a visit by Uruguayan officials to Washington in April 1982 and by another round of discussions in Montevideo in May 1982. Discussions were resumed at the time of the Annual Meetings in Toronto and in informal contacts in Montevideo and Washington in October 1982. In mid-November, an Uruguayan delegation visited headquarters for further discussions, setting the stage for the staff missions of mid-December 1982 and early January 1983 that conducted the 1982 Article IV consultation discussions and concluded the negotiations on the program in support of which the stand-by arrangement is being requested.

II. Background

During much of the period after the Second World War, Uruguay's economic policies were characterized by import substitution, a growing public sector, heavy state intervention in price and wage determination, and extensive controls on current and capital external transactions. These policies were, in general, accompanied by weak demand management, which resulted in high inflation and recurrent balance of payments difficulties in a setting of negligible real GDP growth. Policies were altered radically in the mid-1970s as increasing reliance was placed on market mechanisms to allocate resources, while domestic financial policies were geared to strengthening the balance of payments, reducing inflation, and encouraging saving and investment. These policies involved the lifting of most domestic price controls and the introduction of flexible management of the exchange rate, the liberalization of the exchange and financial systems, a gradual reduction of the public sector

Table 1. Uruguay: Projection of the IMF Position 1/

	Outstanding Feb. 23, 1983	Operations in First Year of Program					Operations in Second Year of Program
		Apr. 1983	Aug.-Oct. 1983	Nov. 1983-Jan. 1984	Feb.-Mar. 1984	Total	
	(In millions of SDRs)						
Tranche policy							
Purchases	31.5	47.2	47.3	56.7	37.8	189.0	189.0
Ordinary resources	31.5	14.3	21.5	25.8	17.2	78.8	15.7
First credit tranche	31.5	--	--	--	--	--	--
Stand-by arrangement	--	14.3	21.5	25.8	17.2	78.8	15.7
Enlarged access	--	32.9	25.8	30.9	20.6	110.2	173.3
Repurchases	--	--	--	--	--	--	--
Compensatory Financing Facility	44.1	--	--	--	--	--	--
Total holdings (end of period)	201.6	248.8	296.1	352.8	390.6	390.6	579.6
Total holdings excluding CFF purchase (end of period)	157.5	204.7	258.0	308.7	346.5	346.5	535.5
	(In per cent of quota)						
Purchases							
Compensatory Financing Facility	35.0	--	--	--	--	--	--
Other	25.0	37.5	37.5	45.0	30.0	150.0	150.0
Total holdings (end of period)	160.0	197.5	235.0	280.0	310.0	310.0	460.0
Total holdings excluding CFF purchase (end of period)	125.0	163.5	200.0	245.0	275.0	275.0	425.0

Source: International Monetary Fund.

1/ Partials may not add up to totals because of rounding.

deficit, and a tightening of credit expansion by the monetary authorities. The Fund granted a series of stand-by arrangements in support of these policies, which were instrumental in the achievement of balance of payments surpluses during 1976-78 and in a marked recovery of economic activity.

Progress in controlling inflation, however, was uneven, with average price increases remaining at around 50 per cent a year during this period. To bring inflation more nearly in line with that abroad and foster greater efficiency in industry through increased foreign competition, the instrumentation of economic policies was modified significantly in the last quarter of 1978. The policy shift centered on the announcement of a schedule of daily exchange rates several months in advance that implied a progressive deceleration over time of the rate of depreciation of the peso, and on a gradual opening of the goods and capital markets to foreign competition.

It was believed that these measures would help change expectations about inflation. In the goods market, there would be pressures for a convergence of domestic and international prices for tradables, inducing a shift of domestic demand from nontradables to tradables, and thus contributing to a decleration of inflation. In the financial market, interest rates were expected to converge with foreign rates, adjusted for the announced rate of depreciation of the peso and for the country risk premium. As part of this general strategy, an import liberalization program was announced, whereby most remaining quantitative import restrictions were to be eliminated and the protection enjoyed by domestic industry was to be reduced over a seven-year period. Import duties were to be reduced to a maximum of 35 per cent by January 1, 1985, through a 16 per cent annual reduction in the difference between existing tariff rates (which in late 1978 ranged up to 150 per cent) and the 35 per cent rate. At the same time, most limitations and impediments to international capital flows were removed. In order not to interfere with the process of price convergence that was being sought, public sector financial operations were to be in approximate equilibrium, and the Central Bank was to refrain from expanding its domestic credit on any significant scale.

