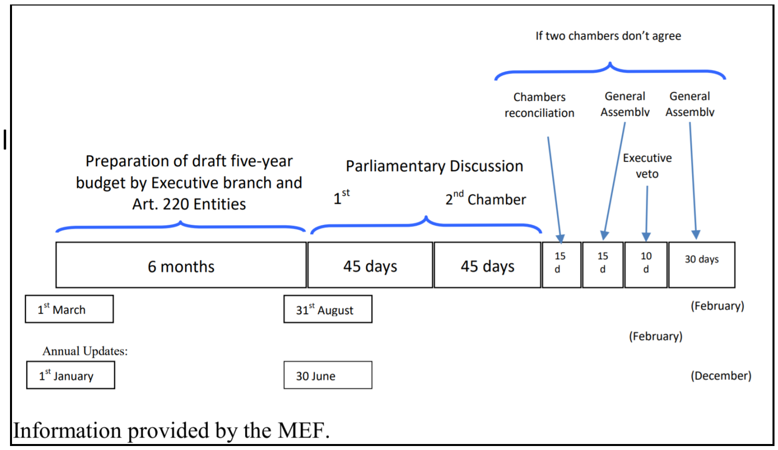
URUGUAY: Overview of Fiscal Policy

Liam Prevelige & Eli Thrasher

Uruguay's five year government budget lacks clear fiscal targets that account for the nation's unique population structure, resulting in inefficient policy implementations; Uruguay should redefine budget duration and scope of fiscal targets to increase the effectiveness of policy implementation and create greater potential for long-term, sustainable economic growth.

Budget Structure Background

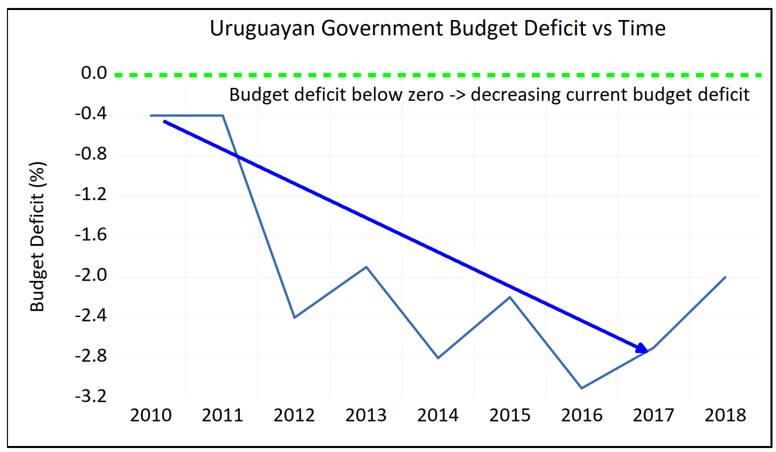
- 5 year goals that are revised annually
- Specific and consequently numerous fiscal targets
    - Budget defines what needs to be done, not the desired result
- There are frequently delays in implementing a new budget following changes in Presidency
    - President Pou elected 2019



Creating Fiscal Policies

Two major organizations responsible

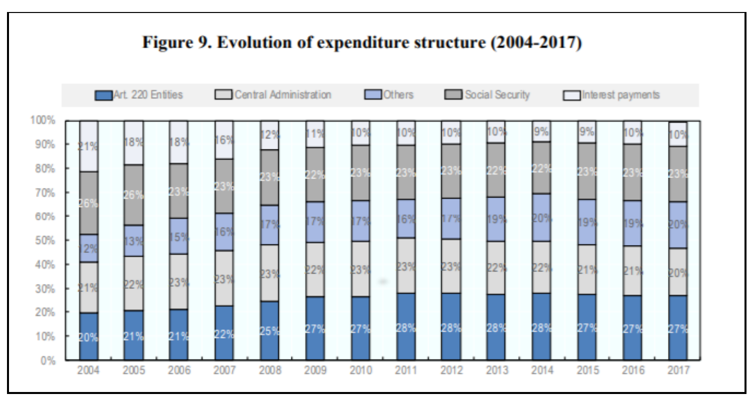
- The Macro Assessment Unit (Asesoría Macroeconómica y Financiera) of the Ministry of Economy and Finance (MEF)
    - Carries out projections for the five-year period and proposes fiscal targets
- Executive in the Council of Ministers (Consejo de Ministros)
    - Discuss & agree upon fiscal targets proposed by MEF



