PD-ABD-106

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CLASSIFICATION:

AID 1120-1 (5-65) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT **PROGRAM ASSISTANCE APPROVAL DOCUMENT**	1. PAAD NO. 528-K-601 528-0107 2. COUNTRY Uruguay 3. CATEGORY Cash Transfer 4. DATE
5. TO: AA/LAC, Dwight Ink		6. OYB CHANGE NO. 8. OYB INCREASE None TO BE TAKEN FROM:
7. FROM: LAC/DR, Terrence J. Brown		
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 14,000,000		10. APPROPRIATION – ALLOTMENT LESA-86-35528-KG31 (637-65-528-00-50-61)

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☒ INFORMAL ☐ FORMAL ☐ NONE	FY 1986	Date of Authorization

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: 14,000,000	Other:

18. SUMMARY DESCRIPTION

The purpose of this program assistance is to provide immediate balance of payments support to the Government of Uruguay (GOU) in order to assist in the implementation of its economic recovery program.

The $14,000,000 (grant) assistance will be disbursed as a cash transfer into a U.S. bank account of the GOU. Upon disbursement of the assistance, the GOU will make available an equivalent amount of new pesos, calculated at the highest rate of exchange for any transaction which is not unlawful. These funds will be used for mutually agreed upon development purposes consistent with the general criteria of the Foreign Assistance Act, especially Sections 103-106.

The GOU will agree to assure the availability of an equivalent amount of dollars to the private sector for imports of raw materials, intermediate goods, and capital goods from the U.S. within twelve months following disbursement.

19. CLEARANCES		DATE
LAC/SA, FAlmaguer	FA	5/16/86
LAC/DP, WWheeler	WW	5/20/86
GC/LAC, PJohnson	PJ	5/21/86
FM, CChristensen	CC	6/6/86
AAA/SCP, CLHeilman	CH	5/21/86
DAA/LAC, MButler		

20. ACTION

☐ APPROVED ☐ DISAPPROVED

Malcolm Butler — AUTHORIZED SIGNATURE

DATE: JUN 6 19

Assistant Administrator (LAC)

TITLE

CLASSIFICATION:

URUGUAY

PROGRAM ASSISTANCE APPROVAL DOCUMENT

ANNEXES

URUGUAY
ECONOMIC RECOVERY PROGRAM
(Program No. 528-0107)

I. Summary and Recommendations

A. Recommendation. Authorization of a $14.355 million Economic Support Fund Grant Program to the Government of Uruguay (GOU) is recommended. The purpose of this Program is to assist the GOU to carry out its economic recovery program.

B. Program Summary. In 1985, after 12 years of military government, a freely elected civilian government took office in Uruguay in the midst of a severe economic recession which had reduced per capita income levels by 17.7 percent from 1981. During its first year the new government has not only made significant progress in restoring democratic institutions in Uruguay but has also undertaken a series of measures designed to stabilize and reactivate the economy. The GOU signed a Stand-by agreement with the IMF in September, 1985 and its 1985-89 commercial debt obligations are to be rescheduled. The GOU's economic program proposes an increased role for the private sector in order to achieve an economic growth rate of two percent in 1986.

In order to assist Uruguay's economic recovery effort, $14,355,000 of Economic Support Funds will be provided in FY 1986. The major portion of the dollars, $14,000,000, will be provided on a cash transfer basis to the GOU. As part of the Cash Transfer Agreement, the GOU will be expected to: (1) demonstrate that the value of eligible imports from the United States is at least equal to the amount of the cash transfer; (2) make available an equivalent amount of local currency (new pesos) to support development activities that meet the general criteria contained in Sections 103 through 106 of the Foreign Assistance Act of 1961, as amended. In programming the local currency, emphasis will be placed on private, production-oriented activities. The remaining $355,000 will be obligated in a separate limited scope grant agreement to finance studies, technical assistance, and training to support the GOU's economic recovery program and the strenghthening of democracy in Uruguay. Additional ESF, if available in FY 1987, will be programmed through an amendment to this PAAD.II. Political and Economic Setting.

II. Political and Economic Setting.

A. Background. In March 1985 after twelve years of military rule, the government of President Julio Sanguinetti was inaugurated. The President is a member of the Colorado party. None of the four political parties represented in the parliament --the Colorados, the Blancos, the Broad Front (a coalition of leftist parties), or the small Civic Union - holds a majority.

Although Uruguay is noted for its history of Constitutional and civilian government, the political situation in the early 1970s which led to the military government was chaotic. A stagnant economy generated discontent with the traditional political system. The Tupamaro guerilla movement undertook many acts of violence. While military rule effectively ended political violence, it also suppressed civilian political activity and further weakened the traditional political parties. As a consequence, when it was decided to return to civilian rule, the political institutional framework had to be gradually and carefully reestablished -- a process which continues today.

Because the Colorado party has a minority in the Congress and is operating within an uncertain political environment, it has sought and recently obtained consensus among all major parties on a political National Accord which outlines a number of proposed economic and social measures in general terms. The GOU's perceived need for this type of accord reflects the Government's dependence on oppostion support to get its programs through Congress, as well as a traditional Uruguayan belief that consensus is desirable on important issues. Many of these proposed measures are designed to help revive the economy and stimulate exports. However, GOU implemenation of a number of recent economic measures, e.g. a nominal increase in petroleum prices, has generated heated debate in the Uruguayan Congress. As a consequence, while the new GOU has undertaken an ambitious economic recovery program which includes a number of economic liberalization measures, it is not in a strong position vis a vis the legislative branch to implement measures which do not have agreement in principle among the two major political parties.

In addition, firm action on economic liberalization is constrained by the threat of strikes by labor union movement which is dominated by the most radical groups in Uruguay, including the Communists, anarchists, trotskyites, Tupamaros, and a marxist-leninist socialist party. These labor unions called literally hundreds of strikes during the first several months of the new democratic government. Labor leaders continue to reject the ideas that wages should be tied to productivitiy, that inefficient state enterprises must be trimmed, and economic recovery depends on expansion of exports.

B. Recent Economic Performance. After several years of economic growth, the Uruguayan economy deteriorated sharply in 1982. A number of factors, including weakening world demand for Uruguay's exports, rising debt service obligations, a deteriorating public sector fiscal position and, finally, anticipation of a major devaluation as the exchange rate became increasingly overvalued, led to an enormous deterioration of the balance of payments in that year. Even with very large external borrowing, as shown on Table 1, which increased total public sector debt (including short-term debt and debt of the financial public sector) by $1.073 billion, net international reserves declined by $800 million. Despite the very high level of public sector borrowing and reserve loss, imports contracted by $609 million, 35.9 percent, resulting in a 9.7 percent decline in real GDP.

