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Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

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Washington, D.C.

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The World Bank
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McNamara Papers

Contracts
Uruguay (1968-1974)

The World Bank Group
Archives



1771231

A1993-012 Other #: 20

Contacts with member countries: Uruguay - Correspondence U1

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WBG Archives

URUGUAY

URUGUAY

1. 5/9/68 Ambassador Juan Felipe Yriart
2. 10/1/68 Cesar Charlone, Minister of Finance
Enrique Iglesias, President, Central Bank of Uruguay
Carlos Manini, Adviser to Uruguayan Delegation
Ambassador Juan Felipe Yriart
Carlos Sanguinetti, Alternate Executive Director, Inter-American
Development Bank
3. 3/11/69 Ambassador Hector Luisi
4. 3/25/69 Cesar Charlone, Minister of Finance
Carlos Sanguinetti, President, Central Bank of Uruguay
Ambassador Hector Luisi
5. 6/2/72 Francisco Forteza, Minister of Finance and Economy
Ricardo Zerbino, Director of Planning and Budget
Agustin Barbato, Second VP of the Banco de la Republica Oriental
del Paraguay
Juan Pedro Amestoy, President of the Central Bank
- 3/19/73 Ambassador (Dr.) Hector Luisi (to introduce Mr. Barrios, Alt ED)
6. 1/11/74 Ambassador Hector Luisi
7. 10/8/74 Dr. Alejandro Vegh-Villegas, Minister of Economics and Finance
- 12/2/75 At reception hosted by Ambassador Perez Caldas:
Dr. Alejandro Vegh-Villegas, Minister of Economy and Finance
The President of the Supreme Court of Justice and Mrs. Vago
- 9/23/77 Luis Barrios Tassano, former Executive Director
- 1/19/81 Valentin Arismendi, Minister of Economy and Finance and Chairman
of the Board of Governors, IBRD/IMF
(At lunch for the Joint Committee on Remuneration - EDs)



OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(through Mr. J. Burke Knapp)

FROM: Gerald Alter *GA*

SUBJECT: URUGUAY: Visit of Uruguayan Ambassador

DATE: May 6, 1968

The Uruguayan Ambassador to the United States, Mr. Juan Felipe Yriart, will call on you on Thursday, May 9. We understand that this will purely be a courtesy call and that he does not intend to discuss any specific issues. The attached memorandum, outlining Uruguay's current economic position, as well as summarizing our lending position and prospects, may be helpful as background information for your discussions with the Ambassador.

Mr. Yriart has been Ambassador to the U.S. since November 1963, having previously been Ambassador to the Netherlands, Finland and Sweden. He had been in Washington before in 1943 as First Secretary, and later in 1951 as Counselor of the Uruguayan Embassy. We have had frequent contact with Ambassador Yriart. He has been the Government's main representative and negotiator on all matters concerning Bank relations with Uruguay. In that capacity he has been extremely helpful and cooperative and, thanks to his active interest, we are maintaining a continuous dialogue with Uruguay, even though the conditions for our operations there have been unfavorable.

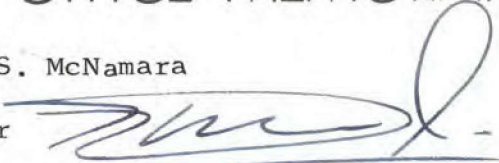
Attchmt.

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 25, 1968

FROM: Luis Escobar SUBJECT: Courtesy Call - Ambassador Yriart

The Ambassador of Uruguay to the United States of America, Mr. Juan Felipe Yriart, would like to pay you a courtesy visit at any time that is convenient for you.

Ambassador Yriart is very active in the financial and economic negotiations of his Government and, consequently, is in close and frequent contact with the staff of the Bank.

Thank you very much.

Next week

3:45 - Thursday

2235 - Call after 2333

OFFICE MEMORANDUM

TO: FILES

DATE: October 4, 1968

FROM: Bernard Zinman *BZ*SUBJECT: URUGUAY - Summary of Meeting with Mr. McNamara

On October 1, 1968, at 4 p.m., Mr. McNamara met with members of the Uruguayan delegation to the Annual Meeting, at the request of the Uruguayan Minister of Finance. The following representatives of the Uruguayan Government attended the meeting:

Mr. Cesar Charlone	Minister of Finance and Governor of the Bank for Uruguay
Mr. Enrique Iglesias	President, Central Bank of Uruguay
H.E. Juan Felipe Yriart	Ambassador to the U.S.
Mr. Carlos Sanguinetti	Alternate Executive Director at the IDB
Mr. Carlos Manini	Adviser to Uruguayan Delegation

The writer represented the Western Hemisphere at the meeting.

Minister Charlone indicated that his country, under President Jorge Pacheco, was going through a difficult period, during which the Uruguayan Government was attempting to create the conditions for sound economic and social development. He stated that it was important for the Bank to assist in these efforts.

Mr. McNamara responded that the Bank wants very much to help Uruguay, but that, among the matters before us, the condition of the country's major public utility company (UTE) represents a serious problem in this respect. The Minister said his Government was completely aware of the situation and lamented the fact that UTE was in such bad shape whereas it had once been an efficient and profitable entity.

Ambassador Yriart said that the Government has now indicated its firm intention to promulgate the tariff regulations for electric power which had been acceptable to the Bank. Mr. McNamara indicated that it was not a matter only of tariffs, but also one of taking action on other fundamental matters such as seeing that the Board of Directors of UTE would no longer be involved in day-to-day operations of the company, and improving management and organization.

The Ambassador mentioned that he understood Mr. Reitter was now in Uruguay to discuss the UTE matter and was confident that the Government would be forthcoming with the necessary proposals for making basic improvements in UTE possible.

Mr. Iglesias requested that the Bank be explicit in letting the Uruguayan Government know the requirements for assistance not only for improving UTE, but also for other fields as well. Mr. McNamara said that the Bank would prefer to concentrate for now on the electric power organization and added that he would be interested in being informed, after Mr. Reitter's return from Uruguay, of his findings on the Government's intentions with respect to UTE.