This liberalization of the economy worked well in fostering the growth of real GDP, which averaged 6 per cent a year in 1979-80 (Table 2), and in bringing unemployment to its lowest level in many years. It also encouraged private capital inflows, which not only financed one of the highest levels of private capital formation of the last 35 years (Chart 1) but also assisted in keeping the overall balance of payments in surplus. Where progress was most elusive was in regard to inflation; the rate of increase of consumer prices doubled to 83 per cent during 1979, and remained in excess of 40 per cent during 1980 (Chart 2).

be kept to around 40 per cent, and to 16-17 per cent in 1984. Attainment of this objective is dependent on the implementation of the restrictive financial policies described above, supported by appropriate incomes, commercial and exchange rate policies.

If the present program proves to be successful, toward the end of 1984 or the beginning of 1985 the Uruguayan economy should be characterized by low inflation, improved private sector confidence, and a much strengthened balance of payments position--with an expanded external sector. With the sustained application of present policies, a gradual turnaround in private sector attitudes can be expected, which should result in a return to the generally strong economic performance of the period 1975-80. Of course, continued attention will have to be paid to keeping the external current account deficit to a level consistent with Uruguay's debt servicing capacity, an objective that should prove feasible if the fiscal adjustment proceeds in accordance with the authorities' present intentions. The extent of the improvement in the domestic economy will depend in good measure on external factors--the timing and strength of the world recovery, international interest rate levels and the behavior of Uruguay's terms of trade. But, assuming moderately favorable developments in these areas, it should be possible for the Uruguayan economy to resume relatively rapid rates of growth in coming years.

7. Performance criteria 1/

The program contains as performance criteria: (1) a quarterly balance of payments test limiting the deficit to US$100 million in the first year of the program (while allowing for seasonal variations), adjustable to up to US$200 million in the event of a shortfall in net official external borrowing in relation to the programed level (paragraph 2 of the Memorandum of Understanding); (2) quarterly cumulative limits on the global borrowing requirements of the nonfinancial public sector and of the Treasury, covering net borrowing from the domestic financial system, net placement of government paper outside this system to the exclusion of Treasury bills issued for purposes of open market operations, and net external borrowing (paragraph 3 of the Memorandum of Understanding); (3) a ceiling on the increase in the total disbursed external debt of the public sector, as well as a sublimit on the growth of official external debt with maturity of less than one year (paragraph 4 of the Memorandum of Understanding); (4) a set of ceilings limiting the expansion of the net domestic assets of the Central Bank to the growth of its currency issue, constrained to absolute amounts consistent with the inflation target, plus the targeted balance of payments deficits, and adjustable by up to NUr$2.6 billion for any shortfall in net external official borrowing in relation to the programed level (paragraph 5 of the Memorandum of Understanding); and (5) the usual provisions regarding the exchange and import system (paragraph 4 of the stand-by arrangement).

1/ Quantitative performance criteria are presented in Table 6. These performance criteria are referred to in paragraph 4 of the stand-by arrangement.

