

BTI 2014 | Uruguay Country Report

Status Index	1-10	9.33	# 4 of 129	
Political Transformation	1-10	9.95	# 1 of 129	➔
Economic Transformation	1-10	8.71	# 7 of 129	➔
Management Index	1-10	7.49	# 2 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2014 – Uruguay Country Report. Gütersloh: Bertelsmann Stiftung, 2014.

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Key Indicators

Population	M	3.4	HDI	0.792	GDP p.c.	\$	16036.7
Pop. growth ¹	% p.a.	0.3	HDI rank of 187	51	Gini Index		45.3
Life expectancy	years	76.8	UN Education Index	0.764	Poverty ³	%	1.2
Urban population	%	92.6	Gender inequality ²	0.367	Aid per capita	\$	3.3

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The period under review covers the core of the Mujica administration's term of office, the second government of the leftist Broad Front (Frente Amplio, FA) which won the presidency for the first time in the 2004 election. Former President Tabaré Vázquez took office on 1 March 2005, and five years later he was succeeded by President José Mujica. As both are members of the same coalition though from different groups and parties, public policies followed by Mujica have been essentially the same as those of Vázquez. However, Mujica's presidential bid ran counter to the preferences of Vázquez, who intended to promote the former minister for the economy and current Vice President Danilo Astori as president. As Mujica's candidacy was championed by the radical factions of the FA (communists and the former guerrilla movement, Tupamaros), some observers anticipated that the second government of the FA would deepen Vázquez's efforts at transformation, taking a leftist turn. However, the main policy orientations of the new government did not show significant innovation with respect to the former, in part due to the obstacles found in two reform areas that were originally prioritized by Mujica: the state administrative reform and education reform. The first year of the new government was fundamentally a continuation of the previous, but during its second and third years in office, Mujica's government showed a number of distinctive features, most of them due to his peculiar style of leadership. The most salient problem manifested in 2012, when contradictions within the executive began to appear. Among them was the presence of different views on economic policy, which were described by the press as the existence of "two economic teams" – an official team that controls the ministry of economics and the Central Bank, and an alternative team made up of a group of the president's direct collaborators. This alternative economic team has promoted a number of initiatives that, mainly having to do with taxation, are considered inconsistent with the official team's policies. So far, these tensions are mainly a debate between radical and moderate sectors inside government, but since those opposed visions were made public and were seen as increasingly aggressive, they have

damaged the unity of the government, lowering its public support and creating uncertainties among relevant actors.

Despite an unfavorable international context, the Uruguayan economy is performing quite well. The impact of the economic crisis was minor in Uruguay, and the growth that began in 2003 has continued without any major upheavals. The adequate management of economic and financial policies (low fiscal deficits, regulation and a favorable climate for investors, the strengthened financial position of the banking system) made for good socioeconomic performance during 2011 and 2012, with growing GDP, falling poverty and unemployment levels at a historic low. In particular, Uruguay has been quite successful in terms of investment during the review period. Overall investment in 2012 reached its highest level after 64 years, accounting for 22.1% of GDP in 2012, after an increase to 19.4% in 2011. By the same token, in 2012 FDI amounted to \$2.679 billion, equivalent to 5.2% of GDP, after 5% in 2011. However, the continuation of these trends depends on diverse internal and external factors. While the external factors – such as commodity prices or demand from China – are out of the control of the government, the main challenge the country has is to maintain sound economic policies, aimed at maintaining control of inflation and strengthening the favorable conditions for investment. This task could be increasingly difficult in the context of the internal contradictions of the government and the approaching electoral season.

History and Characteristics of Transformation

Uruguay has the longest democratic history of any Latin American country. In the 20th century, Uruguay suffered only two institutional breakdowns. The first, in 1933, was a civil coup that sought rapid re-institutionalization through constitutional and legal reforms. However, the lack of legitimacy of the two elected governments (1934 and 1938) under these norms implied that effective democracy was only achieved in 1942, with a new constitutional reform. The second rupture, between 1973 and 1984, led to a military dictatorship similar to others (of the bureaucratic-authoritarian type) that devastated the continent at that time. The period of military dictatorship was the only time in the 20th century when governments were not elected and when traditional political parties were excluded from power. This fact underlines the country's remarkable political development within the regional context. Uruguay shares with Colombia the striking characteristic of having been governed by only two different political parties before 2004: the Colorado (or Red) Party (PC) and the National (or Blanco, White) Party (PN). In the long run, the Uruguayan political system has demonstrated a level of political stability and continuity that makes it stand out in the regional context.

Along with early democratization, Uruguay developed a welfare state that implied a joint process of building political and social citizenry. During the first decades of the 20th century, under the leadership of José Batlle y Ordóñez, various political (universal and secret suffrage, free and fair elections), social (separation of church and state, eight-hour working day) and economic reforms were implemented. In the absence of strong de facto powers the state acquired a central role in the

economy and in the provision of all kinds of public services. By these means the country forged a wealthy, integrated and modern society during the first half of the 20th century. Prosperity based on the strong performance of agricultural and cattle exports was associated with an “import substitution development model,” which was intended to promote industrial development but fell into crisis at the beginning of the 1950s, a consequence of a significant drop in commodity prices. A long period of economic stagnation and social turmoil followed.

The solid bipartisan political system that Uruguay has had for more than a century began to undergo changes during the 1960s. In a context of strong social and political conflict, minor leftist parties joined with other groups and dissident leaders from traditional parties to form the Broad Front (FA). Following the 1971 election, the traditional parties began to systematically lose votes to the leftist opposition, which went on to win the 2004 general election with a majority of votes.

