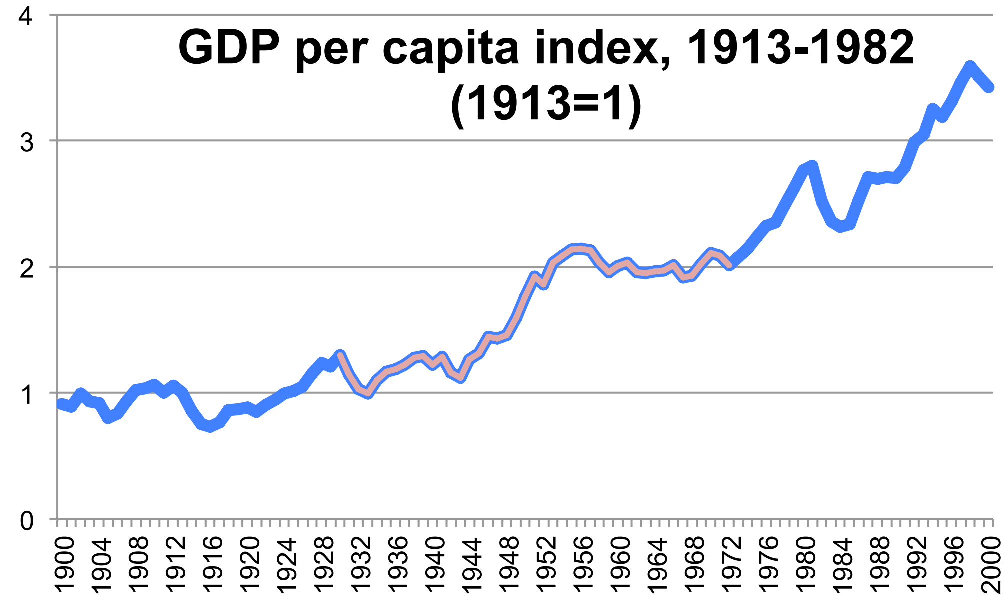
The Banking Sector in Uruguay between 1938 and 1965: *the role of bank regulation during state-led industrialization*

Gastón Díaz
Cecilia Moreira
Instituto de Economía
Facultad de Ciencias Económicas y de Administración
Universidad de la República - Uruguay

The Uruguayan economy during state-led industrialization (1930s to 70s)

- Pillars of the development model
  - Multiple exchange rates
  - Tariff protection
  - Expansion of social security
  - Tripartite wage bargaining
- 1943-1954: high growth and industrial expansion
- … followed by 15 years of stagnation



Source: Own elaboration based on Bonino et al. (2012), based on Bertino and Tajam, 1990, BROU, and BCU

What was the role of bank regulation in state-led industrialization?

What regulations were implemented?	• National Register of Laws and Decrees
Why were these measures taken?	• Legislative Assembly discussions • Specialized literature from the period
What was the result?	• Statistical Yearbooks • Banco de la República and Treasury publications • Specialized literature from the period

Primary objectives of regulation: → Safety of banking system | Monetary policy | Credit policy