The meeting ended at about 4.15 p.m.

cc: Messrs. Knapp (VP)
Alter (WH)
Chaufournier (WH)
Knothe (PD)
Knox "
Steckhan (Pres. Office)
White (PD)
Wright (WH)
Sear (PD) o/r
Favilla (WH) o/r
Reitter (WH) o/r

BZinman:mm



3

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: March 12, 1969

FROM: Gerald Alter *GA*SUBJECT: Meeting of Mr. McNamara with the Ambassador
of Uruguay, Dr. Hector Luisi

The Uruguayan Ambassador paid a call on Mr. McNamara on March 11. Messrs. Caram and Alter were also present. This was largely a courtesy visit. The Ambassador explained that Uruguay had for many years been a favorite of the outside world among the Latin American countries but in recent years they had become accustomed to much criticism. Considerable progress had been made during the past year in coming to grips with the country's problems; inflation had been reduced substantially. However, the Ambassador expressed his concern that now that things were no longer in such a critical situation it would be difficult to obtain the agreement of the various interest groups. Progress might thus be somewhat slower.

Mr. McNamara expressed the hope that the Uruguayan authorities would find themselves in a position to follow the advice of the IMF and particularly to take action in solving the fiscal problem. The Ambassador shifted to a discussion of the Pearson Commission during the course of which he emphasized the importance of having statesmen, not experts, making decisions in international agencies based upon a realistic assessment of the political realities. "You can't ask a Government to commit suicide."

cc: Messrs. Knapp, Wiese, Reitter.

GAlter:pa.

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Gerald Alter *GA*

SUBJECT: Visit of Uruguayan Ambassador

DATE: March 10, 1969

The new Ambassador of Uruguay, Dr. Hector Luisi, will call on you on Tuesday, ^{meeting} ~~February~~ 11, at 4.15 p.m. I understand from Dr. Caram that the visit is not only a courtesy call, but that the Ambassador intends to discuss and review with you Bank relations with Uruguay.

As strictly background information for this meeting, I am attaching a copy of the curriculum vitae of the Ambassador, as well as a summary paper outlining our present economic diagnosis and our lending program and strategy.

I suggest you invite the Ambassador to take up with the staff any specific issues he may raise.

Attachments.

President has seen

DOCTOR HECTOR LUISI

Ambassador Extraordinary
and Plenipotentiary
of Uruguay
to the United States of America

Doctor Héctor Luisi is 49 years old.

His parents were the late Berta Rodríguez Serpa and the late Rear Admiral Héctor Luisi, once Under-Secretary of National Defense and one of the original signers of the Charter of the United Nations.

Doctor Luisi is married to Blanquita Crosso Ledesma and they have two children: Héctor Eduardo and Blanca Alejandra.

He attended the Lycée Français (French Secondary School), the Liceo Zorrilla de San Martín (Zorrilla de San Martín Secondary School) and the Naval School.

He holds a Law Degree from the University of the Republic and a Diploma in Comparative Law from Cambridge University, which he obtained in 1944 and 1946, respectively. His thesis was on "Liabilities of Carriers" (Cambridge, 1946).

Doctor Luisi has taught "Introduction to Law" (1946-1966) at the Instituto Alfredo Vasquez Acevedo, and "Civic Education" (1943-44) at the Military School in Montevideo.

Among his professional activities in Montevideo, Dr. Luisi was legal adviser to Air France, B.O.A.C., S.A.S., The Royal Bank of Canada, I.T.T. Standard Electric, Glaxo Laboratories, United Shoe Machinery Company, etc.

Doctor Luisi has been Undersecretary General and Counselor of the Inter-American Bar Association and Vice-President of the Uruguayan Bar Association.

He represented Uruguay at the International Aviation Convention (Montreal, 1954).

He was President of the XIth Conference of Foreign Ministers (Punta del Este, Uruguay, 1967), and the XIIth Conference of Foreign Ministers (Washington, D.C., June, 1967).

Doctor Luisi also presided over the Uruguayan Delegations to LAFTA (Asunción, July, 1967), to the General Assembly of the United Nations (September, 1967), and to UNCTAD III (March, 1968).

Doctor Luisi was elected Senator of the Republic on November 27th, 1966. He was appointed Minister of Foreign Affairs on March 1st, 1967.

On April 26th, 1968, he resigned from the Ministry and reassumed his seat in the Senate House.

On December 26th, 1968, Doctor Luisi was appointed Ambassador Extraordinary and Plenipotentiary of his country to the United States of America.

He is an Officer of the Order of the British Empire (O.B.E.).

He also holds the Grand Cross of Isabel la Católica (Spain), the Grand Cross of the Order of Merit (Chile), and the Grand Cross of the Order of El Sol (Perú).

Doctor Luisi describes himself as a private Attorney.

* * * * *

URUGUAY

I. Economic Diagnosis

Extreme financial instability and consistently poor policy performance characterize Uruguay's recent history. The origin of the present situation stems in large part from the measures taken for many years by successive governments to provide increasing welfare benefits to the country's population. The Government's steady policy of shifting from productive expenditures to outlays for social purposes has, for more than a decade, resulted in runaway inflation, coupled with almost complete economic stagnation.

Between 1956 and 1968, output grew by only 5 percent, in per capita terms it fell by about 8 percent. The level of production in 1968 was little, if at all, higher than in 1956. Investment declined over the past decade, both as a percentage of GNP (to about 10 percent in 1968), as well as in real terms. ✓

The rate of inflation since 1956 has been one of the highest in Latin America. For the period 1956-68, the average annual price increase has been of the order of over 40 percent.

The persistent rise in public sector expenditures, particularly current expenditures, has led to large fiscal deficits and heavy reliance on financing from the banking system, thereby increasing inflationary pressures. These pressures, coupled with unrealistic exchange rate policies, led to sizeable balance of payments deficits in past years.