In response to this decline, the government introduced a series of economic adjustment measures. The most important of these was the abandonment of the program of preannounced exchange rate adjustments (the so-called "tablita"), followed by a major adjustment of the exchange rate. From an index of 129.5 (1980=100), in the third quarter of 1982, the real effective exchange rate declined to 74.4 in the first quarter of 1983. In addition, the GOU attempted to reduce the very large fiscal pressures which were the source of much of its inflation/balance of payments difficulty.

The evolution of the GOU's fiscal position is summarized on Table 2. The deficit of the non-financial public sector rose considerably in 1982, to 10.1 percent of GDP. This resulted from a general decline in tax performance, increases in real public sector salaries resulting from the practice of indexing public sector salaries to past inflation, declines in profits of state enterprises as economic activity declined, and, most importantly, a very large increase in the expenditures of the social security system. The increase in social security outlays, by 4.2 percent of GDP, resulted from the increases in the coverage of the system, an increased requirement for unemployment insurance payments as economic activity declined, and the automatic indexation of benefits to past inflation.

In addition to the very large increase in the fiscal deficit in 1982, the GOU began in that year to shift the burden of a number of subsidies from itself to the Central Bank. This shifting resulted in quasi-fiscal losses of the central bank equal to 8.3 percent of GDP in that year. Thus, the total fiscal deficit, including the quasi-fiscal losses of the central bank, equaled 18.4 percent of GDP.

TABLE 1
BALANCE OF PAYMENTS SUMMARY 1982-1985
(Million Dollars)

	1982	1983	1984	1985p
CURRENT ACCOUNT	-426.1	-189.1	-124.4	-134.6
Trade Balance	-63.9	256.8	166.3	129.8
Exports f.o.b.	1022.9	1045.1	924.6	845.0
Imports c.i.f.	-1086.8	-788.3	-758.3	-715.2
Non-Factor Services (net)	-185.0	-169.1	60.9	80.8
Travel (net)	(-198.0)	(-169.4)	(55.7)	N.A.
Other Non-Factor Ser.	(13.0)	(0.3)	(5.2)	N.A.
Factor Services (net)	-187.6	-287.8	-361.6	-356.0
Transfers (net)	10.4	11.0	10.0	10.8
CAPITAL ACCOUNT	-373.4	168.9	69.4	98.5
Public Sector Total	1072.6	437.5	86.1	192.4
Non-Financial	204.4	120.3	24.2	N.A.
Central Gov't	24.4	-0.8	37.2	N.A.
State Enterprises	141.7	151.5	-1.3	N.A.
Other	38.3	-30.4	-11.7	N.A.
Financial Pub. Sect	268.1	684.3	34.4	N.A.
Central Bank	269.6	509.3	35.8	N.A.
Other	-1.5	175.0	-1.4	N.A.
Pub. Sect.Short-Term	600.1	-367.1	27.5	107.8
Private Sector Total	-1446.0	-268.6	-16.7	-93.9
Commercial Banks	13.7	-128.9	133.5	-219.2
Other, Incl. Errors & Omissions	-1459.7	-139.7	-150.2	125.3
Overall Surplus/Deficit	-799.5	-20.2	-55.0	-36.1

p-preliminary

Source: IMF, Recent Economic Developments, March 20, 1985 Table 63 and unpublished BCU data.

TABLE 2

FISCAL POSITION OF THE NON-FINANCIAL PUBLIC SECTOR
AND QUASI-FISCAL LOSSES OF THE CENTRAL BANK
(Percent of GDP)

	1982	1983	1984	1985p
Current Revenue of General Gov't	21.1	20.9	18.1	20.5
Current Expenditures of General Gov't	26.6	22.5	21.5	21.5
Public Enterprise Current Surplus	0.9	0.7	2.3	1.8
Current Account Surplus of Non-Financial Public Sector	-4.7	-0.9	-1.1	0.8
Capital Account of the NFPS	-5.4	-4.0	-3.5	-4.6
Overall Surplus/Deficit of the NFPS	-10.1	-4.9	-4.6	-3.8
Central Bank Deficit	-8.3	-11.4	-4.9	-4.4
Combined Deficit of the Non-Financial Public Sector and Central Bank	-18.3	-16.3	-9.5	-8.2
Financing	18.3	16.3	9.5	8.2
External*	N.A.	6.0	2.3	4.9
Domestic	N.A.	10.3	7.2	3.3

p-preliminary

* Includes dollar-denominated bonds and bills held by domestic residents.

Source: IMF, Request for Standby Arrangement, August 30, 1985,

TABLE 3

SUMMARY STATISTICS ON ECONOMIC PERFORMANCE

	1981	1982	1983	1984	1985
Growth in Real GDP (%)	1.9%	-9.7%	-5.0%	-1.8%	0.7%
Consumer Price Index (percent change, year end basis)	29.4%	26.5%	51.5%	66.1%	83.0%
Unemployment (year end basis)	7.5%	12.7%	14.9%	13.3%	10.8%
Index of Real Wages (percent change, year end basis)	0.7%	-11.2%	-10.8%	0.0%	13.5%
Change in Banking System Credit to Private Sector	39.4%	109.7%	13.1%	50.9%	71.9%
Change in Total Monetary Liabilities of the Banking System to Private Sector	45.5%	73.8%	13.7%	53.8%	99.8%

The deficit of the non-financial public sector decreased sharply in 1983, primarily as a result of the abandonment by the GOU in November 1982 of the policy of full indexation of wages and benefits. This policy change, combined with accelerating measuredinflation resulting from the large exchange rate adjustment, reduced the central government wage bill from 7.4 to 5.9 percent of GDP and the expenditures of the social security system, from 13.7 to 11.1 percent of GDP. As a result, the deficit of the non-financial public sector was reduced to 4.9 percent of GDP.

Unfortunately, the fiscal improvement in the non-financial public sector was partially offset in 1983 by a substantial increase in the quasi-fiscal deficit of the Central Bank. These losses increased despite a modest reduction in the subsidy to the Mortgage Bank (from 7.5 to 6.8 percent of GDP). They resulted from losses on export prefinancing loans (contracted from a temporary program enacted for a few months in 1982 and costing an amount equal to 1.3 percent of GDP in 1983) and from the mounting costs of external interest obligations on the Central Bank's own external borrowing (from 0.8 to 3.1 percent of GDP). As a result, the losses of the Central Bank increased from 8.3 percent of GDP in 1982 to 11.4 percent in 1983 and the combined fiscal deficit of the non-financial public sector and losses of the Central Bank only declined from 18.4 percent of GDP to 16.3 percent.

