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Uruguay announces controversial massive infrastructure investment program — MercoPress

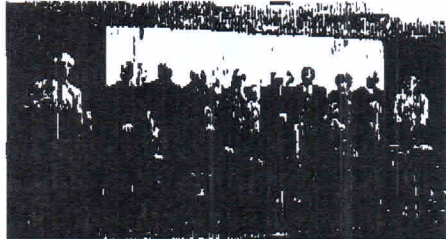
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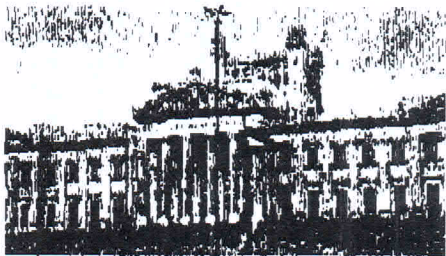
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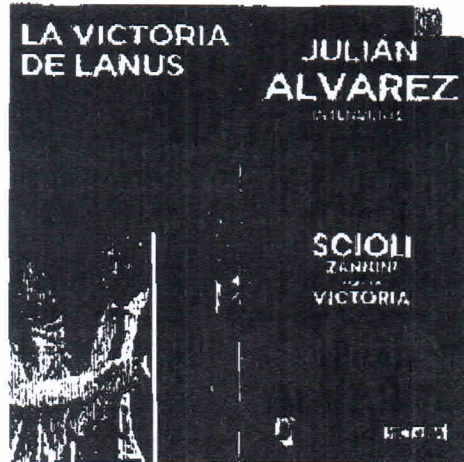
Uruguayan President Tabare Vazquez announced on Monday a controversial plan for 12.37 billion in infrastructure investment over the next four years. Two-thirds of the investment will come from the government, Vazquez told a news conference. Where the other third was to come was not confirmed.



President Vazquez and his cabinet during the announcement of the infrastructure investment plan for the next four years



Uruguay is facing strong headwinds and the economy's numbers and budget inherited from the Mujica administration need a strong austerity adjustment



The president said \$4.33 billion will be earmarked for the energy sector, \$2.36 billion for roads, \$1.87 billion for social infrastructure and \$1.32 billion for housing. Smaller amounts will go toward upgrading communications, water and sewers, ports and railroads.

These investments "will help to optimize Uruguay's productive capacity, will allow us to advance in the strategic project for the country to become a logistics hub for the region," Vazquez said.

Though he did not offer a figure for the number of jobs that could potentially be created by the effort, the president said the investment is vital to keep Uruguay's economy growing.

The plan will not require tax increases, Vazquez said, while Economy Minister Danilo Astori discounted any risk that the additional spending would spur inflation.

Asked whether the government would seek loans from international institutions to fund the program, the minister said that "indebtedness is not the basis of this plan."

The planned \$12.37 billion in spending is equivalent to 21.5% of Uruguay's gross domestic product in 2014.

However the announcement has stirred surprise since part of the funds are expected to come from the private pension funds (anywhere from 3 to 3.5bn dollars), and a significant number of lawmakers and union leaders (inspired in neighboring Argentina and ideological sweetheart Venezuela) are proposing that the

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'abundant' central bank international reserves (in the range of 18bn dollars) be invested in the infrastructure plan.

Minister Astori and his orthodox group, which have been running the Uruguayan economy and finances since 2005 do not support such an initiative but don't necessary have the sufficient votes to impede a congressional advance on that direction.

Furthermore despite almost ten years of uninterrupted growth of the Uruguayan economy boosted by the strong global demand and prices for the country's commodities, the national budget has repeatedly been in the red, particularly during the last five years which coincide with the administration of former president Jose Mujica.

This has been reflected in inflation rates: just on the fringe of double digit, but nevertheless the highest in the region behind Venezuela and Argentina.

The admitted 2014 budget deficit reached over 3.5% of GDP, and the government's main companies, working on a monopoly basis in the small Uruguayan economy, have been showing strong deficits, when traditionally the public-service rates (fuel, power, drinking water, insurance, communications, ports, urban and long distance land transport, milk) have been used by the different administrations to help the national budget with their surpluses.

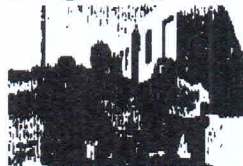
In the last five years the fuels' monopoly Ancap, despite the fall in oil prices has repeatedly shown deficits; the same can be said of the power company UTE, although mitigated because at times there was insufficient water supply for the dams; not even the boom in cellular phones and all the new gadgetry helped Anel balance its accounts, rather the contrary.

Summing up, when the Uruguayan government companies (monopolies with administered public-service rates) are supposed to contribute with 1% to 1.5% of budget surplus, exactly the contrary has happened in recent years: they added 1% to 1.5% to the overall deficit.

No wonder then that some economists and analysts wonder how the Uruguayan government which with a strong tail wind was not able to save for leaner years or invest sufficiently when the boom, is now going to manage such a sum of funds in infrastructure, facing a formidable head wind and when interest rates are expected to begin climbing after years of flatness.

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