Under these general conditions described above, economic development efforts in Uruguay have been practically non-existent for the past several years. Government agencies and decentralized entities are not geared for rational planning or implementation of development programs, and whatever investment took place was not the kind that made significant contributions to the growth of the economy. As a result, external lending agencies, including the Bank, had little success in their efforts to identify projects suitable for financing.

Since November 1967, the present Government has taken a number of measures to correct the rapidly deteriorating situation and to lead the economy towards stabilization and the resumption of economic growth. The exchange rate was unified and devalued by close to 150 percent. In addition, within the framework of a Standby Agreement with the IMF, restrictive monetary policies were introduced, public revenues increased and wage and salary adjustments limited. But even with these measures, inflationary pressures mounted (prices increased by over 60 percent during the first 6 months of 1968) and prompted the Government to implement by mid-year 1968, an almost complete wage, price and cost freeze. Due to favorable conditions, exports

Handwritten note:
New program for
Indonesia & Brazil

increased appreciably in 1968. With restrictive import policies and availability of external loans, principally from the U.S. Government, Uruguay's balance of payments position improved in 1968.

Despite certain improvements in 1968, the attainment of a reduction in the rate of inflation and continued satisfactory balance of payments performance will require a continued and serious effort on the part of the Government to reduce the fiscal deficit, to pursue a restrained credit and incomes policy, and to implement exchange rate and other balance of payments policies consistent with the maintenance of incentives for exports. For the first time in many years, Uruguay adhered to all major provisions of the IMF Standby Agreement in 1968. However, negotiations with the IMF for a new Standby Agreement in 1969 have been deadlocked up to now, principally on account of the Government's fiscal program. In view of the size of the unfinanced fiscal deficit, after allowing for financing from the banking system in proportions consistent with containing the rate of inflation to about 25 percent or so in 1969, the IMF recommended a fairly substantial devaluation of the Uruguayan peso from currently 250 to 400 pesos to the U.S. dollar. While a devaluation of such proportion is not dictated by balance of payments considerations, it would permit, along with the imposition of export taxes, closing of the fiscal gap. No other alternative appears feasible at this time. The Uruguayan authorities have so far refused to go along with the IMF position, arguing that such massive a devaluation would create unmanageable pressures for price, cost and wage increases, and would thus be incompatible with its incomes and price policy. On the other hand, the Government has so far not produced an acceptable and realistic alternative solution which would imply substantial expenditure cuts and/or revenue measures, together with a moderate devaluation. There are indications that the Government will submit an alternative program at the CIAP Country Review later this month. But it remains to be seen whether it will be a viable and realistic solution of the fiscal problem, compatible with a deceleration of inflation.

It is obvious that the short-term programs will have to be accompanied by major reforms in the public sector and other areas designed to improve the efficiency of the economy, to raise the rate of savings and investment, and to assure a more effective allocation of resources. Among important measures in this respect is a revision of the tax system, changes in the composition of public spending and modifications of the trade system, including steps to remedy some of the excessive protection of domestic industry.

A Bank economic mission is tentatively scheduled to visit Uruguay in early May to review Uruguay's economic situation and medium and longer-term prospects (including investment and financing programs in the key sectors) as a basis for a possible resumption of Bank lending.

II. Bank Lending Strategy

In the early and mid-1950s, Bank lending was confined to the power sector, the major objective being to help in the establishment of a reasonably efficient institution. Subsequently, the Bank shifted emphasis to the agricultural sector and helped set up and finance the first livestock development project in the hemisphere. The second livestock loan in 1965 (and the last loan the Bank made to Uruguay) followed closely the pattern of the successful first one. With the road loan of 1962, the Bank aimed primarily at the improvement of planning and execution of works in the highway sector. Looking at the past, the Bank's objective in lending to Uruguay was mainly directed at improving conditions at the sectoral or project level through institution building, and only to a limited extent to influence overall policies. Uruguay, a country which is basically rich in resources, but which has been grossly mismanaged, does not present a case for massive transfer of resources, nor does it, on account of general economic performance, call for a large exposure of the Bank in the future.

This being the case, we are concentrating new Bank lending primarily in the agricultural field, i.e., predominantly livestock development, the country's key productive sector. This is not only because of the Bank's experience in this field and the success of the first two loans; our rationale is that even a limited amount of lending would enable us to influence agricultural policy, both at the national as well as the sector level. Furthermore, lending for livestock development would allow us a certain flexibility to gear the amount of any new loans to economic performance.

Next to livestock development, which has the highest priority, we are planning continued Bank assistance, although on a limited scale, for power development where the Bank has been involved in the past, and where discussions on Bank assistance have been proceeding over the past years. The major justification for possible new lending would be to use it as a means to bring about a thorough reorganization of the grossly inefficient administration of the Government-owned power company, as well as to have the Government implement appropriate tariff adjustment procedures, in order to permit a financial rehabilitation of the company and to assure a satisfactory financial rate of return.

However, any decision of lending for power would be subject both to satisfactory progress on reorganization and tariff policies, as well as an assessment of the investment requirements over the next years. Moreover, since Bank lending for power would be extended only on a limited scale, it may have to be related to additional financing from other bilateral sources.

As for other areas for Bank lending, we would consider some lending for highway maintenance in the not too distant future in response to significant improvements in this sector in the last year or so.

III. Bank Operations in Uruguay

A table showing past Bank operations by major sectors, as well as our revised, but still tentative, 5-year lending program for Uruguay is attached. The realization of this program assumes a significant improvement in Uruguay's economic performance and policies over the period in question, an assumption which may be somewhat optimistic.

We do not plan to discuss with the Uruguayans the 5-year program in terms of composition, strategy and policy conditions until after completion of the economic review.