Table 6. Uruguay: Stand-by Arrangement, Quantitative Performance Criteria for the Period Through March 1984

	1983			1984
	Jan.-June	July-Sept.	Oct.-Dec.	Jan.-March
(In billions of new Uruguayan pesos)				
Cumulative global deficit of the nonfinancial public sector	3.3	4.6	5.5	6.2
Cumulative global deficit of the Treasury	2.5	3.2	3.5	3.8
Cumulative net domestic assets of the Central Bank: change in banknote issue since December 31, 1982 plus indicated peso amounts 1/	2.34	3.9	2.6	2.6
With an upper limit of 1/	3.45	4.25	5.34	5.69
(In millions of U.S. dollars)				
Cumulative change in the net international reserves of the Central Bank of Uruguay 2/	-90	-150	-100	-100
Cumulative change since December 31, 1982 in disbursed external debt of the public sector 3/	345	410	460	485
Maximum increment since December 31, 1982 of outstanding stock of public sector debts with maturities of less than 1 year 4/	...	...	...	50

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

1/ In case of a shortfall in actual as compared with projected disbursements of foreign loans by the public sector, this limit will be adjusted by the amount of the shortfall up to a limit of NUr$1,040 million through the end of the first half of 1983; NUr$1,560 million through the end of the third quarter of 1983; NUr$2,080 million through the end of 1983; and NUr$2,600 million through the end of the first quarter of 1984. Should net official foreign borrowing in the first three quarters of 1983 exceed the amount indicated in the public sector external debt targets, the cumulative limits for the net domestic credit of the Central Bank will be adjusted downward by the equivalent of the excess.

2/ In case of a shortfall in actual as compared to projected disbursements of foreign loans by the public sector, this limit will be adjusted upward by the amount of this shortfall, with a limit of US$40 million through the end of the first half of 1983; US$60 million through the end of the third quarter of 1983; US$80 million through the end of 1983; and US$100 million through the end of the first quarter of 1984. Should net official foreign borrowing exceed in the first three quarters of 1983 the amount indicated in the public sector external debt targets, the cumulative limits for the decline in net official international reserves will be adjusted downward by the full amount of the excess.

3/ Only the limits for the end of 1983 and the first quarter of 1984 have been made performance criteria. For other quarters see footnotes 1/ and 2/.

4/ Excludes Central Bank short-term foreign liabilities but includes U.S. dollar-denominated Treasury bills. This limit will be adjusted downward for any substitution of medium-term external debts for existing short-term debts over the course of the program.

The following draft decision is proposed for adoption by the Executive Board:

Stand-By Arrangement

1. The Government of Uruguay has requested a stand-by arrangement for the period April , 1983 to April , 1985 for an amount equivalent to SDR 378 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/43 as revised by EBS/83/43, Correction 2.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Table 7. Uruguay: Main Indicators

	Actual/Prel. Est.		Proj.	
	1981	1982	1983	1984
(Annual percentage changes, unless otherwise specified)				
National income and prices				
GDP at constant prices	-1.1	-8.5	1.0	4.0
GDP deflator	31.8	17.3	38.5	16.5
Consumer prices 1/	34.0	19.0	38.5	16.5
External sector (in millions of U.S. dollars)				
Exports, f.o.b.	14.9	-20.9	20.6	14.7
Imports, c.i.f.	-6.7	-30.3	3.2	10.3
Non-oil imports, c.i.f.	-11.6	-40.0	9.5	10.4
Export volume	15.1	17.5	10.0	8.4
Import volume	-14.2	-28.4	-10.5	4.6
Terms of trade (deterioration -)	-8.3	-1.9	-4.2	--
Nominal effective exchange rate (depreciation -) 1/	-18.3	-28.4	...	...
Real effective exchange rate (depreciation -) 1/	12.6	10.1	...	...
General government 2/				
Revenue and grants	42.5	-3.1	58.4	17.2
Total expenditure	52.0	30.0	20.3	12.0
Money and credit				
Domestic credit 3/	38.5	25.5	27.9	...
Public sector 3/	4.4	18.7	4.0	...
Private sector 3/	38.3	8.8	14.0	...
Money and quasi-money (M2) 4/	27.5	9.8	32.1	...
Velocity (GDP relative to M2)	3.60	3.52	3.73	...
Money and quasi-money (M3) 5/	43.3	0.2	17.5	...
Velocity (GDP relative to M3)	2.00	2.14	1.81	...
Interest rate (annual rate, six-month savings deposit)	49.8	65.0	...	...
(In per cent of GDP)				
Public sector saving 2/	3.7	-5.4	2.2	4.1
Public sector deficit (-) 2/	-2.3	12.3	-3.0	-1.1
Central administration deficit (-) 2/	-0.9	-9.0	-1.9	-0.7
Domestic bank financing	0.1	8.1	1.0	...
Foreign financing 6/	0.8	0.9	0.9	...
Gross domestic investment	15.6	13.2	12.6	13.8
Gross domestic savings	11.4	7.2	7.7	9.9
Current account deficit (BOP) 7/	6.8	8.7	4.7	3.6
External public debt (medium and long term) inclusive of use of Fund credit 7/	19.1	32.6 8/	40.3 8/	37.3
Debt service ratio (in per cent of exports of goods and services)	9.4	32.4	30.9	36.0
Interest payments (in per cent of exports of goods and services)	6.2	15.5	16.0	17.1
(In millions of U.S. dollars)				
Overall balance of payments deficit (-)	12	-800	-100	--
Gross official reserves (months of imports)	4.3	2.6	3.5	5.0
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 only deposits and liabilities to the private sector in local currency.
5/ Includes foreign currency deposits valued at the annual average exchange rate of each year.
6/ Including dollar-denominated bills sold to residents and nonresidents.
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.