But at the beginning of that process, the economic, social and political crisis led to a coup in 1973 and a 12-year military dictatorship that ended in 1985. When the constitution was restored, a double transition process took off. On the one hand, the country’s re-democratization was rapid and the rule of law was restored – with the exception of the prosecution of human rights violations during the dictatorship – along with the previous political and party system and all its complexities. On the other hand, a process of economic and state reform was gradually implemented by successive governments of the traditional parties. But while the democratic transition was rapidly concluded, various privatization and state reform attempts were blocked by a coalition between the leftist opposition and social organizations – mainly labor unions, frequently resorting to mechanisms of direct democracy. In that context, the traditional parties were increasingly grouped together at the center right of the ideological spectrum, since they jointly advocated and conducted pro-market reforms (such as de-monopolizing the assurance market, privatizing the state-owned airline, contracting private companies for port services and creating a mixed, state-private, social security system), and the FA increasingly assumed the role of defender of state-owned enterprises, along with the rights of the workers and the poor. Even though during most of the 1990s, economic growth rates were around 5%, and inflation and unemployment rates were both contained at about 10%, the process ended in 2002 with a deep recession and a financial crisis.

The shifts in the party system that started in 1971 gained strength, as the FA moved toward more moderate ideological positions and adopted state-oriented proposals that were being abandoned by the traditional parties. Finally, the electoral reform of 1996, which adopted the majority runoff presidential election system, provided the country with the institutional framework to consolidate a system of political competition between two blocks that were ideologically opposed, the FA on the center-left and both traditional parties on the center-right. The most relevant, long-term process of change in Uruguayan politics has led to a radical transformation of the country’s party system and to the advent of a new, leftist political actor in the national government. This process is rooted in the electorate’s ongoing disenchantment with traditional elites, which was originally most evident among younger voters and educated and urbanized sectors, and has been manifested in political support for a party that has learned how to moderate its discourse and to gradually move toward the center of the ideological spectrum.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Uruguay has no problems of stateness. The Uruguayan constitutional government exerts a monopoly on the use of force over its entire territory.

Question
Score

Monopoly on the
use of force
10

In Uruguay, the entire population accepts the legitimacy of the nation-state. The rules to access citizenship are perfectly clear, and include all people born in the country, foreigners established in the country, and sons and daughters of Uruguayans born abroad. Access to citizenship is not denied to anyone on the basis of race, gender, language, religion, political or other opinions, national or social origin, or property.

State identity
10

Religious dogmas do not play any relevant role in decision-making in Uruguay. The Catholic Church, the representative of the predominant religion practiced in the country, was completely separated from government more than a century ago. The state is secular and religious dogmas have no influence on the legal order and political institutions. The church tries to exert influence over issues such as homosexual rights or abortion, like any other pressure group, with mixed results.

No interference of
religious dogmas
10

All basic functions of the state are performed by the corresponding institutions. Since its independence, the country has been organized as a republic with a classic separation of powers. Moreover, the country has 19 subnational (departmental) governments, and a variety of autonomous public bodies, specializing in different areas such as education, utilities, and regulatory agencies. In general terms, the regulatory, administrative and implementation functions of the state are completely fulfilled.

Basic
administration
10

2 | Political Participation

Uruguay has regularly conducted national elections with universal suffrage and secret ballots to elect the president and the legislature. The electoral management body (the electoral court), appointed by the General Assembly with a two-thirds majority, enjoys a long tradition of impartiality and effectiveness. However, there was a deadlock in the process of renewing its composition – required every five years – after 2000. The current government achieved an inter-party agreement, and the Assembly appointed a new body in 2010. Voting is mandatory for resident citizens and turnout rates are particularly high (over 90%). Political parties have relatively equal access to the media and no election outcome has been challenged since 1984.

Free and fair
elections
10

From 1985 to the time of writing, democratically elected political representatives have the effective power to govern with no veto powers capable of questioning their authority.

Effective power to
govern
10

Association and assembly rights are fully respected by Uruguayan government with no significant restrictions.

Association /
assembly rights
10

Freedom of expression in Uruguay is fully guaranteed for citizens, groups and the press without any kind of censorship. The media are ideologically and politically diverse, so that all relevant opinions are present in the public agenda.

Freedom of
expression
10

3 | Rule of Law

There is a clear division of functions among the judiciary, the executive and the legislative branches of government in Uruguay, with mutual checks and balances. Inter-branch conflict is unusual and solved according to the constitution. The only limitation to the separation of powers stems from the amnesty law in favor of the military, which leaves it to the executive whether or not to put to trial crimes by the army committed during the dictatorship. This law was declared unconstitutional in 2009 by the Supreme Court, and eventually overturned by the General Assembly in 2011, thus re-establishing the full separation of powers.

Separation of
powers
10

The judiciary is fully independent from the executive and capable of accomplishing its function. The Supreme Court is appointed by a two-thirds majority of the General Assembly, and can declare laws unconstitutional. The Contentious-Administrative Tribunal is appointed by the same rule, and can declare administrative acts null and void.

Independent
judiciary
10

Officeholders who break the law and engage in corruption are prosecuted rigorously under established laws and always attract adverse publicity. In general terms, Uruguay has low levels of corruption, even though some scandals do occur. In those cases, the media covers the affair, which generates adverse publicity for the officeholder, and the judiciary prosecutes the accused official. There has been an anti-corruption agency (the Transparency and Public Ethics Board) since 1999, which increasingly performs an important role in the fight against corruption. Uruguay is one of the few countries having made significant progress in this regard over the past 10 years, even outpacing the region's anti-corruption champion, Chile. According to a study by the European Research Center for Anti-Corruption and State-Building, this progress was mainly due to the exhaustion of particularistic – that is, clientelistic – practices and since the 1990s, to changes in the otherwise stable party system, allowing for political competition based more on programmatic appeals.

