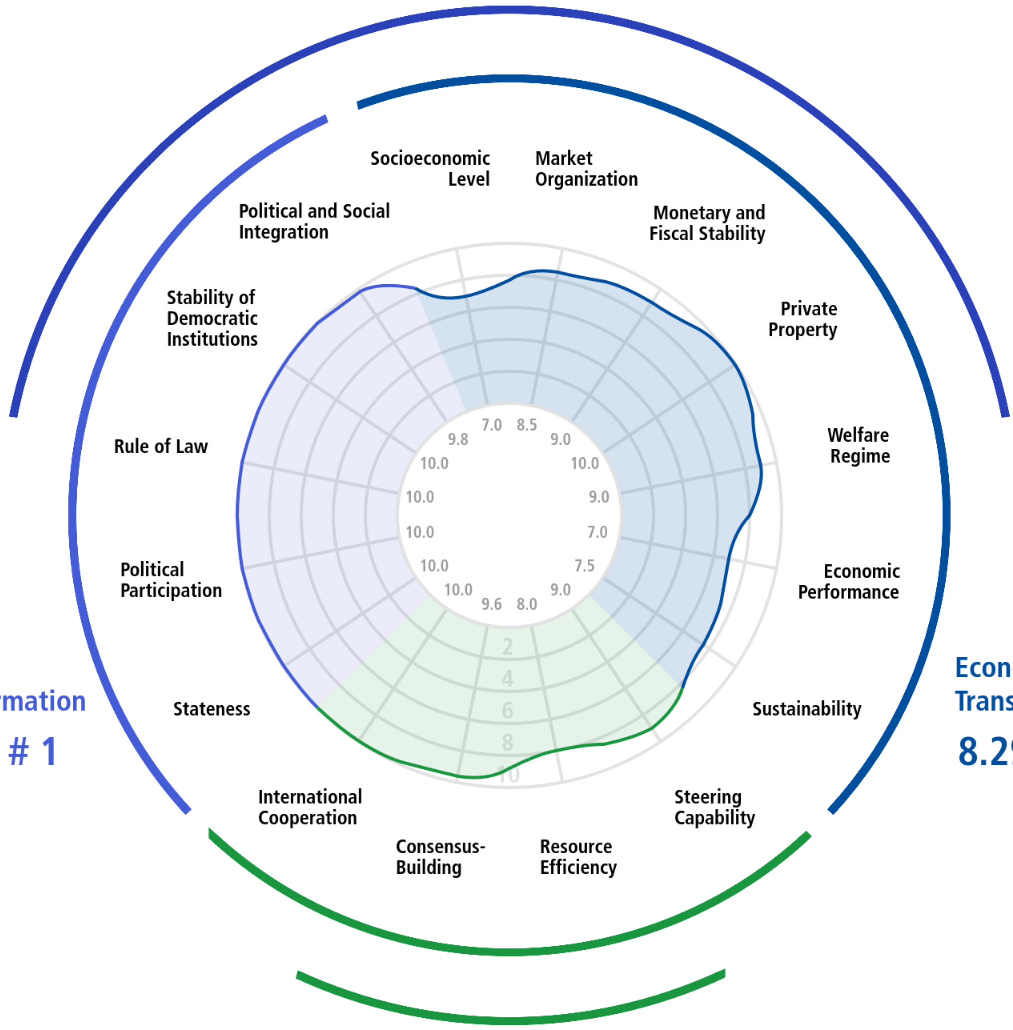
BTI 2022 Country Report

Uruguay

Status Index

9.12 on 1-10 scale

 # 5 out of 137



Political Transformation

9.95 # 1

Economic Transformation

8.29 # 11

Governance Index

7.39 on 1-10 scale

 # 2 out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at https://www.bti-project.org.

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Key Indicators

Population	M	3.5	HDI	0.817	GDP p.c., PPP	$	22795
Pop. growth[1]	% p.a.	0.3	HDI rank of 189	55	Gini Index		39.7
Life expectancy	years	77.9	UN Education Index	0.765	Poverty[3]	%	0.5
Urban population	%	95.5	Gender inequality[2]	0.288	Aid per capita	$	-

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.20 a day at 2011 international prices.