Despite the GOU's failure to rectify its fiscal problems, the external accounts generally stabilized in 1983 as a result of the exchange rate adjustment, continuing large external borrowings, and significant further compression of imports. This stabilization, however, required substantial net new public sector borrowing equal to $437.5 million. This was far less than the $1,072.6 million borrowed in 1982 but still clearly unsustainable. Merchandise exports remained essentially unchanged, while factor service payments rose substantially as a result of the increase in external debt accumulated in 1982 and 1983. Ultimately, the external accounts were balanced by a reduction in merchandise imports from $1,086.8 million to $788.3 million. Largely as a result of this import compression and the decline in real private sector credit by 11.3 percent resulting from the continuing large fiscal and quasi-fiscal deficits, real GDP declined by a further 4.3 percent in 1983.

As a result of the cumulative two year decline in real GDP of 12.9 percent, private commercial banks experienced increasing financial problems, leading to widespread fear of a collapse of the banking system. To deal with this threat, the Central Bank in late 1983 engaged in a highly controversial operation in which it purchased loans of dubious quality from private (and largely foreign-owned) financial institutions in return for the purchase by the commercial banks of central bank bonds equal to three times the value of the loans purchased. In the short run, this three-for-one purchase served both to bolster the financial system and provide the GOU with a convenient source of non-inflationary (and primarily external rather than domestic) financing for its fiscal deficit in 1984. In the longer term, however, the financial losses of the Central Bank on the porfolio purchased have proved to be a major and continuing fiscal burden.

During the course of 1984, the GOU made considerable progress in improving its fiscal position, particularly in limiting the quasi-fiscal losses of the Central Bank. As a result of shifting (and substantially reducing) the subsidy to the Mortgage Bank back to the Central Government budget, the losses of the Central Bank were reduced from 11.4 percent of GDP to 5.1 percent. The primary source of the remaining quasi-fiscal deficit of the Bank was the continuing loss on the previous year's portfolio purchase scheme.

Despite the assumption by the Central Government of the mortgage subsidy, the deficit of the non-financial public sector was further reduced in 1984 to 4.3 percent of GDP. This reduction was largely accomplished through long overdue increases in public enterprise tariffs and a significant further reduction in the public sector wage bill, and was achieved despite a further deterioration in Central Government tax performance. Tax revenues declined from 14.4 percent of GDP in 1983 to 13.8 percent in 1984.

Overall, the level of the combined public sector deficit and quasi-fiscal deficit of the Central Bank equaled 9.4 percent, down substantially from the 16.3 percent of GDP of 1983 but still far too high to permit substantial recovery of the Uruguayan economy and simultaneously achieve price level stability.

The external balance in 1984 remained essentially unchanged despite a very large cyclical decline in meat exports. Lower meat volumes largely accounted for a decline in merchandise exports to $925 million from $1,045 million in the previous year. Offsetting this decline was a major improvement in the travel account both because of a large increase in foreign tourism receipts (to $175.3 million from $89.7 million the previous year) and because of a decline in Uruguyan tourism abroad (to $119.6 million from $259.1 million in 1983). These improvements also helped to offset a very large increase in factor service payments abroad resulting from the sizeable new external debt contracted in the previous two years. Overall, the current account deficit improved slightly in 1984 to $124 million from the $189.1 million of the previous year.

As a result of the improvement in the capital account and a major turnaround in private sector capital movements, the public sector's net borrowing declined to $86 million. Much of the reduction in net private sector capital outflows, which were reduced to $12 million from $269 million in the previous year, reflected capital imports by foreign-owned banks needed to participate in the Central Bank's portfolio purchase scheme. Since these inflows represented indirect external obligations by the Central Bank, much of the apparent reduction in public sector external borrowing was illusory.
As a result of the continuing large public sector borrowing requirement and the financial stringency needed to maintain stability in the external accounts, real GDP continued to decline in 1984, although by only 1.8 percent. However, inflation accelerated to 62.1 percent on a year end basis from 51.5 percent in 1983.

During the course of 1985, the GOU was able to bring about a minimal economic recovery at the cost of a widening of its balance of payments deficit and a marked acceleration of inflation. Based on very preliminary data, the combined deficit of the non-financial public sector and quasi-fiscal losses of the Central Bank are estimated to have declined to 8.2 percent of GDP, with the Central Government accounting for the bulk of the decline. (More recent but still fragmentary estimates suggest that the deficit may, in fact, have been as low as 6.6 percent of GDP.) Despite continuing large losses on the portfolio purchase scheme, the Central Bank's losses are estimated to have declined by 0.5 percent of GDP while the financial position of the state enterprises deteriorated by 1.2 percent of GDP due to delays in tariff adjustments and some build up in inventories by the state enterprises. The improvement in the Central Government's position was primarily a result of a significant increase in revenue resulting both from an increase in the value added tax and petroleum taxes enacted late in the previous year and from a variety of tax measures enacted by the present government in June.

The balance of payments recovered somewhat in 1985 to a deficit of $36.1 million, despite some further deterioration in the current account. Exports declined to $845 million primarily due to a further decline in beef exports. Imports also registered a further decline to $715 million. The balance on non-factor services improved by $20 million as a result of a further improvement in the travel account, while declines in world interest rates produced a very small reduction in the deficit on factor services. Overall, the current account worsened by $10.2 million.

In the capital account, the temporary capital inflows associated with the portfolio purchase scheme were reversed in 1985, with commercial banks recording a $219 million outflow and other private capital recording a $125.3 million inflow. Overall public sector borrowing showed a $192.4 million inflow, of which $108 million represented short-term borrowing, primarily by state enterprises to cover cash shortages resulting from their increased fiscal deficits. The reversal of short-term capital movements and errors and omissions is difficult to account for but may reflect some recovery in confidence in Uruguay as a regional banking center.

With its continuing high fiscal deficit and a modest deterioration in the balance of payments, Uruguay experienced a marked acceleration in inflation during 1985 with the CPI increasing by 83.0 percent on a year end basis. Overall economic activity is estimated, on the basis of very preliminary numbers, to have increased by 0.7 percent, the first increase since 1981 but still less than even Uruguay's low rate of population growth.

Overall, it is reasonable to characterize Uruguay as it enters 1986 as an economy which has been through a wrenching period of adjustment, and which has managed to achieve a good deal of adjustment, both of its exchange rate and of its fiscal accounts. The real effective exchange rate, as estimated by the IMF, was 40.8 percent below its third quarter 1982 peak, although it has shown some tendency to appreciate in recent months. The fiscal deficit, including the quasi-fiscal losses of the Central Bank, has been reduced from 18.4 percent of GDP in 1982 to an estimated 8.2 percent of GDP in 1985. The current account deficit of the balance of payments was reduced to $134.6 million from its peak of $426.1 million, despite a series of adverse external developments. However, the Uruguayan economy has not yet been able to resume sustained growth, while inflation remains at unacceptably high levels. Moreover, social tensions resulting from the consequences of four years of adjustment remain a serious concern. As shown on Table 3, unemployment at the end of 1985 stood at 10.8 percent of the labor force, down from its peak of 14.9 percent of 1983, but still well above the 7.5 percent recorded at the end of 1981. Similarly, while real wage levels recovered in 1985, they still remain well below the wage levels of 1981. The objective of the GOU during 1986 and beyond is to achieve a resumption of economic growth while reducing inflation and preventing a deterioration in the external accounts.