Prosecution of
office abuse
10

Accordingly, anti-corruption legislation in Uruguay did not bring about this change; rather, it was a product of this change. This explains the means and the reach of the new system of norms, which was substantially stricter and later in its implementation than those in other countries in the region. These reforms were not instituted in response to a crisis of legitimacy like those that had oriented other parties to approve such norms, but rather the need to regulate political practices and the bureaucracy in the new context of programmatic competition. The transformation of Uruguay into an “open-access regime” with low levels of corruption created the necessity for politicians to regulate their own actions, and those of the bureaucracy more generally. Corrupt practices, which had never been the norm in Uruguayan politics, were considered dysfunctional under the new sets of rules guiding the political system.

Civil rights are guaranteed by the constitution and generally respected by the state. All citizens have equal access to justice and due process. In addition, governments from 2000 to the review period have made efforts to redress crimes committed under the last dictatorship, which went entirely unpunished until 2000, but now are being prosecuted.

Civil rights
10

4 | Stability of Democratic Institutions

Uruguayan democratic institutions perform their function in an effective manner, in accordance with the constitution and laws and without significant counterproductive friction among institutions.

Performance of
democratic
institutions
10

Democratic institutions in Uruguay are accepted as legitimate by all relevant actors. There are no relevant actors with veto power outside the constitutional framework. Several military officers are imprisoned or being judged for crimes committed under the dictatorship, and the armed forces themselves have permitted and accepted

Commitment to
democratic
institutions
10

searches inside military facilities with the aim of looking for remains of people who went missing during the dictatorship.

5 | Political and Social Integration

The Uruguayan party system is one of the most stable and institutionalized in the world. Three main political parties have captured about 95% of voters' preferences from 1971 until now. Even though parties are internally divided into stable factions with their own visibility and autonomy, they are ideologically consistent and disciplined in their political behavior. Interparty dynamics are moderate, convergent to the center of the political spectrum, and tend to reach agreement over major policy questions. The last election, held in 2009, showed the lowest volatility in decades, considering the vote switch between the governing FA and the traditional parties in opposition. As the vote transfer from the traditional block to the left has been the main trend in the country's political transformation, the Uruguayan party system seems to have reached a new multiparty equilibrium. This equilibrium is associated both with the process of voters' electoral realignment and with the electoral rules adopted in 1996, including primaries and a majority runoff for presidential elections.

Party system
10

Uruguayan society has a long tradition of organized social groups. The most salient and influential groups are labor unions and business associations. Most unions are united in the top national labor association, PIT/CNT, created in the mid-1960s. Business does not have a single top association, but there are a few very influential associations that cover the country's most relevant economic activities (agriculture, industry, banking, the export sector). From 2005 onwards, labor unions and employers' organizations have negotiated wages and work conditions inside an institutional framework (wage boards) with government mediation, and most of them have reached long-term agreements. Along with labor and business, there are other influential social organizations, mainly pensioners, university students, and a variety of professional organizations (physicians, lawyers, and so on). In addition, some associations grouped around specific issues, such as women, people of African descent or environmental organizations, are acquiring growing visibility. In general terms, various social groups are inclusive, tend to balance one another, and have a pragmatic and cooperative attitude.

Interest groups
10

Citizens' support for democracy and democratic institutions in Uruguay is the highest in Latin America. In a systematic way, comparative public opinion surveys such as Latinobarómetro or, more recently, the Americas Barometer, have placed Uruguay at the top positions in the regional rankings. The 2011 Latinobarómetro report indicates that 75% of Uruguayans think that "democracy is preferable to any other form of government." The report also shows that 90% supports a "Churchillian" definition of democracy ("democracy can have problems but is the best system of government"), placing Uruguay at the top in this category in Latin America. The Americas

Approval of
democracy
10

Barometer 2010 report also places Uruguay at the top of the ranking in the same indicator. Uruguay also has the highest percentage in Latin America of people satisfied with the functioning of democracy, according to Latinobarómetro (72%) and the Americas Barometer (68%). The Americas Barometer, meanwhile, ranks Uruguay first in Latin America in terms of political system support, using a composed index based on five survey items, which means that the political system enjoys legitimacy among the citizenry. Finally, the main political institutions (the government, the General Assembly and the judiciary) have levels of trust between 65 and 75 points in the Americas Barometer scale, and ranges from 58% and 71%, according to the Latinobarómetro report (2010).

Uruguay has a long tradition of autonomous, self-organized groups, devoted to diverse goals. In addition to interest groups, there are numerous associations related to schools or to neighborhoods, based on voluntary work and oriented to help the community. The level of interpersonal trust is high, as reported by Latinobarómetro (30% agrees with the sentence “we can trust in most people”) and the Americas Barometer (75% think that other people are somewhat or very reliable) in 2010. In both cases Uruguay ranks second in Latin America.

Social capital
9

II. Economic Transformation

6 | Level of Socioeconomic Development

Uruguay has always been the most socially integrated country in Latin America. During the first half of the 20th century, it ranked among the most developed countries in the world. In the second half, a period of economic stagnation and social conflict arose. Despite this, Uruguay maintained its position in the regional context. The HDI ranked Uruguay third in Latin America in 2012 (0.792). The Economic Commission for Latin America and the Caribbean (Comisión Económica para América Latina y el Caribe, CEPAL) reported a 6.5% poverty rate in Uruguay for 2011, the lowest rate in the region, and in terms of income distribution, a Gini index of 0.402, the second lowest. In the same vein, the World Bank Development Indicators establish that in Uruguay, just 1.2% of the population lives with less than \$2 a day; again, the lowest rate in the region. Those indicators had deteriorated during the first years of the century, but began to recover from 2005 onward. Economic growth and pro-active policies to increase real wages and launch various transfer programs, created by the previous government and continued by the current government during the review period, were key factors in those achievements. Besides poverty and income distribution, gender inequality is still present, even though the country has undergone significant improvements over the last two