Executive Summary

The review period covers the last year of the government of President Tabaré Vázquez and the first year of President Luis Lacalle Pou. The end of the third Broad Front (FA) government was marked by an economic slowdown, and an increase in unemployment and the budget deficit. National elections were held in October and November 2019, in which the ruling party was defeated by Luis Lacalle Pou with the support of a coalition of center-right parties.

The new president took office on March 1, 2020, supported by a five-party coalition, which controls 56% of parliamentary seats. President Lacalle Pou's priorities were to reduce unemployment, restore the country's competitiveness, adjust public finances, improve security and reform the pension system. However, the outbreak of the COVID-19 pandemic changed the government's program, as the government had to deal with the health crisis only two weeks after coming to power. The government's strategy focused on voluntary confinement of the population in conjunction with the restriction of activities in areas such as education, entertainment, trade and borders, which significantly reduced mobility, at least in the first months of the pandemic.

This complicated process evolved positively thanks to three factors. First, some institutional structures contributed decisively to fighting the pandemic, including the Integrated Health System, Unemployment Insurance and the social policy of the Ministry of Social Development. Second, the government's initiative to establish the Honorary Scientific Advisory Group (GACH), composed of more than 60 scientists from different knowledge fields, lent credibility to health care policy, and provided transparency to the opposition and public. Third, the cooperative role the opposition took in parliament made it possible to introduce a package of measures with the support of all parties and within a very short timeframe. The decline in infections allowed activities to gradually resume and by mid-2020 the country was already operating under virtually normal conditions. This situation allowed the government to move toward approving an important part of its program. An omnibus-type bill, comprising 506 articles, was submitted to parliament in April 2020 and approved under the urgent consideration mechanism in June 2020.

Uruguayan democracy has not been eroded by the demands placed on it by the pandemic. The parliament and judiciary functioned almost normally, and the central issues to the government agenda were widely debated in public. The government, in turn, handled the contradiction between economic and health care policy goals in a flexible and innovative way. It tried not to get caught up in health care policies that damaged the country's productive fabric and the results of its approach have been acceptable. At the time of writing, the health care system has not collapsed and the economy is not in a critical state, although it shrank by more than 5% in 2020. However, the excessive caution with which the economic team has managed public spending – in order not to worsen the budget deficit inherited from the previous government – has earned it sharp criticism from the opposition and from the government coalition partners. It seems clear that sooner or later the government will have to increase social spending in order to deal with the socioeconomic consequences of the pandemic.

History and Characteristics of Transformation

Uruguay has the longest democratic history of any Latin American country. In the 20th century, it suffered only two institutional breakdowns. In 1933, a civilian coup promoted by the president himself sought a rapid re-institutionalization through constitutional and legal reforms. The second break was in 1973 and led to a bureaucratic-authoritarian military dictatorship, similar to others that devastated the continent in those years. The period of the military dictatorship (1973 – 1985) was the only period in the 20th century when governments were not elected and political parties were excluded from power. This fact underlines the remarkable political development of the country, as it was governed by only two different political parties before 2004: the Partido Colorado (PC) and the Partido Blanco o Nacional (PN).

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 and with the consensus of both traditional parties, a set of political, social and economic reforms was implemented: universal and secret suffrage, free and fair elections, separation of church and state, and an eight-hour working day. Given the weakness of private economic actors, the state acquired a central role in the economy and in the provision of all kinds of public services, forging a rich, 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." This was intended to promote industrial development but fell into crisis at the beginning of the 1950s as a consequence of structural weaknesses and the decline in prices for traditional exports. A long period of economic stagnation and social turmoil followed.

The solid bipartisan political system began to undergo changes during the 1960s. In a context of strong social and political conflict (e.g., the emergence of a guerrilla movement, the Tupamaros), leftist parties joined with other dissident groups to form the so-called Frente Amplio (FA). Although the traditional parties developed different responses to the structural crisis (a new constitution in 1967 and a renewed electoral offer in the PN), democracy was overthrown in June 1973. The coup enabled the establishment of a civilian-military government, which attempted unsuccessfully to solve the structural problems of the economy (e.g., by promoting foreign trade liberalization) and tried to eliminate its left-wing opponents.