C. Balance of Payments Outlook for 1986 and Unfinanced Gap. As a result of a combination of external developments and policy measures introduced by the GOU, the external accounts of Uruguay are projected to improve markedly in 1986. The chief external source of this improvement is the decline in world oil prices. In addition, however, all major export categories with the exception of meat exports, are projected to show significant recovery. The mission's projection of exports and imports for 1986 are shown on Table 4. These projections have been developed in consultation with GOU officials but represent the Mission's own projections.

Exports of meat (chiefly beef) are projected to continue the declining trend of the past several years with a decline in volume of 15.5 percent, only slightly offset by a 1.4 percent increase in unit values. Exports of wool, in contrast, are projected to increase by $10 million in 1986 on the basis of a 3.4 percent increase in volume and a 2.4 percent increase in export prices.

Among non-traditional exports, textiles are projected to show moderate improvements in both volumes and prices in the face of tight external markets. On the other hand, export volumes of leather and leather products are projected to decline in parallel with the significant decline in beef exports. "Other" non-traditional exports, which includes a broad range of manufactured goods, are projected to increase significantly in volume as a result of increased demand in destination markets.

On the import side, the most significant development for 1986 is the sharp decline in world oil prices. Although the average level of import prices is difficult to predict at the present time, the projection on Table 4 assumes an average price for the year of $15 per barrel, down from $28.06 per barrel in 1985. Thus, despite a increase in petroleum consumption projected based on a projected decline in real domestic prices, although less than the decline in import prices, the value of petroleum imports is projected to decline from $223.6 million in 1985 to $143.4 million in 1986.

Other imports are somewhat more difficult to forecast and depend on the real rate of growth of the domestic economy, the sectoral distribution of that growth, and the real exchange rate. Furthermore, actual imports, as opposed to ex ante import demand, will depend on the availability of external resources to supply that demand. The Central Bank has estimated, based on past patterns of import demand, the likely sectoral distribution of domestic growth, and no significant change in the real exchange rate, that the achievement of its 2 percent growth target for 1986 will require an increase in the volume of non-oil imports equal to 7.2 percent. Combining this with an estimated increase in non-oil unit values of 4.0 percent, yields a projected level of non-oil imports of $548 million and a total import requirement of $691 million.

Among the other portions of the current account, tourism receipts are expected to be significantly higher in 1986 as a result of a very strong summer season in January and February. Offsetting this to some extent are higher tourism expenditures by Uruguayans abroad. Net factor service payments are projected to decline as a result of declining world interest payments despite a moderate increase in total debt in 1985. Transfer payments are essentially unchanged. Overall, the current account deficit is projected to decline to $58 million from its level of $135 million in 1985.

In the capital account, it is useful to distinguish between ordinary capital inflows and those specifically associated with balance of payments support. Such a distinction is always arbitrary and is particularly so in the present Uruguayan case because much of the "extraordinary" financing is actually associated with projects. Nonetheless, as shown on Table 5, the Uruguayan public sector would be expected to receive $122 million in normal project financing, suppliers credits, etc. At the same time, in the absence of the commercial bank rescheduling, it would face $346 million in amortization payments, and would undertake an estimated $15 million in new short-term borrowing.

Capital movements undertaken by the private sector are, of necessity, highly uncertain. This is especially true in Uruguay because of the country's longstanding role as a regional financial center whose private capital flows are often influenced as much by developments in neighboring countries as by events in Uruguay. During 1985, private capital movements, including errors and omissions, equaled -$93.7 million. In 1986, this has been projected to increase slightly to -$130 million on the basis of expected improvements in political and economic conditions in neighboring countries which is likely to encourage residents of those countries to repatriate their funds.

TABLE 4

MERCHANDISE TRADE--1986
(million dollars)

	1985	1986	Volume Change %	Price Change %
EXPORTS (f.o.b.)	845	884		
Traditional	294	291	-3.2%	2.2%
Meat	105	90	-15.5%	1.4%
Wool	170	180	3.4%	2.4%
Other	19	21	5.3%	5.0%
Non-Traditional	551	593	3.4%	4.1%
Rice	82	85	4.1%	-0.4%
Fish and Shellfish	48	53	6.2%	4.0%
Textiles	96	104	3.0%	2.0%
Leather and Leather Products	61	59	-5.0%	2.0%
Other	264	292	5.3%	5.0%
IMPORTS (c.i.f.)	715	691		
Petroleum and Refined Products	224	143	20.0%	-46.5%
Other	492	548	7.2%	4.0%

Source: BCU unpublished data and Mission estimates.

TABLE 5

PROJECTED BALANCE OF PAYMENTS
(million dollars)

		1986	
	DEBIT	CREDIT	NET
CURRENT ACCOUNT	1375	1433	-58
Exports (f.o.b.)	884		884
Imports (c.i.f.)		691	-691
Travel	265	175	90
Other Non-Factor Services	142	146	-4
Factor Services	68	417	-349
Transfers	16	4	12
CAPITAL ACCOUNT, EXCLUDING EXTRAORDINARY FINANCING	137	476	-339
Ordinary Public Sector Financing, Medium & Long Term	122	346	-224
Short Term Public Sector	15		15
Private Sector, including Errors & Omissions		130	-130
BALANCE, EXCLUDING EXTRAORDINARY FINANCING			-397
EXTRAORDINARY FINANCING	379		379
Commercial Bank Rescheduling	299		299
Other Balance of Payments Support	80		80
Commercial Bank Cofinancing	(45)		(45)
Advance Disbursement of IBRD Loan	(25)		(25)
Commercial Bank Trade Credits	(10)		(10)
BALANCE WITH EXTRAORDINARY FINANCING			-18

Source: BCU unpublished data and Mission estimates.

The above estimates yield an *ex ante* balance of payments gap of $397 million. The most important source for filling this gap is the multi-year commercial bank rescheduling. The details of the effects of the commercial bank rescheduling arrangements are shown on Table 6. This agreement was reached in principle in late 1985 but remains unsigned as of this time. Nonetheless, both the GOU and its bank creditors have treated the amounts involved as if they had been rescheduled. The agreement calls for the rescheduling of $1995 million in amortization payments falling due in the five year period beginning 1985.