4. External sector

a. In the early months of the program, the determination of the exchange rate is essentially to be left to the free play of supply and demand without Central Bank intervention in order to give time for domestic adjustment policies to take hold and for the exchange rate to find its equilibrium level. Subsequently, the exchange rate will be managed flexibly either through a continued float with a measure of Central Bank intervention to prevent excessive fluctuations, or through the adoption of a crawling peg system. In managing the exchange rate, the authorities are to be guided by the need to preserve the competitiveness of the economy and to meet the balance of payments objectives of the program.

b. Implementation of the schedule of import duty reductions introduced in late 1978 has been advanced by one year, and the highest duty rate now stands at 55 per cent, down from 75 per cent prior to the float of the peso. The import reference prices maintained by the Bank of the Republic have been eliminated and reliance on this device is to be discontinued altogether except in instances of foreign dumping. The authorities are to keep import policies under review during the program period with a view to improving resource allocation.

c. The system of export tax rebates has been discontinued and, in accordance with GATT rules, exporters are to be refunded no more than indirect taxes paid in the production process.

d. The net increase in the external indebtedness (excluding short-term foreign liabilities of the monetary authorities) of the public sector during the first year of the program is to be limited to US$460 million (US$485 million through March 31, 1984) and to US$100 million in 1984; borrowing from all sources and all maturities is covered by this limit. Should actual net external official borrowing fall short of this amount, the target of the balance of payments deficit for the first year of the program is to be adjusted upward by up to but not more than US$100 million, and the test on the net domestic assets of the monetary authorities is to be adjusted upward by up to but not more than NUr$2.6 billion. In the event that net official external borrowing during the first three quarters of 1983 should exceed the indicative cumulative limits as of the end of each one of these quarters because of an inability to control fully the timing of disbursements on foreign loans, the first three quarterly targets for the balance of payments deficit and the net domestic assets of the Central Bank will be adjusted downward, for the full amount of this excess.

e. To improve the maturity profile of the external debt, the net increase in the external debt of the public sector with original maturities of one year or less, but excluding the short-term foreign liabilities of the Central Bank, is not to exceed US$50 million through end-March 1985. This limit will be adjusted downward, including to negative values, in the event that the public sector should succeed in substituting medium-term obligations for this short-term foreign liabilities outstanding at the end of December 1982.