March 10, 1969

URUGUAY

BANK LENDING PROGRAM (\$ Million)

Sector	FY 1965 and Prior	FY 1966	FY 1967	FY 1968	FY 1969	Total to FY 1969	FY 1970	FY 1971	FY 1972	FY 1973	FY 1974	Total FY 1970 to 1974
<u>ELECTRIC POWER</u>	<u>3/64.0</u>	-	-	-	-	<u>3/64.0</u>	<u>1/4</u>	<u>1/20</u>	-	<u>1/30</u>	-	<u>3/54</u>
UTE Expansion Montevideo Distribution							4	20		30		2/50 1/4
<u>TRANSPORTATION</u>	<u>1/18.5</u>	-	-	-	-	<u>1/18.5</u>	-	<u>1/5</u>	-	-	-	<u>1/5</u>
Highway Maint. Feeder Roads								5				1/5 -
<u>AGRICULTURE</u>	<u>2/19.7</u>	-	-	-	-	<u>2/19.7</u>	<u>1/15</u>	-	<u>1/15</u>	-	<u>1/20</u>	<u>3/50</u>
Livestock Development							15		15		20	3/50
<u>INDUSTRY</u>	-	-	-	-	-	-	-	-	-	<u>1/4</u>	-	<u>1/4</u>
Dev. Finance Company:										4		1/4
TOTAL	6/102.2	-	-	-	-	6/102.2	2/19	2/25	1/15	2/34	1/20	8/113

4

OFFICE MEMORANDUM

TO: Memorandum for Record

FROM: Gerald Alter *GA*

SUBJECT: Meeting of Mr. McNamara with the Minister of Finance
of Uruguay, Mr. Cesar Charlonne

DATE: March 26, 1969

Mr. McNamara - to see please.
SS 3/27

Mr. Cesar Charlonne, Minister of Finance of Uruguay, accompanied by Mr. Carlos Sanguinetti, President of the Central Bank, and Dr. Hector Luisi, Ambassador of Uruguay, paid a call on Mr. McNamara on March 25. Messrs. Caram and Alter were also present. The Minister thanked Mr. McNamara for the Bank's action in meeting promptly his request for an advisor in the electric power field made to Mr. McNamara during the Annual Meeting. Satisfaction was expressed for the good work that Mr. Salazar was doing in UTE. Reference was also made to a request for assistance in transport planning and the Uruguayan delegation indicated that they would be providing us with additional information on their thinking in this area.

The Minister briefly reviewed the progress that they had made in reducing the rate of inflation, in keeping down the Government deficit and in increasing the country's international reserves. Institutional improvements had also been made in implementing an incomes policy. The Minister expressed confidence that they would continue to show great progress in 1969 when they expected to keep the rate of inflation within 20% and to reduce it to 5% in 1970.

In response to a question concerning the status of the discussions on the Standby Agreement with the International Monetary Fund, the Minister stated that they were at the initial stages of such discussions but that they had complied 100% with the provisions of the Standby in 1968.

Mr. Alter mentioned that we would follow with great interest the CIAP discussion during the coming week and that we would want to learn more about the details of the Government's plans for 1969. Mr. McNamara mentioned that the Bank was planning an economic mission for May. The Minister expressed his appreciation.

cc: Messrs. Knapp, Wiese, Weiner, Reitter, Lerdau.

GAlter:pa.

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 24, 1969

FROM: Gerald Alter *GA*SUBJECT: Visit of Minister of Finance and President of Central Bank of Uruguay

Mr. Cesar Charlone, Minister of Finance of Uruguay and Governor of the Bank for Uruguay, accompanied by Mr. Carlos Sanguinetti, President of the Central Bank of Uruguay, will call on you tomorrow, Tuesday, March 25, 1969. The Minister is presently in Washington as the head of his country's delegation at the Annual Country Review of CIAP, which will commence next week.

You will recall that on February 11, 1969, the Ambassador of Uruguay, Dr. Hector Luisi, paid you a visit. For that meeting, we prepared a background memorandum, which I attach for ready reference.

You may also recall that Minister Charlone met with you last October during the Annual Meeting. For information, I am also attaching copies of the briefing note for, and summary record of, that meeting.

To supplement the attached background information, the following point is worth mentioning: As far as the power sector is concerned, the Government confirmed its intentions last October to reorganize the power entity, UTE, and to implement adequate tariff policies. On this basis, the Bank agreed to assist the Government and UTE in these undertakings. We were able to obtain the services of Mr. Renato Salazar, General Manager of the Chilean State Power Company (ENDESA), who took up his assignment in Montevideo as adviser to the Government at the beginning of this month.

Attachments.

Cleared with and cc. Mr. Wiese

President has seen

URUGUAY

I. Economic Diagnosis

Extreme financial instability and consistently poor policy performance characterize Uruguay's recent history. The origin of the present situation stems in large part from the measures taken for many years by successive governments to provide increasing welfare benefits to the country's population. The Government's steady policy of shifting from productive expenditures to outlays for social purposes has, for more than a decade, resulted in runaway inflation, coupled with almost complete economic stagnation.

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The rate of inflation since 1956 has been one of the highest in Latin America. For the period 1956-68, the average annual price increase has been of the order of over 40 percent.

The persistent rise in public sector expenditures, particularly current expenditures, has led to large fiscal deficits and heavy reliance on financing from the banking system, thereby increasing inflationary pressures. These pressures, coupled with unrealistic exchange rate policies, led to sizeable balance of payments deficits in past years.

Under these general conditions described above, economic development efforts in Uruguay have been practically non-existent for the past several years. Government agencies and decentralized entities are not geared for rational planning or implementation of development programs, and whatever investment took place was not the kind that made significant contributions to the growth of the economy. As a result, external lending agencies, including the Bank, had little success in their efforts to identify projects suitable for financing.

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increased appreciably in 1968. With restrictive import policies and availability of external loans, principally from the U.S. Government, Uruguay's balance of payments position improved in 1968.