In addition to the debt rescheduling, the GOU projects for 1986 a disbursement of $45 million in commercial bank cofinancing of a World Bank energy loan, $25 million in advance disbursements of World Bank loans, and $10 million in increased trade credits negotiated with European commercial banks. The remaining balance of payments gap is projected to be filled by the A.I.D. Cash Transfer. The resources to finance this gap from the A.I.D. Cash Transfer will enable the GOU to make available sufficient foreign exchange to provide the imports needed to sustain 2 percent real growth and avoid any significant reduction in net international reserves.

D. The GOU Economic Stabilization Program and IMF Agreement. In general terms, the economic program of the new Uruguayan government, as stated in its letter of request to AID (see Annex I), is directed toward the gradual further opening of the economy to international market forces, the reduction of the regulatory burden on domestic producers, and an increased reliance upon the free play of market forces to allocate resources. Although the GOU program does not abandon the traditional Uruguayan (and Colorado Party) objective of providing a high level of social services to its population, the present GOU sees improvements in this area as a goal to be achieved through a strengthening of its economic structure.

In September 1985, the GOU entered into an 18 month Standby Agreement with the IMF in an amount of SDR 122.85 million. Uruguay concurrently received a drawing from the Compensatory Facility in an amount of SDR 66.1 million. At the same time, the GOU entered into negotiations with its commercial bank creditors for a rescheduling of amortization coming due in the period 1985-1989, over a twelve year period with three years grace, at an interest rate of 1.375 percent over LIBOR.

TABLE 6

MEDIUM TERM EXTERNAL DEBT-SERVICE PROJECTIONS
AFTER ANTICIPATED RESCHEDULINGS
(Million Dollars)

	1986	1987	1988	1989	1990
PUBLIC SECTOR MEDIUM AND LONG TERM	320	373	379	398	512
Amortization	46	100	115	138	259
Interest	273	273	264	260	252
of which: Impact of Reschedulings	-259	-304	-256	-124	259
Amortization	(-299)	(-376)	(-365)	(-240)	(113)
Interest	(40)	(72)	(109)	(116)	(146)
PUBLIC SECTOR INTEREST ON SHORT-TERM DEBT	42	40	39	41	43
PRIV. SECT. DEBT SERV.	132	135	135	141	148
Amortization	32	34	35	37	38
Interest	100	102	100	105	110

Source IMF, Uruguay-Request for Stand-By Arrangement, August 30, 1985, Table 11, and BCU and Mission Estimates.

The central feature of the stabilization program is a series of expenditure and revenue measures designed to reduce the combined deficit of the consolidated public sector and Central Bank to less than 5 percent of GDP for calendar 1986. On the expenditure side, Central Government expenditures in the aggregate are to remain essentially unchanged at about 18.1 percent of GDP. Decreases in Central Government expenditures are to be obtained from decreases in the real value of social security payments (projected to save one-half percent of GDP), a 10 percent overall reduction in Central Government non-wage, non-interest current expenditures (one-quarter percent of GDP) and a major cutback in the transfer payments to the Mortgage Bank (three-quarters percent of GDP). Offsetting these decreases are to be increased expenditures in a "National Emergency Expenditure Plan" and in export prefinancing program which are anticipated together to cost 1.5 percent of GDP.

Given that Central Government expenditures are to remain essentially unchanged, the principal sources of adjustment is public sector revenue. A package of tax measures enacted in June 1985 included an expansion of the property tax to include financial assets, an across-the-board increase in customs duties by 5 percentage points, a one-half percent increase in the tax on foreign exchange transactions, certain changes in the corporate income tax, and the initiation of a withholding tax on profit remittances abroad. These measures are projected to increase Central Government current revenue by 1.5 percent of GDP over their 1985 levels.

A significant part of the fiscal improvement in the GOU program is to come from increased surpluses of state enterprises achieved through upward adjustments in their tariff schedules enacted during 1985. These are anticipated to reduce the deficit of the consolidated public sector by 1.1 percent of GDP. Finally, a 0.2 percent of GDP reduction in the public sector investment budget is projected to contribute to an overall reduction in the deficit of the Consolidated Public Sector to 0.9 percent of GDP.

The quasi-fiscal losses of the Central Bank primarily arising from the portfolio purchase scheme of 1982-83 remain an intractable problem. The GOU is committed to reducing these losses through a more vigorous effort to either obtain regular repayments from those borrowers who are solvent or to begin liquidation procedures for those who are not. The prospect for the success of this effort is uncertain, however, and the GOU itself projects only a 0.3 percent reduction in the level of Central Bank losses as a result.

The overall package of fiscal measures is still projected to leave Uruguay with a large, although probably manageable, public sector borrowing requirement. To help finance this remaining deficit, and still maintain an adequate rate of growth of private sector credit, the GOU is attempting to improve domestic resource mobilization through the financial system. To this end, it has recently removed the legal interest rate ceilings on loan interest rates, which had previously had the effect of depressing deposit interest rates below the rate of inflation. As a result, current interest rates for thirty day deposits range from 66 to 70 percent, as compared with a projected rate of inflation (according to private sector sources) of 65 percent for calendar 1986.

In its Letter of Request to the USG, the GOU also sets forth aditional policy objectives to be achieved during its term of office. Of particular importance is that of reducing both the overall level of import duties (insofar as this is compatible with fiscal objectives) and the dispersion of tariffs, in order to reduce the level of effective protection of domestic manufacturing and improve the efficiency of domestic production.

III. Justification for the Proposed Program.

A. Political Justification. The rationale for the proposed assistance is political, i.e. to provide tangible support for Uruguay's return to democracy which is perceived by the United States Government as a significant positive political event within the hemisphere. Consequently, the 1986-87 Foreign Assistance authorizing legislation (the International Security and Development Cooperation Act of 1985, Section 720) included an ESF earmark for Uruguay of $15 million per year for FY 1986 and FY 1987.* As discussed in Section II.A. Uruguayan civilian political institutions have been relatively weakened by twelve years of military rule and democratic institutions are still fragile. To the extent that constraints on growth of the Uruguayan economy can be reduced, the GOU's ability to maintain political stability within a democratic framework will be enhanced. The provision of ESF assistance to Uruguay will help help the GOU carry out its economic program and alleviate the pressures on the external account which would otherwise limit economic growth.

B. Economic Justification. Over the past three years, the GOU has managed to stabilize its external accounts at the expense of a considerable acceleration of inflation, substantial increases in unemployment, and very large increases in its external debt. The present government came to office determined to remedy the defects in the adjustment process begun by the previous government. In particular, it proposed to continue reductions in the fiscal and quasi-fiscal deficit in order to expand the availability of credit to the private sector which will be needed to sustain a two to three percent real growth per year and at the same time reduce inflation.

In order to achieve at least two percent real growth in 1986 and still balance its external accounts, the GOU has arranged a package of external financing for 1986 which includes a multi-year rescheduling of amortization payments due to its commercial bank creditors over a five year period, and a total of $150 million in new credits over an 18 month period, of which the AID grant is a part. The AID cash transfer is a relatively small part, in absolute size, of the total financing package but it is an important symbol of the U.S. governments support of the policy efforts of the present government to achieve a more efficient economic structure through the reliance on market mechanisms, and the gradual opening of the Uruguayan economy to external market forces.