ATTACHMENT I

Stand-By Arrangement - Uruguay

Attached hereto is a letter with annexed memorandum dated February 1, 1983 from the Minister of Economy and Finance and the President of the Central Bank of Uruguay requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Uruguay intend to pursue for the period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of two years from April , 1983 Uruguay will have the right to make purchases from the Fund in an amount equivalent to SDR 378 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 47.25 million until August 20, 1983, the equivalent of SDR 94.5 million until November 20, 1983, the equivalent of SDR 151.2 million until February 20, 1984, the equivalent of SDR 189 million until May 20, 1984, the equivalent of SDR 236.25 million until August 20, 1984, the equivalent of SDR 283.5 million until November 30, 1984, and the equivalent of SDR 330.75 million until February 20, 1985.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Uruguay's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this stand-by arrangement shall be made from borrowed resources until purchases under the arrangement reach the equivalent of SDR 15,750,000 and then from ordinary and borrowed resources in the ratio of 1 to 1.2, until purchases under this arrangement reach the equivalent of SDR 223,650,000 and then each purchase shall be made from borrowed resources, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Uruguay will not make purchases under this stand-by arrangement, other than the initial purchase equivalent to SDR 47.25 million that it may request not later than within 15 days of the effective date of this arrangement, that would increase the Fund's holdings of Uruguay's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

Table 1. Uruguay: 1983-84 Program 1/2/

	1979	1980	1981	Est. 1982	Prog. 1983	Prog. 1984
			(Percentage changes)			
Real GDP	6.2	5.8	-1.1	-8.5	1.0	4.0
Money GDP	78.0	69.6	30.4	7.3	39.9	21.2
Deflator	67.7	60.4	31.8	17.3	38.5	16.5
			(In per cent of GDP)			
External sector						
Exports GNFS	17.1	14.8	14.8	12.4	21.5	23.7
Imports GNFS	20.9	20.0	18.5	16.0	21.3	22.4
Factor payments and transfers	-0.7	-0.9	-0.5	-2.4	-5.1	-5.2
Current account deficit (-)	-4.5	-6.1	-4.2	-6.0	-4.9	-3.9
Official capital	1.1	1.7	2.7	7.4	6.5	1.4
NFPS	(1.3)	(1.6)	(1.8)	(2.9)	(1.4)	(1.0)
Official banks	(-0.2)	(0.1)	(0.9)	(4.5)	(5.1)	(0.4)
Nonbank private sector 3/	2.5	2.7	0.8	-7.3	)	)
Private financial system	1.8	2.9	0.9	—	) -3.0	) 2.5
Net reserve change (increase -)	-0.9	-1.2	-0.2	5.9	1.4	—
Nonfinancial public sector						
Saving 4/	5.1	5.6	3.7	-5.3	2.2	4.1
General government 4/	(2.0)	(0.4)	(-1.4)	(-8.1)	(-1.7)	(-0.5)
Public enterprises 4/	(3.1)	(5.3)	(5.1)	(2.8)	(3.9)	(4.6)
Investment	5.3	5.1	6.0	7.0	5.2	5.2
Overall deficit (-)	-0.2	0.5	-2.3	-12.3	-3.0	-1.1
External financing	1.3	1.6	1.8	2.9	1.4	1.1
Internal financing	-1.1	-2.1	0.5	9.4	1.6	—
Saving and investment						
Public investment	5.3	5.1	6.0	7.0	5.2	5.2
Private investment	11.2	12.2	9.6	6.4	7.4	8.6
Investment = saving	16.5	17.3	15.6	13.4	12.6	13.8
External saving	4.5	6.1	4.2	6.0	4.9	4.0
Nonfinancial public sector	(1.3)	(1.6)	(1.8)	(2.9)	(1.4)	(1.1)
Financial system and other	(4.1)	(5.7)	(2.6)	(-2.8)	(2.1)	(2.9)
Net reserve change (increase -)	(-0.9)	(-1.2)	(-0.2)	(5.9)	(1.4)	(—)
Domestic saving	12.0	11.2	11.4	7.4	7.7	9.8
Nonfinancial public sector	(5.1)	(5.6)	(3.7)	(-5.5)	(2.2)	(4.1)
Private sector	(6.9)	(5.6)	(7.7)	(12.9)	(5.5)	(5.7)

Sources: Ministry of Economy and Finance; SEPLACODI; Social Security Directorate; public enterprises; and Central Bank of Uruguay.