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March 10, 1969

PREITTER:VM

URUGUAY

BANK LENDING PROGRAM (\$ Million)

Sector	FY 1965 and Prior	FY 1966	FY 1967	FY 1968	FY 1969	Total to FY 1969	FY 1970	FY 1971	FY 1972	FY 1973	FY 1974	Total FY 1970 to 1974
<u>ELECTRIC</u>												
<u>POWER</u>	<u>3/64.0</u>	-	-	-	-	<u>3/64.0</u>	<u>1/4</u>	<u>1/15</u>	-	<u>1/18</u>	-	<u>3/37</u>
UTE Expansion							4	15		18		2/33
Montevideo												1/4
Distribution												
<u>TRANSPORTATION</u>	<u>1/18.5</u>	-	-	-	-	<u>1/18.5</u>	-	<u>1/5</u>	-	-	-	<u>1/5</u>
Highway Maint.							-	5	-	-	-	1/5
Feeder Roads							-	-	-	-	-	-
<u>AGRICULTURE</u>	<u>2/19.7</u>	-	-	-	-	<u>2/19.7</u>	<u>1/25</u>	-	-	<u>1/25</u>	-	<u>2/50</u>
Livestock							25	-		25		2/50
Development												
<u>INDUSTRY</u>	-	-	-	-	-	-	-	-	-	<u>1/4</u>	-	<u>1/4</u>
Dev. Finance												
Company:										4		1/4
TOTAL	6/102.2	-	-	-	-	6/102.2	2/29	2/20		3/47		7/96

FILES

October 4, 1968

Bernard Zinman

URUGUAY - Summary of Meeting with Mr. McNamara

On October 1, 1968, at 4 p.m., Mr. McNamara met with members of the Uruguayan delegation to the Annual Meeting, at the request of the Uruguayan Minister of Finance. The following representatives of the Uruguayan Government attended the meeting:

Mr. Cesar Charlone	Minister of Finance and Governor of the Bank for Uruguay
Mr. Enrique Iglesias	President, Central Bank of Uruguay
H.E. Juan Felipe Yriart	Ambassador to the U.S.
Mr. Carlos Sanguinetti	Alternate Executive Director at the IDB
Mr. Carlos Manini	Adviser to Uruguayan Delegation

The writer represented the Western Hemisphere at the meeting.

Minister Charlone indicated that his country, under President Jorge Pacheco, was going through a difficult period, during which the Uruguayan Government was attempting to create the conditions for sound economic and social development. He stated that it was important for the Bank to assist in these efforts.

Mr. McNamara responded that the Bank wants very much to help Uruguay, but that, among the matters before us, the condition of the country's major public utility company (UTE) represents a serious problem in this respect. The Minister said his Government was completely aware of the situation and lamented the fact that UTE was in such bad shape whereas it had once been an efficient and profitable entity.

Ambassador Yriart said that the Government has now indicated its firm intention to promulgate the tariff regulations for electric power which had been acceptable to the Bank. Mr. McNamara indicated that it was not a matter only of tariffs, but also one of taking action on other fundamental matters such as seeing that the Board of Directors of UTE would no longer be involved in day-to-day operations of the company, and improving management and organization.

The Ambassador mentioned that he understood Mr. Reitter was now in Uruguay to discuss the UTE matter and was confident that the Government would be forthcoming with the necessary proposals for making basic improvements in UTE possible.

Mr. Iglesias requested that the Bank be explicit in letting the Uruguayan Government know the requirements for assistance not only for improving UTE, but also for other fields as well. Mr. McNamara said that the Bank would prefer to concentrate for now on the electric power organization and added that he would be interested in being informed, after Mr. Reitter's return from Uruguay, of his findings on the Government's intentions with respect to UTE.

The meeting ended at about 4.15 p.m.

cc: Messrs. Knapp (VP)
Alter (WH)
Chaufournier (WH)
Knothe (PD)
Knox "
Steckhan (Pres. Office)
White (PD)
Wright (WH)
Sear (PD) o/r
Favilla (WH) o/r
Reitter (WH) o/r

BZinsan :mm

Mr. Robert S. McNamara

September 30, 1968

~~AF~~
File
Journal

Gerald Alter

URUGUAY - Your Meeting with Minister of Finance

According to Ambassador Yriart of Uruguay, the Minister of Finance, Mr. Cesar Charlone, has requested an appointment with you to press for our immediate assistance in the preparation of an application for UNDP technical assistance in the reorganization of Usinas Electricas y Telefonos (UTE). He will probably register a complaint concerning what the Uruguayans consider to be our delays in helping their country.

The general economic performance of the Uruguayan Government and their management of government-owned enterprises, as well as public administration, have been so poor over the past few years that we have found little opportunity to lend for well-conceived projects in that country. Our last loan in Uruguay was made in 1965 for a livestock development project (\$12.7 million).

The idea of technical assistance to UTE grew out of a Projects Department mission to Uruguay last June to update our information on the electric power situation and to assess UTE's capacity for undertaking its proposed expansion. The IDB, which had also been asked to consider possible lending to UTE, sent a mission to Uruguay at the same time ours visited the country. Both the Bank and the IDB missions concluded that reorganization and a greater measure of autonomy for UTE would be essential before significant expansion of the electric power sector could be undertaken effectively. The IDB also agreed that, since the Bank had been the principal lender to UTE in the past, we should continue in the power field rather than they.

Following the foregoing understanding that the Bank would take the lead, discussions were held at the Bank with the Ambassador of Uruguay for the purpose of determining the next steps for taking action. The possibility of a UNDP technical assistance project with the Bank acting as executing agency was discussed. Subsequently, Mr. Knox and I agree that for reorganization of UTE to be effective, it would be necessary, first, to determine whether the Uruguayan Government would be prepared to adopt certain basic policies necessary to develop UTE into an efficient organization, such as giving UTE reasonable autonomy, financial independence, promulgating appropriate tariff regulations, etc. (See attached.) We conveyed the foregoing to Ambassador Yriart, who indicated that his Government would view with great disappointment any delay in our assistance in preparing an application for UNDP assistance.