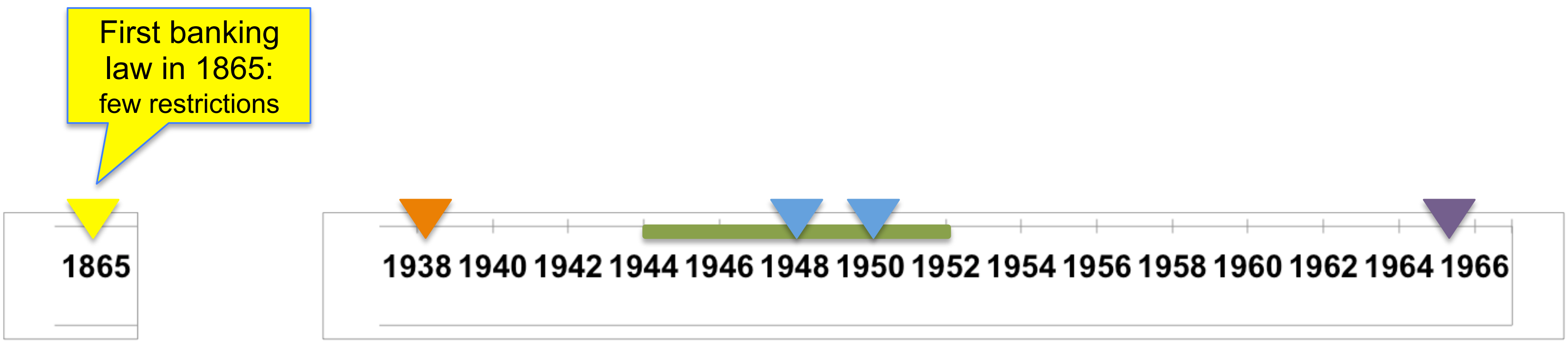
Principal regulatory changes

1938
general banking law

1944 to 1952
changes to the reserve ratio

1948 and 1950
rediscounts

1965
response to banking crisis



The Uruguayan banking sector during the period

- Dominated by the Banco de la República (BROU)
  - Banking Department: commercial banking, state finance, agricultural and industrial development, administered foreign exchange market
  - Issue Department: issued currency and played a role in supervising private banks
- Expansion of private banking sector:
  - National, Foreign or Cajas Populares
  - From less than 30 to over 80 institutions; deposits x3 and lending x4 in real terms
- BROU lost market share over the period

The 1938 law

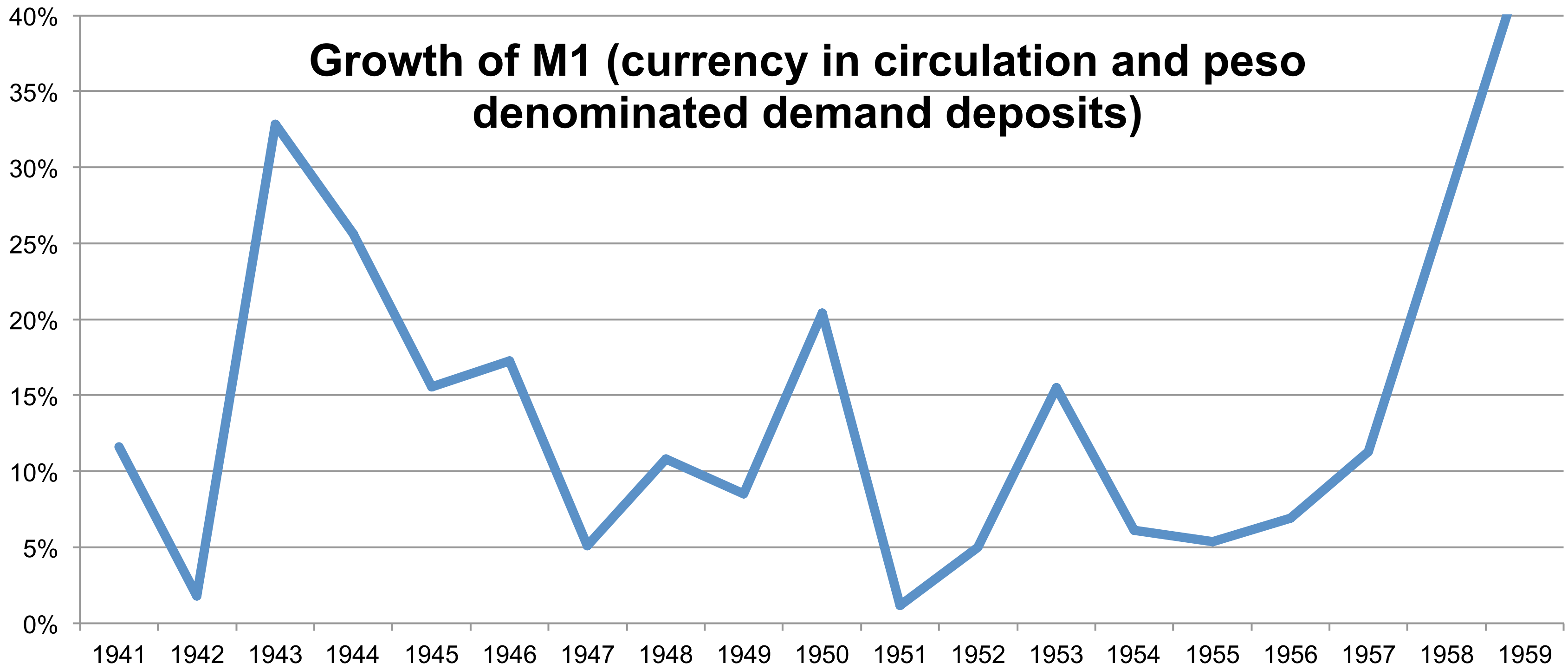
Recognized that private banks were a “public interest”

- Provisions
  - Supervisory institutions (Executive and BROU)
  - Bank balance limits: established minimum capital, limited deposit to capital, set minimum reserve requirements
- Objectives
  - Rationalize control
  - Strengthen financial security and prevent crises
- Results
  - Most banks already operated within limits
  - Seen as effectively preventing bank crises

