

EB/CQuota/Uruguay/68/1

January 9, 1968

To: Members of the Committee on Increase in Quota - Uruguay
From: The Committee Secretary
Subject: Uruguay - Request for Increase in Quota

The attached report and recommendation by the staff with regard to Uruguay's request for an increase in quota is circulated for consideration by the Committee at an early meeting.

Att: (1)

Other Distribution:
Members of the Executive Board
Department Heads
Division Chiefs
IBRD (2)

INTERNATIONAL MONETARY FUND

Uruguay - Request for Increase in Quota

Prepared by the Western Hemisphere Department and
the Treasurer's Department

(In consultation with the Legal Department)

Approved by Jorge Del Canto and Oscar L. Altman

January 8, 1968

In a communication dated December 27, 1967 (EBD/67/196, December 29, 1967), Uruguay has requested that its quota be increased to \$55 million and has stated its intention to request a related increase in its subscription to the capital of the International Bank for Reconstruction and Development.

Uruguay is an original member of the Fund with an initial quota of \$15 million, of which 25 per cent was paid in gold. Uruguay has availed itself of the transitional arrangements under Article XIV of the Fund Agreement. The initial par value for the Uruguayan peso of Ur\$7.40 per U.S. dollar was agreed with the Fund on October 7, 1960. In accordance with Board of Governors Resolution No. 14-1, on "General Increases in Quotas," adopted February 2, 1959, Uruguay's quota was increased to \$30 million, effective June 5, 1961. On December 28, 1967 Uruguay consented to a further increase in its quota to \$38 million, in accordance with the Board of Governors Resolution No. 20-6, on "Increases in Quotas of Members--Fourth Quinquennial Review" adopted March 31, 1965; payments on the increase in quota to \$38 million are due by January 27, 1968.

Uruguay's request for a quota increase from \$38 million to \$55 million is made on the basis of paragraph 3 of the Decision on "Compensatory Financing of Export Fluctuations" (Executive Board Decision No. 1477-(63/8), February 27, 1963). This request has been considered in the light of (1) the statistical data compiled in connection with the possibility of increasing smaller quotas (SM/63/3, January 17, 1963; SM/63/36, April 8, 1963; EB/CQuota/64/3, November 9, 1964; and EB/CQuota/65/6, February 9, 1965); (2) the structure of Fund quotas in the range relevant to Uruguay; and (3) recent economic developments in Uruguay and the characteristics of the Uruguayan economy.

I. Quota Calculations and Gold Subscription Facility

A paper on "Potential Quota Adjustments Under the Compensatory Financing Decision" (EB/CQuota/65/6, February 9, 1965), was circulated to the Executive Directors (Committee of the Whole on Review of Quotas). In that paper, the potential quota adjustment under the Compensatory Financing Decision and the potential adjusted quota, based upon calculations shown in the memorandum "Data Bearing on Member Quotas" (EB/CQuota/64/3, November 9, 1964), were set out for those members with quotas under \$60 million which, at that time, had not had increases in quotas under that Decision. The following data were shown for Uruguay (in millions of U.S. dollars):

Present quota	\$30
Potential quota adjustment under Compensatory Financing Decision	\$14
Potential adjusted quota	\$44
Potential adjusted quota plus 25 per cent	\$55

It will be recalled that the Report of the Executive Directors accompanying the Resolutions submitted to the Board of Governors on "Increases in Quotas of Members--Fourth Quinquennial Review" states:

3. The increases in quotas under the attached Resolutions are without prejudice to the adjustment of quotas that members can request under the Fund's Decision on "Compensatory Financing of Export Fluctuations" (Executive Board Decision No. 1477-(63/8), February 27, 1963). In this connection, Executive Board Decision No. 1529-(63/33), June 14, 1963, will continue to be applicable.

In view of this, the sequence in which a member takes up increases in quotas under the Decision on "Compensatory Financing of Export Fluctuations" and the First Resolution of the Board of Governors on "Increases in Quotas of Members--Fourth Quinquennial Review" should not affect its position either as to the amount of its quota or the facilities available to alleviate any undue payments difficulties that it might encounter through a reduction of its reserves by the payment of the 25 per cent gold subscriptions.

II. Uruguay's Quota in Comparison with Other Members

Table 1 shows data on the national income, reserves, foreign trade, the current account, variability of exports and current receipts, and population for Uruguay and a number of selected member countries with quotas within the range of \$35 million to \$75 million. It will be seen in the table that a quota of \$55 million for Uruguay would fit reasonably well in this range of Fund quotas. The data tabulated indicate that the economic dimensions of Uruguay were on the whole larger than those of countries having quotas of \$50 million or less, comparable to those of Sudan with a quota of \$57 million, and smaller than those of members with quotas within the range of \$63-75 million.