Meanwhile, we have moved ahead rapidly with the approach described in the memorandum attached hereto. Mr. Reitter arrived in Uruguay last Sunday for the purpose of assessing the Government's willingness to take the necessary actions required to make any reorganization of UTE effective. I suggest you indicate to the Minister that, having lent more than \$60 million to UTE, the Bank has a deep interest in its success in power operations and development, and that we are therefore making an effort to assist UTE in increasing its efficiency as promptly as possible. You might reiterate the major points

September 30, 1968

raised in the attached memorandum, i.e., that it would be essential for the Government to adopt measures giving UTE a reasonable degree of autonomy and to ensure that UTE's day-to-day operations are managed by competent technical personnel with the Board of Directors confining its role mainly to policy making.

The Minister of Finance, who is about 73 years old, is an old-line political figure who has been in and out of the Government for the past several years. He is not a significant member of the Government's economic team which is grappling with the problem of containing inflation.

As you know, the economic situation in Uruguay has been characterized by severe inflation for the last few years. In 1967 alone, prices rose by 130 percent, and thus far in 1968, the rate of inflation has been in excess of 60 percent. Two major devaluations of the Uruguayan peso were undertaken in the past eighteen months and the balance of payments deterioration experienced in 1967 has, through the devaluations and the help of a good harvest, been contained. The Government's wage stabilization policy has had the effect of dampening inflation in July and August but the Government faces serious opposition in Congress in obtaining legislative support for such policy.

The student turbulence and strikes in Uruguay make the situation seem nearly chaotic, according to the press, but reports from other sources indicate that the security problem is not out of hand and that the Government has control of the situation. Nevertheless, the disturbances which began several months ago are still continuing.

In view of the foregoing, we have not scheduled an economic mission to Uruguay, but if the situation warrants it, we plan to do so early in 1969.

Apart from power, we believe that a third livestock project could be appraised in the second half of fiscal year 1968/69 if there is some improvement in the economic prospects for 1969 and understandings can be reached with the Government on agricultural policy issues.

There is a possibility that the Minister will also raise with you a recent informal request by the Uruguayan Government for assistance in arranging for a transportation sector survey. I would recommend that you indicate to the Minister that we concentrate on UTE for the moment and that, after a review of the Uruguayan economy takes place, we might then investigate the possibility of looking at the transport sector.


Attachment

cc: Messrs. Evans (PD)
Reitter (WH) o/r
Sear (PD) o/r
White "
Wright (WH)

OFFICE MEMORANDUM

TO: Memorandum for Record

DATE: June 2, 1972

FROM: Gerald Alter SUBJECT: Meeting of Mr. McNamara with the Minister of Finance and Economy of
Uruguay, Mr. Francisco Forteza

1. Mr. Francisco Forteza, Minister of Finance and Economy, accompanied by Mr. Ricardo Zerbino, Director of Planning and the Budget; Mr. Agustin Barbato, Second Vice President of the Banco de la República Oriental del Uruguay; and Mr. Juan Pedro Amestoy, President of the Central Bank, called on Mr. McNamara on June 2. Mr. Alter was also present. The Minister explained that his Government has a new opportunity to set the economy on the road to economic growth after a stagnation of 15 years. He had just been informed that the President had accepted the resignation of the Cabinet and that members of the opposition party were being invited to join the Government. He hoped that a broad political base would thus be established in support of the Government's program.

2. The President of Uruguay, with whom he had just talked on the telephone, had asked him to convey to the Bank their thanks for the recent livestock loan, and they were looking forward to continued cooperation with the Bank. The Fund Stand-by Agreement was being signed this afternoon, and they were hopeful that this would set the stage for a roll-over operation with the commercial banks.

3. Mr. McNamara wished the Minister every success in carrying out their program, pointing out that the major problem which we may have in Uruguay is on the general economic side. If their program is successful, we have every expectation that we will be able to give continued financial support.

cc: Mr. Knapp
Mr. van der Heijden


GAlter:pa.

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 1, 1972

FROM: Gunter K. Wiese SUBJECT: URUGUAY: Visit by Uruguayan Delegation

1. Mr. Francisco Forteza, Uruguay's Minister of Economy and Finance, Governor of the Bank and head of a Delegation which is visiting the United States and Europe, will be calling on you tomorrow at 11:45 a.m. He will be accompanied by Mr. Ricardo Zerbino, Alternate Governor and Director of Planning and the Budget (with ministerial rank), by Mr. Juan Pedro Amestoy, President of the Central Bank and by Mr. Agustin Barbato, Vice President of the State-owned Bank of the Republic. Minister Forteza will pay you a courtesy visit and I do not expect him to raise any special issues affecting the Bank's relations with Uruguay. Short biographical sketches of Messrs. Forteza, Zerbino and Amestoy are attached.

General Background

2. Minister Forteza serves in the Bordaberry Administration which came to office in March of this year. This Government inherited a stagnating economy, and a difficult internal and external financial situation as evidenced by accelerating inflation, a large balance of payments deficit and a heavy burden of short-term debt. It has, however, formulated and is implementing a program to reverse financial deterioration, stimulate investment and restore economic growth capacity. The Delegation has come from Uruguay to finalize negotiations for a Stand-By Agreement with the International Monetary Fund, to present Uruguay's economic program for 1972 as well as its development orientation to CIAP, and to attempt rescheduling Uruguay's short-term debt falling due this year to private banks in the United States and Europe. We expect the Uruguayans to come to an agreement tomorrow with the International Monetary Fund, which would permit a Second Credit Tranche drawing. This agreement would also signal to the banks in Europe and the United States Uruguay's willingness to formulate and adhere to a program of financial correction, and would, therefore, improve the chances for Uruguay to obtain a critically-needed rescheduling of credits received from these banks, thereby relieving in good measure the balance of payments constraint to economic growth in 1972.