Re-democratization after 1985 was rapid, and a process of economic and state reform was gradually implemented by the successive governments of the traditional parties. However, various reform attempts (privatization and state reform) were blocked by a coalition between the leftist opposition and social organizations, mainly labor unions. The traditional parties were increasingly grouped together on the center-right of the ideological spectrum, since they jointly advocated and conducted strong pro-market reforms, while the FA increasingly assumed the role of defending state-owned enterprises, and the rights of workers and the poor. Even though during most of the 1990s economic growth rates were important, and inflation and unemployment rates were kept under control, the process ended in 2002 with a deep recession and a financial crisis. The shifts in the party system gained strength during the 1990s, as the FA moved toward more moderate ideological positions and adopted state-oriented proposals that were being abandoned by the traditional parties. 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 the FA and traditional parties, culminating in the formation of an FA-controlled national government in 2005.

The political and economic performance of Uruguay during the 15 years of the FA government has been one of the most successful in the country's history. This period coincides with a favorable export scenario for goods produced in Uruguay. The democratic institutions worked efficiently and the country received international recognition for its superlative achievements (e.g., economic growth, employment growth, real wage growth and poverty reduction). However, at the end of the review period, economic conditions have changed: economic growth has decreased, exports have stalled and the possibility of increasing public spending has reached a limit.

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

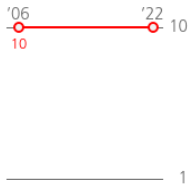
I. Political Transformation

1 | Stateness

Question Score

Monopoly on the use of force

10



The Uruguayan state exercises control over and has a monopoly on the use of force throughout its territory. In recent years, crime rates increased due to the development of criminal networks linked to drug-trafficking (46% increase in homicides and 53% increase in armed robberies between 2016 and 2019). Though the dimension of these networks remains unclear, according to InSight Crime 2020, Uruguay also saw an increase in attacks on police officers. In an unprecedented though likely isolated event, three soldiers were murdered, presumably in relation to gang activities (e.g., the procurement of weapons or smuggling).

The new government intensified police activity, increased intelligence activity and got parliament to pass higher penalties. The homicide rate fell to 9.8 per 100,000 inhabitants in 2019 and 9.3 in 2020, but for citizens public security continues to be one of the main problems in the country.

State identity

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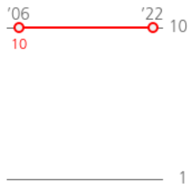

The population accepts the legitimacy of the nation-state. Access to citizenship includes all individuals born in the country, foreigners established in the country, and sons and daughters of Uruguayans born abroad. Nobody loses the citizenship by race, gender, language, religion, political or other opinions, national or social origin, etc.

Religious dogmas do not have a relevant role in the functioning of Uruguayan institutions. The Catholic Church was separated from the state more than a century ago. The state is secular and religious dogmas have no influence on the legal order. The Catholic Church, like others religious communities, tries to exert influence over public opinion in issues like sexual education or abortion, but it has not had significant success.

No interference of religious dogmas

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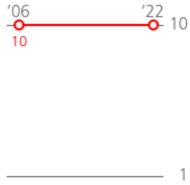

The different levels of government perform all basic state functions solidly, including regulation, administration and implementation. Uruguay is a republic with a classic division of powers. The country has 19 subnational (departmental) governments, 125 municipalities, and a variety of autonomous public institutions specialized in areas such as education, public services and regulatory agencies, whose directories are appointed by parliament. The emergence of the coronavirus did not affect the basic civil functions of state administration.

Basic administration

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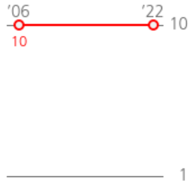

2 | Political Participation

Elections in Uruguay are free and fair, and without restrictions. The election of all government offices is carried out by secret ballot and universal suffrage. The Electoral Tribunal, whose members are appointed by a two-thirds parliamentary majority, has a long tradition of impartiality and efficiency. Voting is compulsory for resident citizens and participation rates are usually high (over 90.12% in 2019). Political parties have relatively equal access to the media and the election results are accepted without complaint.