Changes to the reserve ratio, 1944-1952

- Provisions
  - Gave authority to Executive to adjust limits on bank balance sheets
  - Executive doubled reserve ratios
  - Measure renewed continuously for over 8 years
- Objectives
  - Make bank regulation more flexible
  - Freeze reserves within the system in order to control monetary growth
  - In the late-40s discussed as part of a mechanism for directing credit
- Results
  - Higher reserve ratios appear to have acted as a limit to lending
  - Seen as effectively controlling monetary growth

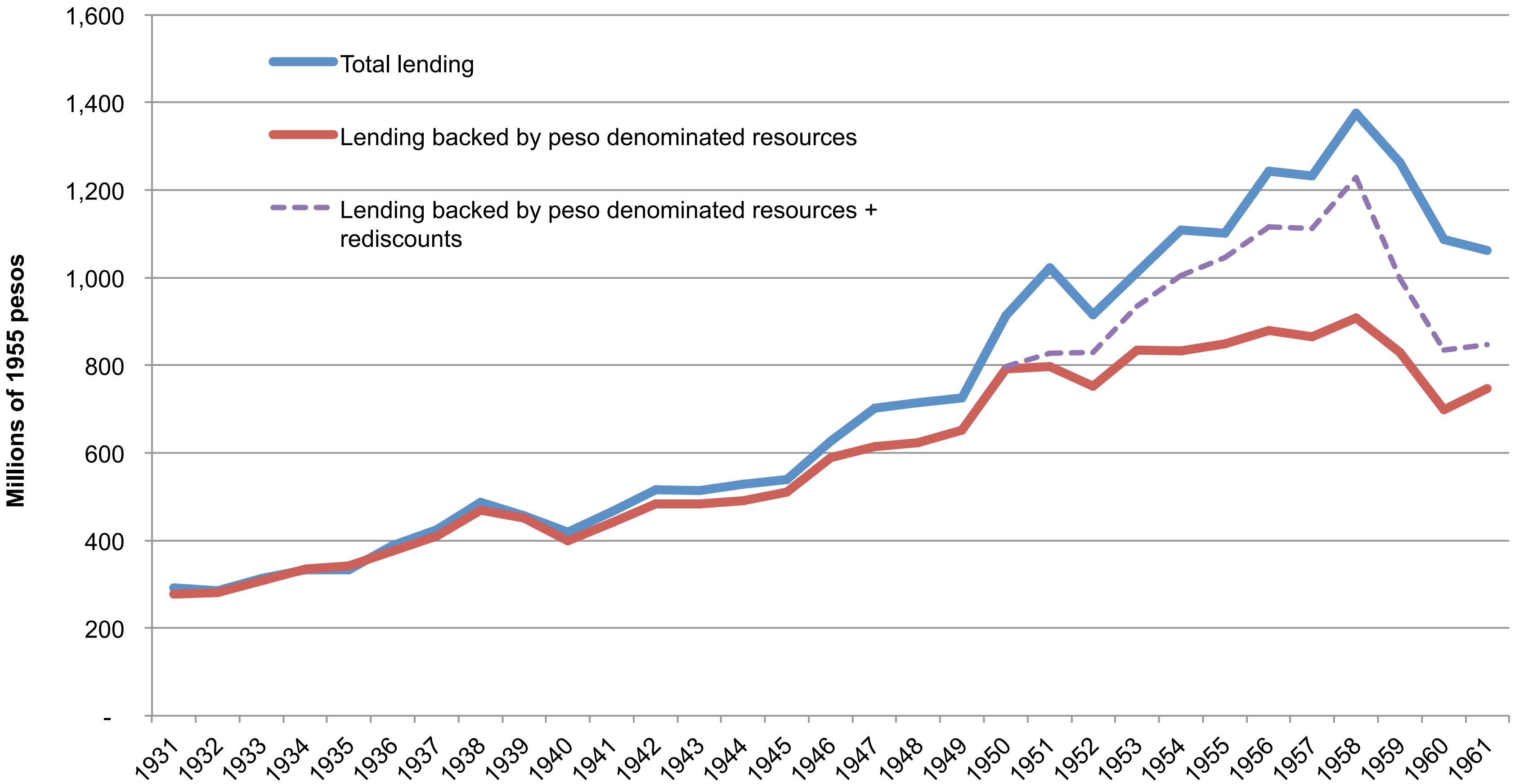
Results of stricter reserve ratio policy?