IV. Program Description.

A. Program Overview.

1. Justification for a cash transfer and a small technical assistance/training grant. The alternatives to the proposed Cash Transfer are a commodity import program and projectized assistance. A cash transfer is particularly attractive because it may be quickly and easily disbursed and because it facilitates economic growth by allowing a greater volume of imports than would be possible without such assistance. A commodity import program would achieve the same objective but would require that a complex and unwieldy monitoring mechnaism be established, thus creating a very heavy management burden. While fully projectized assistance might have a more direct developmental impact, it would require a long disbursement period and increased A.I.D. staff to monitor project activities. Nevertheless, there are certain technical

*As a result of Gramm-Rudman-Hollings, the amount available for obligation in FY 1986 is $14,355,000. The amount available for obligation in FY 1987 is not known at present.

assistance and training needs to support the GOU's economic recovery program which are most effectively financed through a separate limited scope grant project agreement.

A Cash Transfer is therefore the preferred mechanism to channel the major portion of the funds, $14,000,000. In addition there will be a small $355,000 grant agreement for technical assistance and training activities. This mix of program and project activities can be effectively managed by a USDH A.I.D. officer who will be assigned to Uruguay. Since this officer will be expected to also monitor the continuing ADC program in Paraguay and will not have a trained local hire staff available to assist in program management, it is important that the program be relatively simple to manage.

2. Utilization and Management of Dollar Resources. Upon compliance with all conditions precedent to disbursement (See Section V) the GOU will request A.I.D. to disburse the dollars being made available under the agreement. The $14,000,000 cash transfer is expected to be disbursed in one tranche to an account of the Central Bank of Uruguay in a United States bank by means of an electronic funds transfer in accordance with the instructions contained in the GOU's Request for Disbursement.

3. Justification for Grant Financing. The political rationale for this program, which is to strengthen democracy in Uruguay, is the fundamental basis for providing grant assistance. The relative weakness of democratic institutions, resulting in large part from twelve years of military rule, has tended to generate uncertainty and political conflict between the executive and legislative branches. A loan agreement would be subject to ratification by the Uruguayan Congress -- a process which would not only be time-consuming but could well generate substantial controversy about the local currency requirements and economic conditionality contained in the ESF Program Agreement.

B. Attribution of Dollars for Import of U.S. Goods. During the twelve months which follow disbursement of dollars, the GOU will assure that an equivalent amount of dollars are made available to the private sector for the importation of raw materials, intermediate and/or capital goods from the United States. Since at present there are no foreign exchange controls and dollars can be freely purchased by importers, this requirement is *pro forma* and its fulfillment of the requirement is a function of demand for U.S. imports. Annual levels of imports from the U.S. in these categories have averaged more than $20 million annually over the past two years, a period in which total imports have been severely reduced.

Therefore, no difficulty in meeting this requirment is expected. The Central Bank will provide a listing of eligible imports to A.I.D. on a semestral basis seven and thirteen months after the dollar disbursement. The USAID regional controller will spot check data provided to A.I.D. to assure compliance with eligibility criteria.

C. Economic Conditionality Considerations. The GOU has commited itself implement a serious economic recovery program. A number of key aspects of this program have been analyzed in Section II.C. above. The Letter of Application received from the Minister of Economy and Finance sets forth the basic principles of this program in general terms. Major elements of the program include:

-establishment of a market economy in which the private sector plays the lead role in the growth of the economy;

-uses of market prices to allocate resources;

-reduction of government expenditures through its restructuring and the rationalization of state enterprises;

-free international flow of capital together with a unitary freely floating exchange rate;

-market determined interest rates;

-economic reactivation through a strategy designed to promote those export sectors which have the greatest comparative advantage; and

-increasing efficiency of Uruguayan industry through the reduction of effective tariff protection;

The GOU has already implemented many key elements of the program (market prices for almost all products, removal of interest rate ceilings, floating rate of exchange) and is in the process of implementing other aspects of the program (reduction of effective tariff protection, reduction of state expenditure, rationalization of state enterprise). Given the nature of the program already initiated and the political considerations discussion in Section II.A. performance conditionality in order to disburse dollar funds is deemed to be not necessary. Rather the GOU will be expected to covenant that it will continue to make progress in the implementation of its economic recovery program and to maintain the policy adjustments which it has already undertaken. Possible areas for economic conditionality identified in the Concept Paper (privatization of state enterprises, agricultural policy adjustments, public enterprise tariff policy, and tax administration) are either already being implemented by the GOU as part of its program or are too controversial (privatization) to include in the program agreement as covenants, given the existing political environment. It is expected, however, that GOU will finance a few key policy studies with the dollar grant and local currency counterpart which will improve implementation of its economic recovery program. The A.I.D. representative and other U.S. embassy officials will encpirage the GOU to channel the dollar resources toward studies which will achieve this objective.

D. Local Currency Uses and Programming.

1. Proposed Local Currency Program. The proposed local currency program uses be primarily directed toward efforts to expand production through private sector mechanisms in support of the GOU's economic recovery program. Uses which will impact directly on expansion of private sector activities include: (1) counterpart support for Multi-;ateral Development Bank financed projects,especially Inter-American Development Baknk (IDB projects, which are improving agricultural productivity, diversifying agricultural exports, provideing pre-export finance, and increasing the value added of export products through agro-industrial development; and (2) technical and financial support to small industry and micro-enterprise development activities. In addition local currency will be allocated to carry out studies, technical assistance, and training related to the GOU's economic recovery program and to the administration of justice.

A major portion of the local currency resources will be programmed as counterpart for IDB projects. This use is strongly justified because it will assure that adequate counterpart resources are available for on-going projects which will improve Uruguay's export potential and because it does not result in an increase in the GOU's fiscal deficit. Because a major element of the GOU economic stabilization and recovery program is to reduce the fiscal deficit and the GOU has committed itself to meet specific deficit reduction targets as part of its IMF standby agreement, the GOU has requested that a major portion of the local currency be used for this purpose. Use of local currency resources as counterpart for IDB projects will also reduce the management/monitoring burden of the A.I.D. representative.

