

May 26, 1970 - 70/62

Statement on Uruguay by Representative
from the Western Hemisphere Department
at Executive Board Meeting 70/46

May 27, 1970

Since the staff papers on Uruguay were issued nearly two weeks ago, information has become available on financial developments in April 1970. The fiscal accounts were in substantial surplus last month, reflecting a favorable outturn on revenues. Over the first four months of this year, the current revenues of the Central Government were somewhat higher (by around 4 per cent) than had been projected. Current expenditures had run below the planned level in the first quarter of this year, but the pace of such spending quickened in April, and over the first four months of this year they came close to the amount projected. Investment spending by the Central Government declined in April, from the relatively high rate that had prevailed in the first quarter of the year. Insofar as it is possible to project fiscal performance on the basis of results in the first third of the year, it appears that the fiscal program is developing in a way consistent with the estimates for the full year.

It was noted in EBS/70/140 that the net domestic credit of the monetary authorities had declined by a substantial amount, nearly 13 per cent, in the first quarter of 1970, reflecting primarily seasonal influences. There was a further, although much smaller, decline in such credit in April. The net foreign reserves of the monetary authorities registered another gain last month, bringing the improvement since the beginning of the year to about \$36 million, including the effect of an SDR allocation equivalent to \$9.24 million.

Recently, the authorities adopted a number of measures affecting the operations of the commercial banks; most of these changes were foreshadowed in the staff paper on the Article XIV consultation discussions (SM/70/92). Marginal reserve requirements of 20 per cent have been imposed on increases in commercial bank deposit liabilities above the levels of December 1969, and at the same time provision was made for expanded rediscount facilities to the commercial banks; the new rediscount facilities are linked to the banks' capital positions as of June 30, 1969. The aim of these measures is to improve the authorities control over commercial bank credit. Further, the ceilings on the commercial banks' lending operations have been redesigned to make them more comprehensive; under the new regulations, the ceilings apply to a broad concept of credit, which is defined as the difference between deposits subject to reserve requirements and required cash reserves. New ceilings have been established through the end of June 1970, in accordance with the new concept of credit to which ceilings are being applied. Regarding interest rates, it has been stipulated that by

December 1970 commercial banks will be required to limit interest rates on at least 30 per cent of their loan portfolio to no more than 24 per cent a year.

Uruguay's exports in the period January-April 1970 were nearly 20 per cent higher than in the corresponding months of last year. Increases in exports of meat, meat products, and hides were important in this expansion, but there was also some rise in exports of wool and wool products. Imports in the first four months of this year were more than 50 per cent higher than in the corresponding period of 1969, but the latter was a period in which imports were abnormally low. However, maintenance of the pace of imports in the first four months of 1970 throughout the year would result in a level higher than has been projected.

The cost of living rose at a rather rapid rate (by about 7 per cent) in the first four months of this year, although the increase was slightly less than the one recorded in the corresponding period of 1969. It had been expected that prices would go up considerably in the early part of this year, inasmuch as substantial adjustments were made in the prices charged by state enterprises (generally, these price changes were larger than those effected in 1969), and the prices of petroleum products were raised steeply because of higher taxes.