The rediscount laws of 1948 and 1950

- Provisions
  - BROU banking Dept. and private banks can rediscount directly at the Issue Dept.
  - No limit on rediscounts
  - Specified which types of documents could be rediscounted
- Objectives
  - Liberalize monetary regime and expand credit
  - Direct credit towards where it was most needed
- Results
  - Use of rediscounts expanded and monetary base increased
  - Possibly encouraged speculation
  - Allowed financing of commercial transactions but not adequate for directing credit towards longer-term investment

Private bank sector lending



The regulatory response to the 1965 crisis

- Provisions
  - Deposit insurance up to $50k; BROU would issue currency if necessary
  - 75% of deposits must go to agro or industry
  - Banks forbidden from participating in non-bank companies, owning stock, bonds or real estate, and granting guarantees
  - Stricter supervision by the Issue Dept. and the Executive
- Objectives
  - Stem crisis
  - Strengthen safety and soundness of the banking system
  - More aggressive effort to direct credit for development purposes
- Results …

Conclusions

- The 1938 and 1965 provided a general framework for the private banking sector and looked to ensure safety and soundness
- During the 40s and 50s, regulation responded more to monetary matters
- Although directing credit had been discussed since the 40s, only in 1965 was any real action taken, and then only in a limited way

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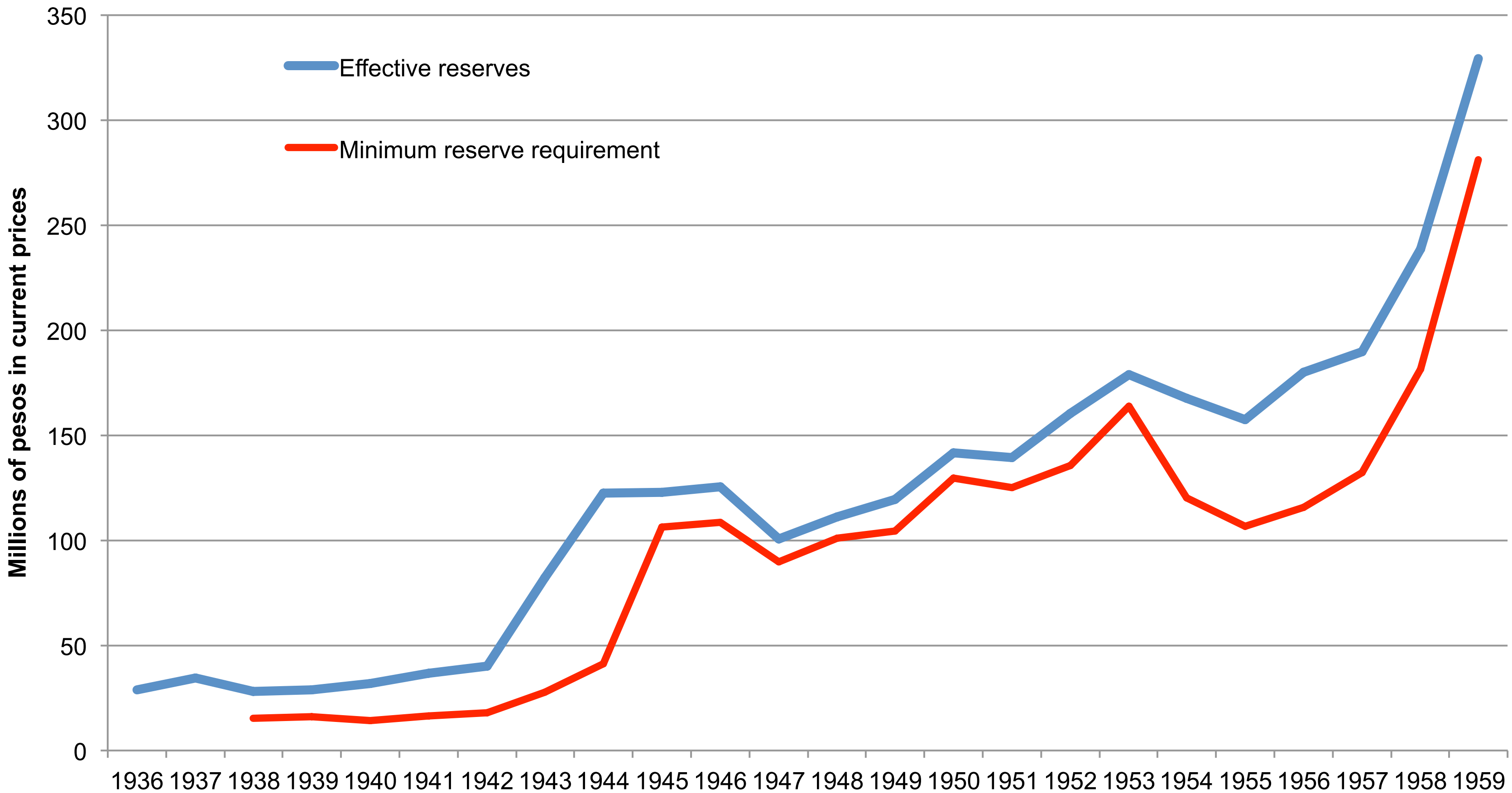
Evolution of effective reserves and minimum reserve requirement



Results of stricter reserve ratio policy?