Question
Score

Socioeconomic
barriers
8

decades. The Gender Inequality Index of the Human Development Report 2011 ranks Uruguay at 62 out of 142 rated countries, with a score of 0.35, a second position in the region after Cuba but before Costa Rica, Chile and Argentina. Finally, the General Assembly is considering an important bill (already approved by the Chamber of Representatives) regarding race inequalities, which includes a quota for Afro-descendants in public jobs and governmental scholarships.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	30229.4	38846.2	46434.7	49059.7
GDP growth	%	2.2	8.9	6.5	3.9
Inflation (CPI)	%	7.1	6.7	8.1	8.1
Unemployment	%	7.3	6.8	6.0	-
Foreign direct investment	% of GDP	5.3	5.6	4.7	-
Export growth	%	4.2	7.8	6.3	1.6
Import growth	%	-9.3	14.8	13.4	13.6
Current account balance	\$ M	-381.7	-752.7	-1367.2	-2625.5
Public debt	% of GDP	62.7	58.0	57.8	53.7
External debt	\$ M	13299.0	14029.5	14349.6	-
Total debt service	\$ M	1289.4	1532.2	1462.7	-
Cash surplus or deficit	% of GDP	-1.5	-0.9	-0.6	-
Tax revenue	% of GDP	19.6	19.6	19.7	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	5.4	5.3	5.4	-
R&D expenditure	% of GDP	0.43	-	-	-
Military expenditure	% of GDP	2.2	2.0	1.9	1.9

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

The Uruguayan model of development and welfare, if traditionally oriented toward a market economy, had been based on a crucial role of the state, either by direct participation in economic activities or by its regulatory role. Several strategic economic activities have been monopolized by state-owned enterprises (fuel, electricity and communications). The liberalizing trend that began under the last dictatorship and slowly advanced under the subsequent democratic governments implied the incorporation of the private sector into a number of activities previously monopolized by the state. The insurance market, the pension system and the mobile telephone network, for instance, work as competitive markets with participation from the relevant state-owned enterprises. The previous and the current leftist governments did not reverse this liberalizing trend, and rather continued it. In addition to state-monopolized or strongly regulated activities, there are no significant barriers to entry in markets and private investments are being increasingly stimulated. Minor factions inside the government party (such as communists) and the labor unions actively promote greater state participation in the economy (such as the restoration of a state-owned meat processing plant), but President Mujica and Vice President Astori (who is in charge of economic policy) systematically resist this kind of pressure.

Market-based
competition
8

Uruguay did not have any regulations against monopolies or in favor of competition until 2000. As various economic activities have become competitive in the context of the market-oriented reforms conducted in the 1990s, different rules began to be approved after 2000. The normative framework was completed in 2007 with the approval of law number 18.159 (Trade Freedom and Free Competition Preservation Act, or simply, the “Antitrust Act”), which entered into force in August 2007. The Antitrust Act introduced pre-merger control approval in certain cases of economic concentration. However, some activities, such as fuel or fixed line telephone networks, are still state monopolies, and the opening of markets in certain activities (data transmission, cable television) is slow.

Anti-monopoly
policy
8

Uruguay began a trend of liberalization of its foreign trade along with its integration into the Southern Cone Common Market (Mercosur) in the 1990s. As Mercosur became a free trade area, most Uruguayan exports went to Argentina and, particularly, to Brazil. As a consequence of the 2002 crisis, the country’s foreign commerce policy increasingly diversified the destination of its exports. The country’s foreign trade figures have been growing systematically since then. Non-tariff barriers and other measures that hamper trade are few. The average most-favored-nation tariff has been reduced, and improvements have been effected in areas such as import procedures, customs valuation and intellectual property protection (WTO Trade Policy Review). Beyond the limitations due to membership in Mercosur, the government has been promoting a number of trade and/or investment agreements

Liberalization of
foreign trade
9

with countries outside Mercosur, such as Mexico, the United States or Finland, and continues to insist on the lowering of Mercosur's common external tariff.

Traditionally the Uruguayan banking system acted as a regional financial center due to its liberalized regulations and reliability. But as a consequence of the 2002 financial crisis, the system almost collapsed following a run on the banks by Argentine depositors and a severe lack of supervision. Since then, some requirements and control over the system were increased, and the share of non-resident deposits decreased, thus strengthening its position. By the end of 2010, the General Assembly passed a law that made more flexible the possibility of inquiry into banking movements, thus accepting OECD requirements on international financial movements' control. Uruguay has increasingly complied with international banking standards (Basel I to III) and is currently on the way to implement respective laws. The system is well-capitalized, with high levels of international reserves and liquidity, and low non-performing loan ratios. The global crisis has had a limited impact on the country's financial sector, government debt ratios are declining and risks and vulnerability are low.

Banking system
9

8 | Currency and Price Stability

The central bank has made inflation the main target of its monetary policy. The country began the fight against inflation at the beginning of the 1990s, in the light of the Washington Consensus policies. As a consequence, Uruguay reached low inflation rates at the end of the decade. But the main instrument to fight inflation was the exchange rate. Jointly with other Mercosur countries, Uruguay was increasingly overvaluing its national currency, thus lowering external competitiveness and increasing government debt. The process ended with the financial crisis of 2002, with a drastic devaluation of more than 100% and inflation rising up to 26%. During the Vázquez administration, the Central Bank enhanced the flexibility of the exchange rate policy, leaving the value of foreign currency to be determined by supply and demand. But as a consequence of the 2008 global financial crisis, the national currency began to increase its value again, and the government applied different measures to avoid a significant drop. In trying to balance both targets, the value of foreign currency has been stabilized, but the fight against inflation has remained high on the government's agenda. Inflation reached 8.1% in 2011 and 7.5% in 2012, significantly more than the established goal range of between 4% and 6%. As a complementary measure to fight inflation, the Central Bank has been raising its benchmark rate the last two years, from 6.5% at the beginning of 2011 to 9.25% in December 2012. Despite this, monetary policies are successfully making the different goals of economic policies in the country more consistent.