III. Economic and Financial Trends

Over a long period of years Uruguay has been experiencing both a high rate of inflation and very slow economic growth. Following a slowing down in the rate of increase of prices in the period 1961-62, to about 10 per cent a year, there was a reversion to very high rates of inflation, ranging from 35 per cent to well over 100 per cent a year. Output has grown very little over the last decade and on a per capita basis it has actually declined. The sharp increases in bank credit that have propelled the inflation and contributed to recurring balance of payments difficulties have originated both in large fiscal deficits and sizable expansions in credit to the private sector. From 1953 to 1965 the country's net foreign reserves trended downward, and while there was an improvement in 1966 and 1967, working balances in foreign exchange are still very low--equivalent to only about six weeks of imports--and the short-term foreign debt of the monetary authorities remains high. Exports have fluctuated considerably, reflecting changes in both volume and prices. There was a pronounced downward trend in exports in the period 1957-60, followed by a recovery that has stopped short, however, of restoring them to the average level recorded in the postwar period prior to 1957. It should be noted that the period 1958-62, which has been used in the quota calculations, was a particularly unfavorable one for Uruguay's exports. During that period, annual exports averaged one third less than in the preceding five years and approximately 20 per cent less than in the four years following it.

Recently, the authorities embarked on a new attempt to achieve financial stability and to lay the basis for an adequate and sustained rate of economic growth. The first step in the process was an adjustment in the official exchange rate from Ur\$99 per U.S. dollar to Ur\$200 per U.S. dollar--re-establishing a unified exchange market--and this is

being complemented by measures in the fiscal, credit, and trade fields. Moreover, a substantial volume of long-term development assistance is being negotiated to support an expansion in both private and public investment. The program the authorities have formulated will be described and analyzed in the forthcoming report on the Article XIV consultation discussions with Uruguay.

IV. Use of Fund Resources by Uruguay

The Fund has approved three stand-by arrangements for Uruguay. The first was for \$30 million and became effective in June 1961, the second stand-by arrangement, also for \$30 million, became effective in October 1962, and the third for \$15 million in June 1966. Uruguay's total drawings, all of which have been made under stand-by arrangements, have amounted to \$20 million; \$15 million was purchased in October 1962, and \$5 million in October 1966. Total repurchases have amounted to \$15 million. Uruguay has outstanding the October 1966 drawing of \$5 million, which is due to be repurchased by October 5, 1969. The Fund's holdings of Uruguayan pesos are at 92 per cent of the present quota of \$30 million.

V. Recommended Action

It is recommended that the request of Uruguay for a quota increase to \$55 million be approved in accordance with paragraph 3 of the Decision on "Compensatory Financing of Export Fluctuations," Executive Board Decision No. 1477-(63/8), adopted February 27, 1963, and for the purpose of Executive Board Decision No. 1529-(63/33), adopted June 14, 1963.

Table 1. National Income, Reserves, Foreign Trade, Balance of Payments, and Population
Data for Selected Member Countries with Quotas of \$35-75 million

(Values in millions of U.S. dollars; population in millions)

	Fund Quota	National Income 1962	Reserves End 1962	Average 1958-62			Variability of Exports 1950-62 ^{1/}	Current Payments	Current Receipts	Current Payments and Receipts	Variability of Current Receipts 1950-62 ^{1/}	Population (Latest Available Figure)
				Imports	Exports	Foreign Trade						
Portugal	75	2,369	792	549	321	870	15	648	617	1,265	16	9.2
Ghana	69	1,484	209 ^{3/}	329 ^{4/}	285	614	23	414	351 ^{5/}	765	29	7.9
Algeria	66 ^{6/}	2,370 ^{2/}	303 ^{3/}	1,142 ^{4/}	577	1,719	54	1,465 ^{5/}	790 ^{5/}	2,255	69	11.1
Nigeria	63 ^{6/}	2,638	320	552	454	1,006	25	670	506	1,176	32	57.5
Sudan	57	1,146 ^{7/}	144	202	181	383	26	232	207	439	28	13.9
Uruguay	55 ^{8/}	1,495	211	199	139	338	28	235	184	419	28	2.8
Korea	50 ^{9/}	1,859	168	353	33	386	5	384	151	535	17	29.1
Viet-Nam	39	1,300 ^{10/}	153	243	69	312	14	279	108	387	18	16.1
Syrian Arab Republic	38	834	43	212	127	339	11	219	196	415	11	5.5
Tunisia	35	638	62	185	128	313	12	244	214	458	15	4.6

Sources: EB/CQuota/64/3, November 9, 1964 "Data Bearing on Member Quotas"; EB/CQuota/65/6, February 9, 1965 "Potential Quota Adjustment Under the Compensatory Financing Decision"; International Financial Statistics.

^{1/} Variability defined as one standard deviation of exports or currency receipts, as the case may be, from their five-year moving average.

^{2/} National income for 1959.

^{3/} End of 1961.

^{4/} Average for years 1958-61.

^{5/} Estimate.

^{6/} Member has requested quota increase to \$100 million under Compensatory Financing Decision.

^{7/} Year ended June 30, 1963.

^{8/} Requested.

^{9/} Approved by Board of Governors; member has not yet consented to increase.

^{10/} National income estimate of VN\$78 billion, converted at the VN\$60 per U.S. dollar rate.