Free and fair elections

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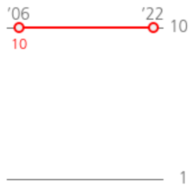

In the 2019 presidential and parliamentary elections, the opposition defeated the ruling party. In the first presidential round, the candidate of the Partido Nacional, Luis Lacalle Pou, had been in second place but the formation of a coalition with four other opposition parties – based on a programmatic document called “Compromiso por el País” – enabled him to secure a narrow win in the second round (48.9% to 47.4%). This “multicolor” alliance was also able to secure working majorities in the elections to both houses of parliament, with a comfortable majority in the Senate (17:13) and a narrower majority in the Chamber of Representatives.

The subnational elections (19 departmental governments and 125 municipalities), scheduled for May 10, 2020, had to be suspended due to the emergency of the coronavirus pandemic. A law voted for by all parties in parliament gave the Electoral Tribunal the power to set a new date. While these elections on September 27 were held under strict health security protocols, 85% of authorized citizens voted. The results grosso modo followed the trend indicated in the general elections. The Partido Nacional gained three departments (now 15 out of 19). Meanwhile, the Frente Amplio lost three, although they held the most important one, the Intendencia of Montevideo. The convincing victory for FA majority candidate Carolina Cosse has made her a serious presidential hopeful for 2024.

Elected representatives have effective power to govern. There are no nondemocratic actors with capacity to challenge government decisions. The military are under civilian control and the national defense budget has been systematically reduced since the restoration of democracy. Economic groups exert some influence over the political parties but not enough to change government decisions. In general, the political process takes place within the institutional framework established in the constitution.

Effective power to govern

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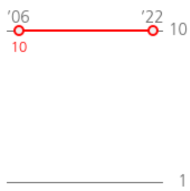

Association and assembly rights are guaranteed by the constitution. Governments fully respect these rights regardless of the interests of associated citizens or the type of social sectors involved. These rights of association have not been violated following the emergence of the coronavirus pandemic. From the beginning of the health crisis, the government developed a confinement strategy based on people exercising “responsible freedom,” which was quickly accepted by the population. Although in the first few months of the pandemic, people’s mobility decreased abruptly (due to the exhortation to stay at home), the government did not need to enact special regulations to limit movement. Only in December 2020, when the number of infections began to grow exponentially, did the parliament approve a law (published on December 21) that reinterprets article 38 of the constitution, which refers to the right to peaceful assembly. The law empowers the police – in coordination with the health authorities and local administrations – to dissolve public meetings that do not respect the government’s social distancing measures for a period of 60 days.

Association / assembly rights

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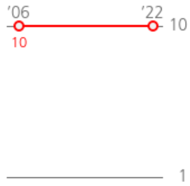

Freedom of expression is fully guaranteed for citizens, groups and the press, without any kind of censorship, including internet. The media are ideologically and politically diverse, so that all relevant opinions are present in the public agenda. In 2014, the parliament passed a law regulating the operation of the media, which was severely criticized by opposition parties. In 2020, the new government sent a bill to parliament that modifies the most disputed aspects of the law. The bill will very likely be approved in the course of 2021. However, five years after the law was first introduced, it is clear that these regulations have not had any impact on freedom of expression.

Freedom of expression

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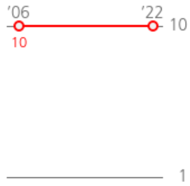

On the other hand, the emergence of the coronavirus pandemic has not greatly affected the ability of organizations or the media to freely express opinions. For example, between May and July, the parliamentary committees of both chambers received and heard opinions submitted by more than 100 economic and social organizations regarding an important bill, comprising 506 articles, that the parliament was considering.

3 | Rule of Law

Separation of powers

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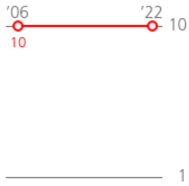

There is a clear division of functions among the judiciary, the executive and the legislative branches in Uruguay, with mutual checks and balances. Inter-branch conflict is unusual and resolved according to the constitution. There are no significant informal institutions which could undermine the separation of powers or the rule of law as such, and also no tradition of delegative democracy in Uruguay.