Anti-inflation /
forex policy
9

After the 2002 financial crisis, Uruguay reached its highest levels of fiscal deficit and external debts in more than a decade. The Vázquez administration's economic team took advantage of the favorable external situation and the country's economic growth and managed to reduce the fiscal deficit to low levels while increasing public expenditures, especially in education and health. At the same time the government developed a complex strategy to reshape external debt, postponing due dates, changing to lower interest rates and replacing foreign with national currency instruments. In that sense, debt management policy came to be the strongest area of economic policy. For instance, a liability management transaction launched in December 2011, aimed to deepen the de-dollarization and to continue reducing the rollover risk of the debt through a smoother profile of amortizations over time, was awarded the title "Best Sovereign Liability Management" by LatinFinance Magazine in 2012.

Macrostability
10

On the other hand, the legislature approved the fiscal budget for 2010 – 2014 in December 2010. The new budget is based on fiscal discipline and is consistent with the financial program so that the fiscal policy can continue to be used as a countercyclical instrument. The subsequent complementary laws offered some spending increments in education, health and social programs but without significantly increasing the budgetary deficit. Combining economic growth and debt management, the debt-to-GDP ratio dropped from more than 100% before the beginning of the Vázquez administration to the current 50%. As a result, the country's position is much less vulnerable than it was at the end of the financial crisis. According to this situation, Uruguay was given an investment grade rating during 2012 by Standard & Poor's and Moody's rating agencies.

9 | Private Property

Since the origins of the Uruguayan nation-state, property rights have been constitutionally protected at the same level as other fundamental rights (life, freedom, honor, security and work). Regulations on acquisition, benefits, use and sale are well-defined and enforced. Property rights can be limited solely by law and based on reasons of public interest. In recent years the country has been improving its property rights regulations for economic activities to promote private investments, especially from abroad.

Property rights
10

During the 20th century Uruguay became a state-centered capitalist economy. In the 1990s, governments promoted a liberalizing trend in the context of the Washington Consensus policies. But the process was gradual and some privatizations were blocked by opposition parties and social movements, using direct democracy mechanisms. The leftist governments under Vázquez and Mujica have not followed a strategy that includes the privatization of state-owned enterprises, although they actively have promoted private investments and public-private joint ventures in

Private enterprise
9

infrastructure developments. The government is particularly interested in attracting additional investments to develop the country's port facilities in order to exploit its comparative advantages and become a regional logistics center. Progress has also been made during the last years in the "Uruguay Round II" program, launched in September 2011, to promote the exploration and prospecting of newly discovered oil fields off the Uruguayan coast. By the end of 2012, exploration agreements worth more than a total of \$1.5 billion had been signed for 10 blocks (out of 15) by the BG Group, BP (3 each), Total, Tullow (1 each), and a consortium from Argentine YPF, Petrobras and the Portuguese Galp Energia (2).

Private companies, specifically foreign ones, are viewed institutionally as primary engines of economic development. In that sense, the government recently authorized the installation of a new paper pulp plant and an iron mine, which will involve the investment of several billion dollars. To promote this kind of investment, the government is improving the regulatory framework and signing international treaties to give such investments the appropriate legal safeguards.

10 | Welfare Regime

Uruguay had long been a traditional welfare state with social democratic characteristics, but the system has been seriously affected by neoliberal policies and recurrent economic crises. Notwithstanding, social spending in Uruguay continues to be the highest in Latin America.

The pension system in Uruguay was already universal by the middle of the 20th century, but the purchasing power of pensions systemically decreased during the 1960s and under the military government. In 1989, an organization of pensioners successfully called for a plebiscite to introduce the indexation of pensions in the national constitution. As a consequence, the purchasing power of pensions rose considerably, but the government had to raise different taxes to meet its increased obligations. In an effort to solve the chronic system deficit, a structural reform of the pension system was passed by the legislature in 1995 and is still in force. The reform introduced private pension funds, creating a mixed public-private system that preserved the pay-as-you-go pillar for low wages, and introduced a personal account savings pillar for higher wages.

The Vázquez government made important reforms to social safety networks, especially increasing money transfers for the poor and expanding health coverage. The "equity plan" (Plan de Equidad) covers all children living under the poverty line with a "family allowance" (Asignaciones Familiares) of about \$50 per child. The traditional health care system in Uruguay offered a low level of coverage that only included formal workers in private enterprises through private providers, and poor people through public hospitals. The Vázquez administration also created an

Social safety nets

9

integrated national health system (SNIS) that expanded coverage to include public servants and the spouses and children of workers, and put public and private providers at the same level to supply health care in a competitive manner. In 2011, the coverage of the SNIS was expanded to include pensioners and independent workers. The SNIS and the equity plan, together with the improvement and expansion of wages, made for a significant reduction in the numbers of people living in poverty, which dropped from more than 30% in 2004 to less than 15% in 2011.

Uruguay has no significant ethnic or religious minorities. The country adopted a law in 2004 that aims to struggle against racism, xenophobia and discrimination. The main differences of opportunities for people are those derived from income and gender. Male and female literacy and enrollment rates are almost identical except for in college, where female students almost double males. Despite this, unemployment is higher than average among women and citizens of African descent. The presence of women in public office is low. Nevertheless, some improvements have been made. On the one hand, a law was passed in 2009 that demands a one-third gender quota for the election of party authorities and the same quota for the next legislative and sub-national elections. On the other hand, three women were elected as mayors (Intendente Departamental) for the first time in the 2010 local elections. Finally, the General Assembly is considering an important bill (already approved by the Chamber of Representatives) regarding race inequality, which includes a quota for Afro-descendants in public jobs and governmental scholarships.