1/ Cash basis.
2/ External accounts converted to new Uruguayan pesos at average annual exchange rate.
3/ Includes SDR allocation, gold valuation adjustments and errors and omissions.
4/ Before receipts and transfer payments; also includes capital receipts.

ATTACHMENT III

Montevideo, Uruguay
February 1, 1983

MEMORANDUM OF UNDERSTANDING

1. This memorandum sets forth in greater detail the key targets and policy undertakings of the accompanying letter on the economic program of the Government of Uruguay for 1983 and 1984.

2. The overall balance of payments target is a deficit of no more than US$100 million in 1983 and equilibrium in the first quarter of 1984. However, because of the uneven distribution over the course of the year of the foreign exchange expenditure which the Central Bank has to make on its own account or on behalf of the rest of the public sector or of the private sector as a result of contractual obligations acquired prior to the float of the peso, the intermediate targets are a deficit of no more than US$90 million in the period from December 31, 1982 until June 30, 1983; and a deficit of no more than US$150 million until September 30, 1983. However, should Uruguay's public sector be unable to raise net external financing of US$460 million in 1983 and US$485 million in the fifteen months through March 1984 as envisaged in the program and explained further in paragraph 4 below, these quarterly cumulative limits will be adjusted downward for this shortfall, with a limit of US$40 million in the period from December 31, 1982, until June 30, 1983; of US$60 million until September 30, 1983; of US$80 million until December 31, 1983; and of US$100 million until March 31, 1984. Conversely, should net official foreign borrowing exceed in the first three quarters of the year the amounts indicated in paragraph 4 below, these quarterly cumulative limits will be adjusted upward for the full amount of the excess. For the purpose of this target, the balance of payments performance will be measured by changes in the net international reserves of the Central Bank of Uruguay. The Central Bank's net international reserves will be defined as the difference between the value of (a) its gold and SDR holdings, Fund reserve position and all other claims on nonresidents and (b) all its liabilities to nonresidents at less than one year, regardless of their currency denomination, plus its obligations to the International Monetary Fund. Also for purposes of this target, gold will be valued throughout the program period in U.S. dollars at the rate of US$42 per troy ounce; its SDR holdings and Fund position, be the latter positive or negative, will be valued in SDRs converted into U.S. dollars at the SDR value of the U.S. dollar on December 31, 1982; and all other claims on, and liabilities to nonresidents will be valued at the respective market rates on December 31, 1982. In the event that gold sales should continue, however, the change in the Central Bank's net international reserves will be measured excluding the exchange gain resulting from such sales.

3. The cumulative global deficit of the nonfinancial public sector will not exceed NUr$3.3 billion from January 1, 1983 until June 30, 1983; NUr$4.6 billion until September 30, 1983; NUr$5.5 billion until December 31, 1983; and NUr$6.2 billion until March 31, 1984. The deficit of the nonfinancial public sector will be defined as the sum

of the net increase above their respective stocks in December 31, 1982, in (a) the external debt of the nonfinancial public sector denominated in U.S. dollars, including foreign currency denominated Treasury bills and bonds, and converted into new Uruguayan pesos at the exchange rate of NUr$26 per U.S. dollar; (b) the debt of the nonfinancial public sector to the domestic financial system, excluding any valuation adjustments for alterations in the external value of the new Uruguayan peso in the pertinent foreign currency denominated accounts; and (c) the net placement of peso denominated Treasury bills and bonds with the nonbank private sector to the exclusion of those issued for purposes of open market operations. In addition, the cumulative global deficit of the Treasury will not exceed NUr$2.5 billion from January 1, 1983 until June 30, 1983; NUr$3.2 billion until September 30, 1983; NUr$3.5 billion until December 31, 1983; and NUr$3.8 billion until March 31, 1984. The deficit of the Treasury will be defined as the sum of the net increases above their respective stocks on December 31, 1982, in (a) the external debt of the Treasury denominated in U.S. dollars, including foreign currency denominated bills and bonds, and converted into new Uruguayan pesos at the exchange rate of NUr$26 per U.S. dollar; (b) the debt of the Treasury to the domestic financial system excluding any valuation adjustments for alterations in the external value of the Uruguayan peso in their pertinent foreign currency denominated accounts; and (c) the net placement of peso denominated Treasury bills and bonds with the nonbank private sector to the exclusion of those issued for purposes of open market operations.