MEF

Government Budget

- In 2017-2019 government spending averaged 14.3% of GDP, budget deficits -3.7% & public debt 66.2%
- In 2010 - 2018 budget deficit has been negative, -2.0% 2019
- Fiscal expenditures ~28% growth in 2019



MEF

Policy #1: Maintain a reformed five-year budget

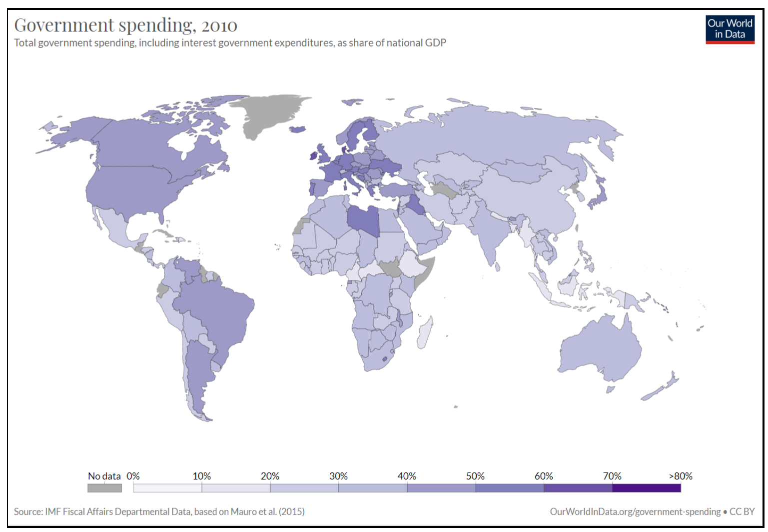
Liam Prevelige

Uruguay should continue using a five year budget updated annually, but should reformed to outline a **small number of high-level fiscal targets** whose success is **measured by changes in output**. This change would foster broad-based, sustainable economic growth through better organized and more prudent allocation of capital.

MEF

Addressable Problems

- Increased fiscal expenditure hasn't benefited many industries
    - 2006-2016 Δ+38% expenditures: Δ0% tourism, Δ+2500% avg. health care price
- Input-dependent fiscal targets hinder consideration of prior effectiveness
- Large number of specific fiscal targets adds implementation complexity
    - Decentralized population, ~90% land mass has <10 people/km^2

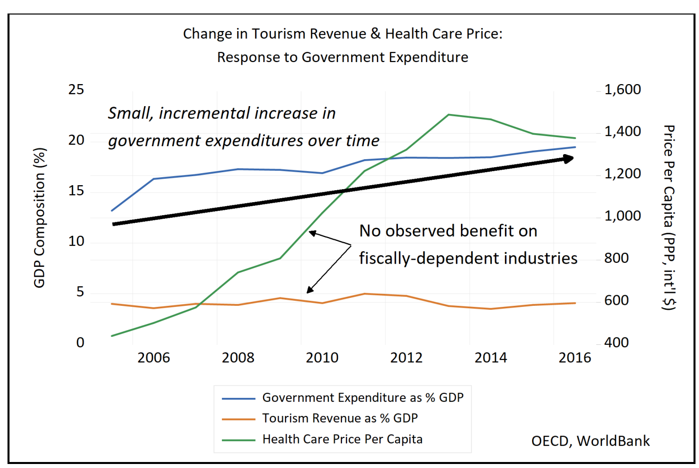


Necessary Reform of Fiscal Targets

I. High-level: Define industry targets generally, avoid nuance
II. Small number: Focus on a few goals deemed most important
III. Output focused: Define targets based on desired results of capital allocation
IV. Five year budget: Keep long-term focus, adjust slightly for annual expectations