Equal opportunity
9

11 | Economic Performance

In spite of an unfavorable international context, the Uruguayan economy is performing quite well. During the review period, GDP continued its upward trend. In 2012, GDP grew around 4% (5.7% in 2011). Unemployment is still at historically low record levels, scarcely over 6% as the average for 2012. Inflation, which is among the government's main concerns, went beyond the target defined in mid-2011 (between 4% and 6%) reaching 8.1% in 2011, and 7.5% in 2012. The current account balance ended with moderately negative figures in 2011 and 2012, but strong foreign direct investment inflows not only has been sufficient to finance the current account deficit but also has allowed for the significant accumulation of international reserves by the Central Bank. FDI stood at \$2.5 billion in the year ended September 2012, representing 5.2% of GDP. In the last 10 years, FDI averaged 5.1% of GDP annually. Gross capital formation is growing above the overall demand increase, in part because of the relevant FDI figures, but also because of an important increase in public investments, which in turn explains part of the budgetary deficit. The budget deficit fell within target in 2011 (around 1%) and was above target in 2012. The increased deficit is explained completely from the government's expenditure growth, since tax revenue increased above GDP growth in 2012. Public debt is high (foreign and

Output strength
9

domestic) but has been significantly reduced in recent years, reaching about 55% of GDP at the end of 2012.

12 | Sustainability

Environmental concerns have been increasingly taken into account by Uruguayan policies. The country has had an environmental protection law since 2000 and a governmental agency (a department inside a ministry) to enforce the law and promote the care of the environment and sustainable growth. The government sought alternative energy sources and promotes the production of biofuels and wind-generated electricity through state-owned enterprises, even though such projects are still in the embryonic stage. A law was passed in 2009 (number 18597) to promote and regulate the efficient use of energy. Another significant improvement in this field was the implementation of a National System of Protected Areas (SNAP), which incorporated eight areas since 2008 and has another six in the process of incorporation. Environmental awareness has made some progress among the population, and the issue is increasingly present in public debate. After the solution of a conflict with Argentina over a pulp mill, the main environmental concerns in the country are related to a surface mining project and a deep-water port, both involving much public debate, including the approval of specific legislation.

Environmental
policy
8

The previous government significantly increased public spending in education (4.5% of GDP) and in R&D (nearly 1% of GDP) and created an independent governmental agency to promote scientific research and innovation. The country has a strong nationwide education system and almost 100% enrollment rates in primary and secondary schools. The previous government launched a plan that promotes the availability of one laptop per child, which was implemented for all children in primary school in 2009 and continued by the current government by covering all children in secondary schools. However, the performance of education in 2010, according to the Program for International Student Assessment (PISA), did not show significant improvements. The traditional weakness of the tertiary system of education has been addressed, to a certain degree, by significant curriculum reforms and the institutionalization of programs for postgraduate and doctoral studies at the University of the Republic from 2005 on. But progress has been limited by an overall scarcity of resources affecting teaching as well as research. At the least, the legislature has approved the creation of a technical university, which will open in 2013.

Education policy /
R&D
7

Transformation Management

I. Level of Difficulty

In Uruguay there are no structural constraints, such as natural disasters or pandemic diseases. The country enjoys a privileged geographic location (even though it is strongly dependent on large neighboring countries) and has an educated and relatively wealthy population (in the Latin American context). Given the current conditions of development, the country has to strengthen its education system and develop its infrastructure.

Structural
constraints

2

Uruguayan civil society has a long tradition of civic engagement and a participatory civic culture. There are numerous and active civic associations and a significant level of social trust (among the highest in the Americas, according to the Latin American Public Opinion Project 2010).

Civil society
traditions

2

Uruguay has no relevant ethnic or religious conflicts. The main social conflict is over income distribution, conducted by labor unions in a legal and peaceful way (with demonstrations or strikes). This conflict is translated into politics as an ideological cleavage between left and right, which is solved in a democratic manner and, normally, by agreement and consensus instead of confrontation.

Conflict intensity

1

II. Management Performance

14 | Steering Capability

Question
Score

All post-dictatorship Uruguayan governments have been committed to democracy and the rule of law, which generates a broad consensus among political elites. Beyond that, since the 1990s, governments have been increasingly establishing strategic priorities, the first of which was the control of inflation, followed by the setting of conditions to promote FDI. The previous and current leftist governments have continued these strategic goals, adding the fight against poverty and investment in education and health as priorities and adopting corresponding policy measures. Even though spending increases were made in electoral years in the hope of electoral

Prioritization

9

support in favor of the governing parties, this has not hurt the consistency of strategic priorities. Although the previous and the current governments made up their cabinets by assigning positions to different factions to balance interests, government leadership (presidents Vázquez and Mujica) has managed to maintain support within the government for main policy goals. What can, however, be noticed is that in the Mujica administration, and particularly during the review period, political coordination has no longer functioned as smoothly, or at least as orderly, as it usually did in the Vázquez administration. Factions, infighting and institutional rivalries have become more visible and the synergies between the teams of the president and of Vice President Danilo Astori (who specializes in economic policy) have not been used; leadership, in many instances, has been wanting.

The previous and the current leftist governments have implemented many reforms effectively. Outstanding reforms have been set in motion during the Vázquez government and are continued by the current administration (tax, health and financial reforms, among others), without relevant obstacles from opposition groups. Human rights policies (that allowed judgments over crimes committed during the dictatorship era, as well as the search for the remains of missing people) were implemented despite military opposition, which has since become isolated. However, the government encountered important obstacles with the implementation of administrative and civil service reforms (Reforma del Estado). The privileges public servants enjoy and the mobilization of their powerful unions have prevented any major advances in reform. Generally speaking, all reforms in Uruguay are implemented in a gradual and mixed way to maintain a broad consensus. So far, no insurmountable gridlock has arisen, but in a number of sectors, the speed of reforms has increasingly slowed down.