3. We have analyzed the Government's program for 1972 and have concluded that it meets, on the whole, the requirements of the 1972 situation. It demonstrates to us the courage of the present Government to face up to what admittedly are formidable problems, and you may wish to tell Minister Forteza that we are encouraged by the speed and decisiveness by which the Government has acted. You will, of course, recall that in April the Board approved a US\$11.2 million loan to Uruguay for the first stage of the Fourth Livestock Project which we presented in the expectation that the Government would come to an agreement with the International Monetary Fund. I expect Minister Forteza to repeat to you what he said frequently in public, namely that the Bank's confidence in the policies of the Bordaberry administration has strengthened the Government's hand with the Opposition in securing a national consensus on the new economic policies.

June 1, 1972

4. Minister Forteza will probably tell you that with the resolution of the short-term financial problems, there would be some breathing space for the Government to address itself to programs that would permit resumption of economic growth, particularly if the Government is successful in its attempts to secure a "National Agreement" with the Opposition. The latter could mean including some members from the Opposition in the Cabinet. We do not know how far matters have progressed on this issue, but Minister Forteza is likely to tell you that the Government has started preparing a five-year development and investment program which he expects to receive majority support in Parliament. This program would be completed in August at which time we are planning to send an economic mission to Uruguay to review with the authorities this development program, to assess the external financing requirements and, thereafter, to formulate an appropriate Bank response and strategy.

Possible Bank Assistance in 1972

5. Minister Forteza's main concern appears to be to obtain from the Bank verbal commitments for financial assistance to carry out further investments in the power sector, for financial and technical support for a road construction and maintenance program, and to solicit the Bank's interest in considering lending programs for industry and agriculture. As to the latter, the Minister may stress the Government's desire that the Bank goes ahead, probably in December of this year, with a loan of US\$14.4 million for the second stage of the Fourth Livestock Project. Should the Minister raise these points, I suggest you tell him about the Bank's keen interest in working with the Government to bring these projects to the point where they can be considered for Bank lending, but that a decision to go ahead with Bank lending for these projects would depend on the Government continuing to execute sound financial and development policies. To illustrate your point, you may wish to say that we now have a mission in Uruguay which is reviewing the power investment program, and that we are planning to analyze the requirements of the transport sector later this month as a first step towards the full definition of the Bank's lending strategy later this year. You may also wish to say that whatever role there would be for the Bank in general agriculture and industry should become clearer after the economic mission has returned from Uruguay in August. Finally, Minister Forteza may raise with you the issue of the Bank providing assistance to the Government of Uruguay in the formulation of development policy. The Minister has raised this question with me and has requested that the Bank make available a general economist, an agricultural expert as well as an industrial economist to advise the Government, perhaps for a period of one to two years, on general development policy and on policies and programs for these two sectors. I am sympathetic to the Minister's request but have informed him that it may be difficult to find suitable candidates. You may wish to respond along the same lines.

Attachment

cc: Messrs. Knapp
Alter
Ross
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Attachment - Biographical Sketches

Mr. Francisco Forteza - Minister of Economy and Finance. Mr. Forteza, 44, studied law at the University of Montevideo until 1951 when he was appointed Secretary in the Permanent Mission of Uruguay to the United Nations. In this capacity he represented Uruguay in a number of international conferences. Later he was posted to the Foreign Office and was appointed Under-Secretary of State for External Relations in 1957. From 1959 to 1962 he served as Director of the Uruguayan Railways, a position he left in 1963 upon election to Parliament. In December 1967 he was appointed Under-Secretary for Finance and played an important role in the design of corrective financial policies which received IMF support and were highly successful. He resigned when these policies were abandoned in the late 'sixties.

Mr. Ricardo Zerbino - Director of Planning and the Budget. Before his recent appointment, Mr. Zerbino, 34, was Chief of Planning within the Directorate of Planning and the Budget. Trained as an economist, he worked with the Committee for Investment and Economic Development between 1962 and 1967 which prepared Uruguay's development strategy. During his career, Mr. Zerbino attended a number of courses abroad in the field of economic development. Because of his intelligence, pragmatism and grasp of Uruguay's development problems, he commands the respect of his colleagues within the Cabinet.

Mr. Juan Pedro Amestoy - President of the Central Bank. Mr. Amestoy, 45, was trained as an economist, and held the post of professor of Economics at the National University. After serving as advisor to the Minister of Finance and as Uruguayan Representative to the Latin American Free Trade Association (LAFTA) from 1966 to 1967, he worked as an economist in the Economic Commission for Latin America (ECLA). Between 1970 and 1971, Mr. Amestoy was Minister of Industry.

OFFICE MEMORANDUM

TO: Memorandum for the Record
DATE: January 14, 1974
(Dictated January 11, 1974)

FROM: Gunter K. Wiese

SUBJECT: URUGUAY: Visit of Uruguayan Ambassador with Mr. McNamara on January 11, 1974

1. The Uruguayan Ambassador, Mr. Hector Luisi, called on Mr. McNamara today for about six minutes. Also present were Mr. Barrios Tassano, Alternate Executive Director, and the writer. The Ambassador informed Mr. McNamara that his Government had instructed him to urge the Bank to support Uruguay in its efforts to finance the construction of the Palmar Hydroelectric Project (see my memorandum of today's date to Mr. McNamara on this subject). He referred to the pending shortage in the electricity supply in Uruguay projected for the late years of the current decade.

2. After a brief discussion of the worldwide trends in energy prices and the implications for Uruguay, Mr. McNamara stated that the Bank was indeed interested in considering this project. We would, however, as a first step need to update our assessment of the current economic position and prospects of Uruguay and also learn more about the proposed project. An economic mission was slated to go to Uruguay in February, and it would not be until after its return that the Bank would be able to initiate further discussions with the Government on the financing of Palmar. It was, however, obvious that the Bank would not be able to provide more than a fraction of the total external financing required.

cc: Messrs. Ljungh
Knapp
Alter
Knox
Favilla

GKWiese:mr

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 11, 1974

FROM: Gunter K. Wiese, Director, LAC CPII

SUBJECT: URUGUAY: Briefing for your Meeting with Ambassador Hector Luisi

1. Ambassador Luisi, who will call on you today at 5.20 p.m., will discuss, we understand, the possibility of the Bank's financing the Palmar Hydroelectric Project (400 MW). In view of an expected power shortage in 1977-78, the Government has given the highest priority to the development of the energy sector.