Given the arrival of the coronavirus pandemic on March 13, 2020, the government declared a "state of health emergency," which does not legally restrict the operation of government institutions or the practice of civil liberties. The actions taken by the executive and legislative branches followed the usual procedures. During the month of March, the president signed about 15 decrees restricting public and business activities. None of the decrees exceeded the powers granted by the constitution. In the first month of the pandemic, the parliament passed a set of laws that aimed to combat the pandemic with the support of all parties. The parliament carried out government oversight without major difficulties. Throughout 2020, legislators submitted 857 requests for information (15% related to the pandemic) and 52% were answered before the end of the year.

Independent judiciary

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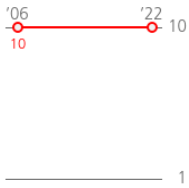

The justice system is rather professionalized and differentiated, although its operation is quite slow. The members of the Supreme Court of Justice are appointed by a parliamentary super majority (i.e., two-thirds of members), while the performance of the judicial structure shows that it is independent of political or economic pressures. There have not been any cases of corruption involving members of the judicial system. The 2020 Report of the World Justice Project on the Rule of Law Index confirms these strengths, with the report placing the Uruguayan judiciary in 22nd position worldwide, and first in Latin America and the Caribbean.

The subordinate courts are the Courts of Appeal, district courts (Juzgados Letrados), peace courts (Juzgados de Paz) and rural courts (Juzgados Rurales). In 2017, the parliament approved a reform to the Criminal Procedure Code, which grants the Attorney General's Office the power to direct investigations and establishes an accusatory criminal process in public hearings directed by a judge.

Prosecution of office abuse

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Officeholders who break the law and engage in corruption are prosecuted rigorously under established laws. In general terms, Uruguay has low levels of corruption, even though some scandals occur. Since 1999, Uruguay has had an anti-corruption agency (the Transparency and Public Ethics Board, JUTEP), which performs an important role in the fight against corruption. An emblematic example of the agency's performance is the case of former Vice President Raúl Sendic. When a newspaper report revealed that Sendic, while he was the director of the state oil company, had used a corporate credit card to cover personal expenses, the anti-corruption agency analyzed the information and published a report that was highly critical of the vice president's behavior. This led to a crisis in the ruling party and the resignation of the vice president in 2017.

During 2020, the new government had to deal with three episodes of press complaints against senior ministry officials, who were alleged to have conflated public and private interests. In two of the three cases, the government removed the officials and in the third it conducted an administrative investigation. The new government has hired independent auditors to assess the management accounts of the previous government's ministries. This is an unprecedented event in the country's political history but so far it has not yielded great results.

Civil rights

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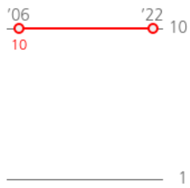

Civil rights are guaranteed by the constitution and generally respected by the state. Citizens have equal access to justice and due process. There is no significant discrimination based on gender, sexual orientation, religion, ethnicity or political preferences. In order to provide stronger protection to certain vulnerable groups, several specific laws have been enacted in the last decade (e.g., on femicide, legal abortion, same-sex marriage, transgender rights and affirmative action for the Afro-Uruguayan minority). The last few governments have attempted to redress victims of crimes committed under the last dictatorship (1973–1985). These crimes had gone entirely unpunished due to an amnesty approved in 1986, but now many of those responsible are being prosecuted by the courts. The Global State of Democracy Indices shows that Uruguay's performance in civil rights was high in 2020.

Faced with the emergence of the COVID-19 pandemic, the government did not restrict civil rights or introduce repressive measures to prevent behaviors that could threaten public health. The exception was the regulation of the right to public assembly, approved by the parliament in December 2020, which gave the police the power to dissolve mass gatherings in public places.

4 | Stability of Democratic Institutions

Performance of democratic institutions

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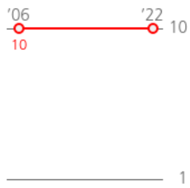

Uruguayan democratic institutions perform their functions in an effective manner and in accordance with the constitution and laws. The relationship between the levels of government and the distinct sectors of administration does not present significant frictions.

During the first year of the coronavirus pandemic, the institutions established sanitary protocols and continued to function. In particular, the parliament held the same number of sessions as in the first year of the previous legislature (2015). The judiciary also maintained a reasonable level of operation, despite the fact that by law a judicial fair was established for the entire month of March 2020. Subsequently, the operation of the courts was normal.