The previous and the current leftist governments have demonstrated a great ability to learn and act in a flexible way. The traditional leftist conception of economic policies (state-centered and with a weak commitment to a balanced budget) was radically modified by former president Vázquez, who assumed a more pragmatic position. The government showed an important predisposition for innovation, setting in motion original reforms (e.g., the integrated national health system) and programs (e.g., one laptop per child). Most of the reforms implemented by the previous government were publicly debated and designed with the relevant participation of experts. Those reforms are being monitored and evaluated in a systematic way, adding gradual adjustments. The current government is following the same criteria and, in some issues, it appears to be even more flexible (and more in need of it), as in its relationship with the opposition. In that sense the current government achieved agreements with other parties to renew the composition of the Electoral Court, and with departmental mayors to unify the municipal fee of vehicles, issues that could not be solved by the two previous governments.

Implementation
9

Policy learning
9

15 | Resource Efficiency

Traditionally Uruguay has had a clientelistic system of appointment in public administration, conducted by the traditional parties. Since reforms in the 1990s, governments have strived to tackle this by reducing the number of state employees and privatizing state-owned enterprises. The Frente Amplio governments, first at the level of the Montevideo government (Intendencia Municipal de Montevideo) and then at the national level, has made significant changes, incorporating more competitive recruiting procedures without completely removing political influence. So far, however, a comprehensive system of open competition with clearly established rules and criteria for the various echelons of the civil service and of the directing management has been widely debated among experts but barred from implementation, due to strong resistance. In general terms, the government makes efficient use of most of its available human, financial and organizational resources. But the rolls of state personnel are still oversized, and many agencies are not efficient in relation to their costs. Nevertheless, the budget deficit is low, most of the time has remained within target range and is under control, and there are no significant deviations from planned expenditures. The country's debt level has been significantly reduced during recent years and the debt profile has been notably improved, by increasing the share of national currency and extending terms for payback. The previous and current governments have assigned priority to decentralization in establishing a third level of government, which was elected for the first time in the May 2010 local elections, although the level has no financial autonomy.

Efficient use of assets

8

As institutional administrative reforms have been postponed, organizational gridlock and redundancies are still in place and they have been enhanced by the administrative style of the president, problematic appointments and dismissals, rivalries between executive staff and line ministries or agencies, on the one hand, and among the various factions within the governing alliance, on the other, and the existence of (at least) two "economic teams" within the government, without due coordination and guidance.

The previous and current governments coordinate conflicting objectives effectively and mostly act in a coherent manner. The leftist government introduced forms of horizontal coordination through specialized cabinets (a research and innovation cabinet, a social cabinet, and so on). In these, different ministries coordinate their policies to avoid redundancies and reach more efficient outcomes. Some of the main reforms launched by the previous government needed considerable coordination efforts, such as the tax and health reforms, both of which affected the rights of workers and wages. Some horizontal coordination agencies were also created, for example a group covering information technology and e-government (Agencia de Gobierno Electrónico y Sociedad de la Información, AGESIC). The current

Policy coordination

8

government tries to continue the former's coordination style and has made no significant institutional innovation. Even though, in part due to the peculiar governance style of President Mujica, some contradictions inside the cabinet were made public, particularly with regard to economic policy goals and instruments. In that sense, during 2012, a group of economic advisors of the president put to question the economic policy driven by the ministry of economy, and promoted a number of tax reforms. As a consequence, some uncertainties emerged about the continuity and coherence of the economic policy.

Uruguay has been making progress in the fight against corruption since the mid-1990s, and is seen as one of the least corrupt countries in the region. The country has had an anti-corruption law since 1998. That law (with subsequent modifications) established acts of corruption as a criminal offense, and created a specialized independent agency to fight corruption (Junta de Transparencia y Ética Pública, JUTEP). Under the law, sworn financial statements are required from major public servants, including the president, and public officials are subject to financial disclosure rules. In 2009, specialist courts and prosecutors began work against organized crime. In recent years, the media has uncovered some corruption scandals and the judiciary has acted accordingly, showing that anti-corruption institutions actually work. Complementary, there is a law in force since 2008 that guarantees access to public information and a special Unit for the Access to Public Information, as part of AGESIC, which monitors and promotes compliance with the law. On the other hand, a political-party financing law passed in March 2009 established clear standards of transparency and set a limit on private donations to political parties. Parties also receive state money to fund election campaigns and their regular activities. Finally, an institution dealing with human rights was established in 2012, pursuant to the provisions of a law passed in 2009, which was modified in 2011. The institution depends on the legislative branch, and acts as ombudsman and advisor to the General Assembly in human rights matters.

Anti-corruption
policy
9

16 | Consensus-Building

Consensus over democracy is almost unanimous in Uruguay. Furthermore, democracy works in a highly consensual way, with broad agreements over major issues. Nevertheless, dissent over the role of the state in the economy is significant among parties and interest groups, dividing the left from the right, and unions from employers' organizations. However, only a few minor political or social groups completely reject the principles of a market-oriented economy.

Consensus on goals
10

There are no significant anti-democratic actors in Uruguay, whether on the extreme left or right, and when such an actor publicly appears, they are immediately condemned and isolated.

Anti-democratic
actors
10

Uruguay has no relevant regional, ethnic or religious conflicts. Class or distributive conflict is the only cleavage that is active and reflected in the political system. The political leadership manages to maintain the conflict inside the rule of law, avoids excessive or violent demonstrations, and expands consensus across the dividing lines.

Cleavage /
conflict
management
9

The previous and the current FA governments have given high priority to social participation in policy formulation and implementation. Some relevant public policies were subject to public debate through the creation of specific discussion environments, such as the National Dialogue for Social Security or the National Congress of Education, which counted on the broadest participation of social and political actors. The education law passed in December 2008 required the presence of representatives of teachers in the directive councils that govern the education system and which were elected in 2010. To further promote participation, a third level of government (municipal councils and a mayor in cities and towns with a population over 5,000) was established, and was elected for the first time in the local elections of May 2010.