4. The external borrowing of the public sector in 1983, including that of official banks but excluding the borrowing of the Central Bank of Uruguay at less than one year, will not exceed an amount that would raise the disbursed external debt outstanding on December 31, 1982 (an estimated at US$2,111 million)--including that with maturities with less than one year to the exception of that of the Central Bank of Uruguay--by more than US$345 million from January 1, 1983 until June 30, 1983; by more than US$410 million until September 30, 1983; by more than US$460 million until December 31, 1983; and by more than US$485 million until March 31, 1984. These amounts will exclude any valuation adjustments due to alterations in the external values of foreign currencies. For purposes of the program any new medium-term external borrowing by the Central Bank undertaken to substitute for existing short-term foreign obligations will continue to be treated as a reserve liability. However, given that the schedule of disbursements on loans from the international financial market does not depend on Uruguay only, any net cumulative disbursement of foreign loans at the end of each one of the first three quarters of 1983 in excess of the indicated amounts will give rise to an equivalent upward adjustment in the targets for the cumulative changes in the net international reserves of the Central Bank of Uruguay as of the same testing dates described in paragraph 2 above, and to an equivalent downward adjustment in the cumulative limits on the increase in the net domestic assets of the Central Bank of

Uruguay as of the same testing dates described in paragraph 5 below. Moreover, the outstanding stock of public sector debts with maturities of less than one year, excluding those of the Central Bank of Uruguay, but including U.S. dollar denominated Treasury bills held by nonresidents, will not increase by more than US$50 million in the period December 31, 1982-March 31, 1984. This limit will be adjusted downward--including to negative values--for any substitution of medium-term external debts for existing short-term debts over the course of the program period.

5. The net domestic assets of the Central Bank of Uruguay will not, during the first half of 1983, increase by more (decrease by less) than the increase (decrease) in its banknote issue above (below) its base stock on December 31, 1982 plus NUr$2,340 million, but in no event by more than NUr$3,450 million; during the third quarter of 1983 increase by more (decrease by less) than the increase (decrease) in its banknote issue above (below) its base stock, plus NUr$3,900 million, but in no event by more than NUr$4,250 million; during the fourth quarter of 1983 increase by more (decrease by less) than the increase (decrease) in its banknote issue above (below) its base stock, plus NUr$2,600 million, but in no event by more than NUr$5,340 million; during the first quarter of 1984 increase by more (decrease by less) than the increase (decrease) in its banknote issue above (below) its base stock plus NUr$2,600 million, but in no event by more than NUr$5,690 million. In case of a shortfall in actual as compared to projected disbursements of foreign loans by the public sector, these quarterly limits will be adjusted upward for this shortfall with a limit of NUr$1,040 million through the end of the second quarter of 1983; NUr$1,560 million through the end of the third quarter of 1983; NUr$2,080 million through the end of 1983; and NUr$2,600 million through the end of the first quarter of 1984. Conversely, should net official foreign borrowing exceed in the first three quarters of 1983 the amounts indicated in paragraph 4 above, these quarterly accumualtive limits will be adjusted downward for the equivalent of the excess. For the purposes of this ceiling the net domestic assets of the Central Bank of Uruguay will be defined as the difference between (a) its banknote issue and (b) its net international reserve holdings as defined in paragraph 2 above, with the U.S. dollar value converted at all times into pesos at the accounting rate of NUr$26 per U.S. dollar.

/s/	/s/
Walter Lusiardo-Aznarez	Jose Maria Puppo
Minister of Economy and Finance	President, Central Bank of Uruguay