The projected breakdown of local currency uses is as follows:

a. Support for expansion of agricultural production and exports (Counterpart for IDB projects) -- $12,000,000 equivalent:

(1) support to agricultural production cooperatives for agricultural diversification and agro-industrial development ($4,000,000 equivalent). This will help support an on-poing agricultural diversification effort by a major cooperative of sugar producers which has already demonstrated significant success;

(2) peso denominated pre-export financing ($4,000,000 equivalent) which would be channelled through commerçial banking channels. This use has been identified by the GOU as an element of its economic program and has been identified by the private banking sector as a key requirement to expand export oriented production; and

(3) agricultural production credit ($4,000,000 equivalent);

A possible alternative use for a portion of these resources is to provide counterpart financing for a proposed credit line provided by the International Finance Corporation (IFC) to the private banking system in Uruguay for assistance to Uruguayan private enterprises in their financial restructuring efforts. Private enterprise financial restructuring is a key condition for reactivation of the Uruguayan economy.

b. Small industry and micro-enterprise activities -- $1,245,000 equivalent. There are a number of opportunities to work in this sector and several organization have begun to explore ways to do so. The IDB and the Inter-American Foundation have provided small grants for this type of activity but demand for both credit and technical assistance/training far exceeds current resource availability. Funds for small industry and micro-enterprise activities will be channelled through several PVOs with proven track records and the Ministry of Labor which has an active program in this area.

c. Counterpart for the small grant to finance studies, technical assistance, and training (See Section IV.E below) -- $355,000 equivalent. This will include local cost financing for administration of justice activities to be carried out in Uruguay. As described in Section IV. E below, there is interest in developing an Administration of Justice activity in Uruguay. Despite the long history of rule of law in Uruguay, the operational effectiveness of Uruguay's judicial system has diminished significantly during the past two decades. The ineffectiveness of the the judicial system, the backlog of cases, and the poor training of judges and court officials have had a direct and adverse impact on private business operations. Specifically, it is virtually impossible for a lending institution to obtain a court judgement against a debtor unable to pay his debts. As a result, credit through the commercial banking system, other than trde credits, is virtually unobtainable except to the very best clients. It will also provide counterpart financing for te studies, technical assistance and training activities described in Section IV.E. which will assist Uruguay's economic recovery.

2. A.I.D. Trust Fund. In addition to the local currency program discussed above the GOU and A.I.D. will sign a trust fund agreement which stipulates that the GOU will allocate 2.5 percent of the local currency deposited in the Central Bank ($350,000) to a trust fund to be used by A.I.D. for its local currency operating expenses. This amount is adequate to cover the local currency operating costs of the program during the two year time frame during which an A.I.D. representative will be assigned to Uruguay. The account will be established in the name of the U.S. Disbursing Officer who will disburse funds in accordance with normal A.I.D. disbursement procedures and practices. The funds in the account will remain available until expended or until the A.I.D. program in Uruguay is terminated. In addition to covering costs directly associated with the presence of a USDH A.I.D. representative in Uruguay, the trust fund will be used to financed costs of A.I.D. monitoring the local currency program.

3. Local Currency Programming and Disbursement Procedures. Prior to disbursement of the dollar resources, A.I.D. and the GOU will sign a Memorandum of Understanding (MOU) in which they agree on the disbursement mechanisms for and general uses of the local currency deposits. It is contemplated that the GOU will establish a special account in the Central Bank of Uruguay and deposit an equivalent amount of local currency therein. However, depending on GOU accounting procedures, local currency used as counterpart for IDB projects may be channelled directly to the executing agencies rather than through a special account. The MOU will contain a provision for the establishment of an A.I.D. operating expense trust fund.

In order to ameliorate the impact of the local currency program on the GOU fiscal deficit, it is contemplated the deposit of local currency will be tranched over a period of 12 months on a quarterly basis. However, disbursement of the the entire amount to be deposited in the operating expense trust fund will be transferred immediately to the trust fund account. Disbursement of local currency funds will be made in accordance with the terms of the MOU. Specific programming of local currencies will be done through an exchange of letters conveying mutual agreement on each specific use.

The possibility of setting up an autonomous local currency fund or foundation will be jointly explored by the A.I.D. representative and the GOU. Such a fund would have a small staff to assume much of the burden associated with the administration of local currencies and would likely provide flexibility in programming local currency resources. In the event that a fund or foundation cannot feasibly be established, the Office of Planning and Budget of the Presidency of the Republic will be the GOU entity which programs local currency resources.

E. Dollar Program. The GOU has requested that $355,000 of the Program amount be reserved to finance dollar costs for technical assistance, short-term training, visitational travel, and studies related to its recovery efforts and to its administration of justice initiative. This amount will be obligated through a separate grant agreement signed with the Planning and Budget Office of the Presidency. The GOU will provide an equivalent amount of counterpart for this purpose. The grant will cover the costs of activities over a two year period.

The administration of justice initiative, also supported by the GOU-owned local currency to be programmed under the $14.0 million cash transfer, is expected to lead to the establishment of an autonomous institute to upgrade the quality of professional and other personnel in the judicial system, to streamline the judicial process where feasible, and to provide in-service skills training throughout the legal system, including commercial law. Initial efforts to be partially financed with this grant will focus on organizing lectures and seminars on appropriate themes; on diagnostic studies of current legal concerns and issues; and on preparing a detailed plan describing the role, functions, and financing of a permanent institution. The UNDP will be the principal sponsor during this organizational phase. The LAC Regional Administration of Justice project also will be involved actively in identifying and arranging for consultants and in participating in the design of legal studies and the plan for the autonomous institution.

The A.I.D. funds under this component will cover consulting fees and honoraria, any travel costs not covered by the GOU-owned local currency or by UNDP, and limited procurement of imported texts, references, journals, and other appropriate materials and equipment (e.g., microfiche viewers, overhead projectors, etc.) that may not be available locally. It is estimated that about $100,000 of the grant will be used to support the dollar costs of the administration of justice initiative. During the second year, support also will be requested under the LAC Regional Administration of Justice project to help the local initiative become regional in scope--at least for the Southern cone countries if not for all of South America.

The balance of the grant with the Planning and Budget Office will be used to support a variety of recovery related studies, technical assistance, and training. The studies selected for financing will support the implementation of key elements of the GOU's economic program, e.g., capital market development, the promotion of foreign private investment, the improvement of public sector efficiency, etc. Examples of such studies could include an analysis of the banking sector focusing on the role of the Banco de la Republica (BROU) in the determination of interest rates, the appropriate role for the state petroleum and cement company (ANCAP), and the restructuring of foreign investment legislation to encourage additional private foreign investment.

Also, the GOU and private sector entities have a number of industrial and agro-industrial project proposals in various stages of preparation which could be partially financed through this grant. Similarly, the Ministry of Agriculture intends to revamp its research and extension services to place major responsibility for their operation in the hands of private sector organization and needs to carry out further design work. Finally, it may be possible to utilize the regional office of the International Executive Service Corps (IESC) located in Asuncion, Paraguay to furnish short-term technical assistance to private enterprises that are facing technical or managerial difficulties. In this case , the A.I.D. funds could be used to help cover the contributions normally required from the host country firm or entity.