Key Support for Success Potential

- Specific policy implementation using 19 gov't departments & 112 municipalities
    - Better informed on regional abnormalities, policy nuance
- Ex. budget inefficiency: IGC estimates restructured educational fiscal targets could improve OECD PISA scores by 11.5%
- Overlap of suggested fiscal reforms with studies from OECD, IMF, and IDB



Benefits

- Decisions motivated by past successes
- Bring much-needed clarity to fiscal policy
- Specialize fiscal policy by region
- Maximize general effectiveness of budget, ensure long-term fiscal benefits for greater number of people

Policy #2: Adaptation of an Annual Budget

Eli Thrasher

Policy: The Uruguayan government should implement a more orthodox one year budget that continues to define process-focused targets specific to the institutions implementing fiscal changes. Every five years, the government should observe the outcomes of fiscal policy changes and account for the effectiveness of the past budget's targets.

Uruguay's Uniqueness:

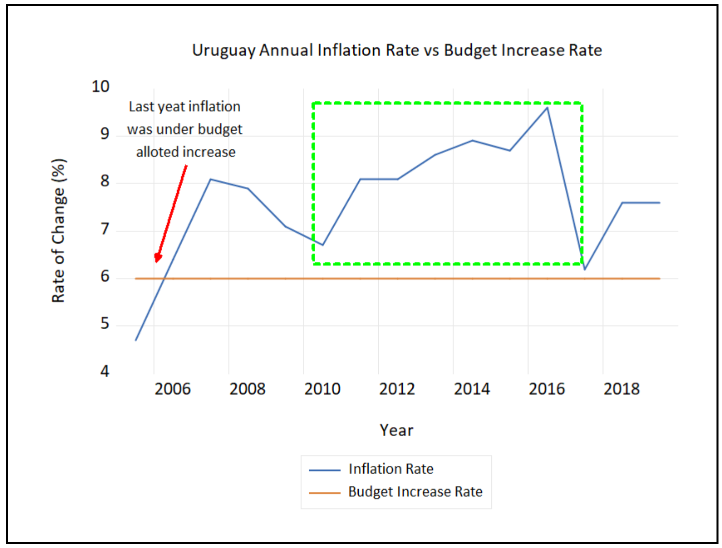
- Five year budget started in 1968
- Only major country in the world that institutes a five year budget
- Created at the beginning of every new 5 yr government

Issues:

- Nominal budget that has built in 6% inflation (Avg inflation over last 10 years 8.5%)
- Non-flexible in times of crisis, only 1% of gov. spending can be utilized in emergencies
- Reliance on large appropriation bills
- Oversight is limited due to large plans in place
- Planning for budget becomes outdated in such planning
- Government is not allowed to amend budget within last year

Benefits of Annual Budget:

- Increased flexibility for government policy to adapt to global trends
- Fixing of policy, also known as "state-planning" scare investors
- Allowing a freer-market, with year-to-year adjustments
- Fend off political polarization of budget
- Tighter budgeting for fiscal responsibility



World Bank

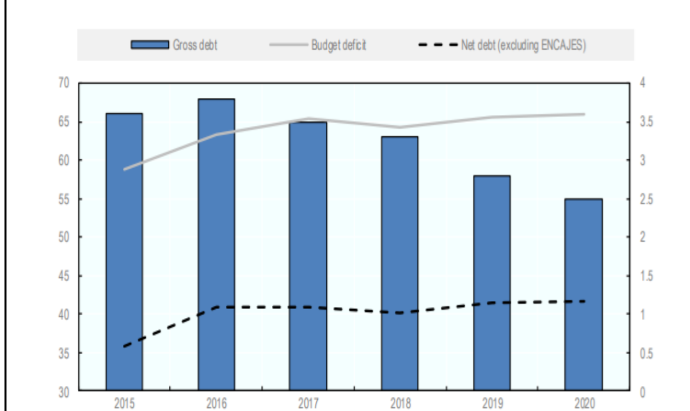


Figure 4. Government Budget Deficit, Net and Gross Domestic Debt (as a percentage of GDP)

Source: CGN (2017a) and MEF (2017)