2. You will recall that we objected to the Palmar Project several years ago on grounds that it was not the best alternative. Instead, a combination of hydro and thermal generating units was, at that time, considered the best solution. However, the steep increase in the price of oil (which will triple the country's oil import bill this year from US\$50 million to US\$150 million) seems to have dramatically changed the economic justification of the project. The Government proposes to finance the cost of the project (US\$150 million of which US\$75 million is estimated to be in foreign exchange) through surcharges in electricity and petroleum consumption, suppliers' credits, and loans from international organizations.

3. In view of the present circumstances, I would be surprised if the project did not prove to be technically and economically feasible. However, there are great uncertainties with regard to Uruguay's economic prospects and creditworthiness. Although balance of payments results in 1973 have been good (a trade surplus of about US\$28 million in January-September 1973 compared with a deficit of about US\$13 million in the same period of 1972), Uruguay will be among the hardest hit in the Region by prospective price changes in the wake of recent energy developments. The forthcoming economic mission (February 1974) will take these factors fully into account in analyzing economic prospects. Only after we have reviewed their findings will we be able to judge whether creditworthiness prospects justify external borrowing on the scale required by Palmar. To be sure, Uruguay has recently started to repay its commercial arrears, but it will probably be some time before bilateral lenders are prepared to lend on a substantial scale. The Bank should, therefore, expect that it would have to assume a relatively large share in any financial consortium financing the project. Perhaps the IDB can be persuaded to join such consortium.

4. The FY75 lending program includes only US\$10 million for continuing support to the export-oriented livestock sector.

5. In view of the foregoing, you may wish to inform the Ambassador of our general interest in the project but suggest that we discuss the subject with the Government after the return of the economic mission and after we have reviewed the feasibility of the project.

cc: Messrs. Knapp
Alter
Knox, Director, Projects, LAC

President has seen
JSingh/AFavilla:erl

until return to normalcy, rapidly disbursing Bank and IMF support would be vital for his continuing political existence.

There followed some discussion about the causes of and prospects for the current surplus situation of beef in European markets. The discussion ended by Mr. McNamara congratulating the Minister on the courage of his economic policy actions. Mr. McNamara expressed the hope that in the future there would soon be another opportunity for him to exchange views with Minister Vegh Villegas.

cc: Messrs. Ljungh
Knapp
Alter
Avramovic
Blaxall
Greene
Favilla

GKWiese:mr

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(through Mr. Gerald Alter) *gfr*

DATE: October 8, 1974

FROM: Gunter K. Wiese, Director, LAC II

SUBJECT: URUGUAY: Briefing for your Meeting with Dr. Alejandro Vegh-Villegas,
Minister of Economics and Finance and Governor for the Bank

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8

1. Dr. Vegh-Villegas has requested a meeting with you to transmit the Government's request for increased Bank support to help Uruguay overcome its balance of payments difficulties. The balance of payments deficit in 1974 is now estimated at approximately US\$140 million, compared with a US\$66 million surplus in 1973, and for 1975 it is expected to be at least of a similar magnitude. In large measure, this deterioration reflects forces beyond the Government's control, i.e.; the closure of the EEC market to beef imports, a better than three-fourths rise in the price of oil imports, and a substantial rise in other import prices reflecting worldwide inflation, which have adversely affected balance of payments performance. Deficient economic management, however, has contributed to worsening the economic situation.

2. In spite of the generally adverse economic picture, there is reason for some optimism. For the first time, there appears to be recognition within the Government that a major reorientation of economic policy is needed if Uruguay is to once again become a viable economic unit. Dr. Vegh-Villegas, appointed in July 1974 (biography attached), appears to be the driving force behind the strong push towards adoption and implementation of sound economic policies. The Minister is now in Washington discussing with us and the Fund an economic rehabilitation program, which is expected to provide the basis for a standby arrangement, including extended and oil facilities, and additional Bank support. The Government has already taken some important policy measures to effectively attack current problems and appears willing to continue doing so in coming months. Once we have a clearer picture of the economic program being proposed by the Government, which we hope to have in a preliminary way by the end of this week, we will be in a position to start drafting a CPP so as to define a lending posture towards Uruguay.

Attachment

cc: Mr. J. Burke Knapp

AJFavilla:erl

BIOGRAPHY - Dr. Alejandro Vegh-Villegas

Dr. Vegh-Villegas, Belgian-born Uruguayan national, is 46 years old (date of birth: September 22, 1928). He studied industrial engineering at the University of the Republic in Montevideo and Economics at Harvard University, where he obtained his Ph.D. in Political Economy. Dr. Vegh-Villegas has wide teaching experience in Montevideo and Buenos Aires as Professor of Engineering. He also held the chair of Hydroelectric Economics at the Graduate School of Hydraulic Engineering at the University of Buenos Aires. He has served as a consultant on energy economics to several governments and organizations, including Electricidad de Caracas, S.A., Hidronor, S.A., Argentina, Argentine corporation operating the El Chocon-Cerros-Colorados complex, Brazil's Ministry of Planning under Roberto Campos, IDB, OAS, and CEPAL. Dr. Vegh-Villegas has also held important government posts, including those of Under Secretary in the Ministry of Industry and Trade (1967) and Director of Planning and Budget in the Office of the President in 1968. Until his appointment as Minister of Finance, he served as a consulting engineer to the Bolivian Ministry of Energy and Hydrocarbons at the recommendation of the Bank.