In some cases, the activities and studies to be carried out will have the sponsorship of other international organizations. The UNDP, for example, will be instrumental in organizing the central phase of the administration of justice initiative. The Inter-American Institute of Agricultural Cooperation (IICA) is helping the Ministry of Agriculture with a variety of activities, including the preparation of the program for increasing the role of the private sector in agriculture research and investigation. It will be necessary from time to time to utilize a consultant from a non-U.S. source, or to fund a training opportunity in a country other than the U.S. Accordingly, the authorization of this small grant will include provision for procurement of goods and services from A.I.D. geographic Code 899 ("Free World") for up to $100,000 of the grant amount.

V. Conditions, Covenants and Negotiating Status

A. Conditions Precedent to Disbursement. The Program Agreement will contain the following conditions precedent to disbursement:

1. an opinion of legal counsel acceptable to A.I.D that the agreement has been duly executed on behalf of Uruguay and that it constitutes a legally binding obligation of the GOU;

2. a statement of the name of the GOU's authorized representative;

3. a signed Memorandum of Understanding between the GOU and A.I.D. which sets forth the uses and disbursement mechanisms for local currency provided by the GOU in fulfillment of the terms of the program agreemen; and

4. a signed operating expense trust fund agreement.

B. Program Covenants. In addition to the above conditions, the Program Agreement will include the following covenants related to program implementation:

1. that the GOU will assure the availability of an amount of foreign exchange equal to the amount obligated under the Agreement, with a period of twelve months from the date of disbursement of the assistance under the agreement for the importation, of raw materials, intermediate goods, and capital goods from the U.S.;

2. that the GOU maintain steady progress in the implementation of its stabilization and recovery program in the areas outlined in its Letter of Application to A.I.D.

C. Negotiating Status. The essential terms and conditions of ESF cash transfer program have been discussed with the Minister of Economy and Finance and with the Director of the Office of Planning and Budget of the Presidency of the Republic. More detailled discussions have been held with officials of the Office of Planning and Budget and the Ministry of Economy and Finance on the cash transfer program and the limited scope grant for technical assistance and training. A Letter of Application from the Minister of Economy and Finance is attached as Annex I.

Ministro de Economía y Finanzas
Uruguay

Abril 24 de 1986.

SM/13.

Señor Embajador de los
Estados Unidos de Norte América,
don Malcolm R. Wilkey,
P r e s e n t e

De mi mayor consideración:

En representación del gobierno de mi país debo manifestarle que se ha decidido aceptar la ayuda financiera ofrecida por los Estados Unidos de América, por una suma de u$s 14:355.000.- para apoyar programas de desarrollo económico.

Como es de su conocimiento, este Gobierno se encontró con un fuerte deterioro de la situación económica del país, donde la caída sistemática del Ingreso Nacional (mas del 22% durante el cuatrienio 1981-1984), un elevado endeudamiento externo e interno, abultado déficit fiscal (próximo al 10% del PBI) y altas tasas de desocupación (14% de la Población Económica Activa) eran sus síntomas mas elocuentes.

Frente a este escenario tan adverso, se pretendió restablecer los equilibrios básicos de la economía. Un primer objetivo fue la disminución del déficit fiscal a niveles manejables, con la meta de ubicarlo en un 5% del PBI en 1986 y en un entorno inferior al 3% en años siguientes.

En segundo lugar, se mejoró el perfil del endeudamiento externo con el propósito de que la transferencia neta de recursos hacia el exterior no superara al 3% del PBI, aumentándose de esa manera las posibilidades de la reactivación económica.

Durante el año 1985 -y fundamentalmente durante su segundo semestre-, el comportamiento de la economía mostró signos de mejoría incipientes. Los niveles de desocupación cayeron a menos del 12%; los salarios reales aumentaron mas de un 14% y el Producto Bruto creció (0.7) rompiéndose asi la tendencia decreciente que caracterizaba a su evolución. De mantenerse la tendencia anotada durante el último trimestre de 1985, puede esperarse una tasa de crecimiento oscilante en un 3% para 1986, guarismo sumamente importante -no por su magnitud- sino por lograrse en medio de una situación internacional sumamente difícil.

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Ministro de Economía y Finanzas
Uruguay

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Estos resultados auspiciosos son el fruto de un programa de gobierno realista, con el propósito de consolidar un sendero de crecimiento estable para la actividad privada, en su carácter de motor principal para toda la economía.

En este sentido, la conducción económica ha señalado en forma inequívoca las pautas principales que ceñirán la actividad de los agentes económicos.

Con carácter general, se pueden citar entre las principales, las siguientes:

- Establecimiento de una economía social de mercado donde el sector privado cumple el rol protagónico para el crecimiento de la economía;
- Mejoramiento del papel rector de los precios determinados libremente en la asignación de recursos de la economía;
- Disminución relativa del gasto del Estado mediante su redimensionamiento y la racionalización de las empresas que actúan en su órbita;
- Libre movimiento de capitales con el exterior, conjuntamente con libertad cambiaria y un tipo de cambio unico y flotante;
- Determinación de las tasas internas de interés por el juego libre de la oferta y demanda de fondos líquidos;
- Consolidación del mercado de capitales con el propósito de apoyar la gestión productiva del sector privado;
- Perfeccionamiento de marco jurídico que regula la inversión extranjera consolidando el tratamiento no discriminatorio que siempre ha tenido.
- Dinamización de la capacidad productiva del país mediante una estrategia de apertura hacia el exterior, apuntalando aquellos sectores exportadores en los que se tienen las ventajas comparativas mayores;
- Mejoramiento de la eficiencia del aparato industrial en su conjunto, disminuyendo el nivel y la dispersión de su protección efectiva;
- Racionalización del gasto público tendiendo a lograr una mayor eficiencia y una participación creciente de los sectores sociales, especialmente salud, educación y vivienda.

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Ministro de Economía y Finanzas
Uruguay

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En el programa de Gobierno que se está implementando y cuyos aspectos principales se acaban de explicitar sumariamente, se espera lograr tasas de crecimiento adecuadas del Producto Nacional, unica vía genuina de satisfacer las necesidades del cuerpo social.

La cooperación económica que se pone a nuestra disposición tendría como fin el apuntalamiento del sector productivo privado y otras áreas que es de interés apoyar.

Asimismo, con aquella se procedería al financiamiento de programas de adiestramiento y estudios varios referidos a diversos sectores de interés para el país, por una suma aproximada a los u$s 355.000.-

Por último, corresponde señalar que haremos la asignación correspondiente en moneda local, para instalar la unidad de seguimiento de este programa por parte de la Agencia para el Desarrollo Internacional.

Sin otro particular, saludo a usted atentamente,

Ricardo Zerbino Cavajani

~~Cr.~~ Ricardo Zerbino Cavajani
Ministro de Economía y Finanzas

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