Civil society
participation
10

The reconciliation between victims and perpetrators of past crimes has been one of the most challenging issues for the Uruguayan political system. The quasi-amnesty law passed shortly after the end of the dictatorship failed as it never achieved consensus; thus the issue has reemerged repeatedly during the last 20 years. Governments from 2000 to the review period have made efforts to redress crimes committed under the last dictatorship, which went fully unpunished until 2000. The Jorge Batlle government (2000 – 2005) created a Commission for Peace, intended to obtain information about kidnapped children and the remains of missing people. The FA governments changed the executive criteria to apply the amnesty law, allowing the judiciary to prosecute some crimes, with the result that a number of civil and military criminals were jailed. Finally, after the Supreme Court declared the law unconstitutional on several cases, the legislature passed a new law in 2011 that voided the former one and established that those crimes were non-lapsable crimes against humanity. But, in turn, this law was declared unconstitutional by the Supreme Court. In spite of much improvement, there is still a space of impunity as legal reforms arrived late and most crimes could be considered as subject to the statute of limitations by judges.

Reconciliation
9

17 | International Cooperation

Due to its small size, Uruguay is a relatively dependent country that prefers to cooperate, although international cooperation is not vital to the country's development. As a medium-income country, in the context of the economic crisis Uruguay became non-eligible for a number of funding sources. Dozens of countries and multilateral agencies provide aid, but the most relevant are the Inter-American Development Bank (IDB), the World Bank, the European Union, Spain and Japan.

Effective use of
support
10

By 2012 the country was executing 339 projects for \$178 million, \$44 million of which was used that year alone. The Uruguayan political leadership has made well-focused use of international assistance, in accordance with its long-term strategy of development and its domestic policy agenda, focusing the aid on environmental issues, gender issues, cultural development, human rights and the promotion of R&D. The previous and the current governments have been making efforts to improve the coordination of programs and efficiency in the use of resources gained by international cooperation. In 2010 the Uruguayan Agency for International Cooperation (AUCI) was created. As a result, excellent information on the topic is provided by the “map of cooperation,” available online.

The Uruguayan government is considered a credible and reliable partner by the international community. The country has built a reputation for respecting commitments, contracts and the rule of law, which was reflected in the solutions of the financial crisis of 2002 and the conflict with Argentina for the pulp mill in 2010. As a consequence, FDI has been growing significantly and Uruguay regained its investment grade status by Standard & Poor’s and by Moody’s during 2012.

Credibility
10

The Uruguayan political leadership has always shown a great predisposition to cooperate with neighboring countries, reflected in the country’s participation in most international or regional initiatives. Uruguay was a founding member of the United Nations, the Organization of American States (OAS) and Mercosur. In particular, the country strongly promotes regional and international integration, not only supporting Mercosur but also looking for trade agreements outside the region. In recent times, the country’s cooperation policy has demonstrated an interest in new forms of cooperation, such as triangular and south-south cooperation, and created the Uruguayan Fund for International Cooperation. The Uruguayan Agency of International Cooperation was designated as the head office of the Iberoamerican Program for the strengthening of South-South Cooperation in 2012 – 2013.

Regional
cooperation
10

Strategic Outlook

Uruguay is successfully advancing its transformation, and its main challenge is to achieve sustainability for its economic development. An outstanding economic performance and recent structural reforms have given the country solid, well-capitalized and well-monitored financial institutions with high levels of international reserves and liquidity. Due to continuous growth, rising export earnings and tax revenues, and strong foreign investment inflows, Uruguay has been able to reduce its public and foreign debts substantially. For instance, a liability management transaction launched in December 2011 was named by the *LatinFinance Magazine* as “Best Sovereign Liability Management,” and Uruguay was rated with investment grade status during 2012 by Standard & Poor’s and Moody’s. In this context, there will be a reduction in the country’s global public debt level to close to 40% of GDP in 2015. The Uruguayan economy grew by 4% in 2012, and similar figures are estimated for the next years, according to the Inter-American Development Bank (IADB). If the current trends are confirmed, investment will continue to rise over the coming years, achieving 25% of GDP by the end of 2015.

Nevertheless, Uruguay’s economy is still structurally vulnerable due to its size, its dependency on the performance of neighboring countries and foreign markets, and its high dollarization. Therefore, careful debt management, strict supervision of the financial system and a well-balanced budget are needed to ensure the sustainability of private investment, economic growth and social welfare. The country’s foreign investment inflow is assured in the short-term, as two macro projects are already in operation, estimated at \$3.4 billion (a second pulp mill in Punta Pereira and an iron mine in Valentines). And such inflows could be assured in the medium-term as well, if the exploration and prospecting of oil reserves begun in 2012 eventually succeed. So Uruguay’s challenge then is to maintain similar levels of FDI in the long run.

The government has two main chapters in its policy agenda. On the one hand, it needs to improve and consolidate the reforms made under the previous administration. For instance, tax reform must advance in unifying income tax from different origins (wages and capital) and reducing value-added tax to 20%. The achievement of those goals will improve the efficiency and fairness of the tax system. By the same token, health reform has made progress by broadening coverage, but securing the financial viability of the system is still needed. On the other hand, the government has to accelerate reforms in other areas. Education reform had barely begun under the previous administration, and few advances have been made since. The process needs further implementation, with the raising of education quality as its main goal. Finally, the government should tackle the constantly postponed administrative and civil service reforms – another central concern of Mujica’s election campaign. Nevertheless, little has been done in this area, not only because of the small number of decisions adopted and their scarce relevance, but also because of the suspension of programs adopted by the prior administration. This issue faces huge obstacles that will be extremely hard to overcome.

But beyond the need to have an adequate management of public policies, the government needs to manage its own internal differences. Some radical leftist groups inside the FA, and some close collaborators of the president, appear to be disenchanted with different policy orientations of the government, especially in the economic area, and are trying to put pressure on the government by publicly sponsoring alternative proposals aimed to change economic policy and income distribution. Since the FA has a minimal winning coalition in the General Assembly (50 representatives out of 99), and the electoral season is rapidly approaching, the government needs absolute party unity and a socially peaceful climate to maintain and improve its achievements in an uncertain international context.