Democratic institutions in Uruguay are accepted as legitimate by all relevant political actors. There are no significant veto power actors outside of the constitutional framework. Some military officers have been imprisoned or are on trial charged with crimes committed during the dictatorship. The military has allowed and accepted searches in order to find the remains of people who went missing under the dictatorship. The military is subject to civil control. The executive has not used exceptional powers to undermine democratic institutions.

Commitment to democratic institutions

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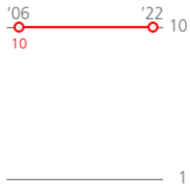

5 | Political and Social Integration

The Uruguayan party system is one of the most stable and institutionalized in the world. Since 1971, three political parties have received about 95% of the votes. The political parties have a factionalized structure with highly visible and autonomous groups represented in their decision-making processes. These factions are ideologically coherent and exercise discipline in parliament. In the last elections, held in 2019, a new political party emerged, Cabildo Abierto. The new party has a conservative ideology, obtained 11% of the votes and is led by a former army commander, Guido Manini Ríos. Although some of its members have held ambiguous views about democracy and the recent history of the country, the party has been accepted into the government coalition of President Lacalle Pou and has assumed two important ministries (public health and housing).

Party system

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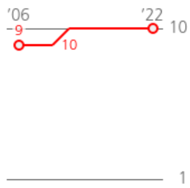

In general terms, the party system has reached a multiparty equilibrium, with two main blocs engaged in intense competition. The center-right bloc, now in government, is made up of Uruguay's two traditional parties (Partido Colorado and Partido Nacional), as well as Cabildo Abierto and two small parties (Partido Independiente and Partido de la Gente). It has social roots in high- and low-income groups, as well as in suburban and rural populations, while clientelism is not a relevant political phenomenon. The center-left bloc is led by the former government party, Frente Amplio, and has social roots in urban centers, and particularly in middle and working-class communities. Despite this dynamic of bipolar competition, the policymaking process shows that the Uruguayan political parties can reach long-term agreements.

Uruguayan society has a long tradition of organized social groups. The most salient and influential groups are labor unions and business associations, including those of agriculture like the influential Asociación Rural. Unions are organized in a single national association, PIT-CNT, created in the mid-1960s. Business associations do not have a national organization but there are a few very influential groups based on the most relevant economic activities of the country (agriculture, industry, banking and the export sector). From 2005 onwards, unions and employers have negotiated wages and work conditions inside an institutional framework (Consejo de Salarios, Wage Board) with government mediation, and most of them have reached long-term agreements.

Interest groups

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Along with union and business associations, there are other important social groups, such as pensioners (who are very influential), students and a variety of professional collegiates (e.g., lawyers and physicians). In recent years, new topic-specific organizations have emerged, including organizations representing women, Afro-descendants, LGBT people and victims of the dictatorship, as well as environmental issues. These new types of association have acquired greater public visibility of late. In January 2019, a powerful new group called "Un sólo Uruguay" was formed by large-scale farmers, tourism businessmen, small town workers and agricultural professionals, who opposed several policies of the leftist government. In the electoral campaign of October 2019, this organization supported the candidacy of Lacalle Pou and influenced some of his programmatic positions. In general, social groups are inclusive, tend to balance one another, and have pragmatic and cooperative attitudes.

Approval of democracy

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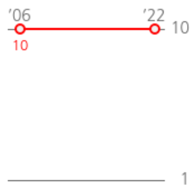
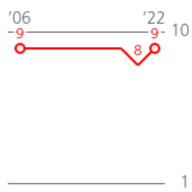


Citizens' support for democracy in Uruguay continues to be the highest in Latin America. Comparative public opinion surveys such as Latinobarómetro or LAPOP, place Uruguay among the highest positions in regional rankings. However, the last report published by the Latinobarómetro Corporation indicates that support for democracy decreased between 2017 and 2018 (from 70% to 61%). This phenomenon, which has dramatically affected most Latin American countries, has generated intense concern in the Uruguayan political system. One possible explanation is that a small proportion of citizens affected by the consequences of the economic slowdown (2015–2017) are expressing their anger and annoyance without making distinctions between government and political regime. The 2018 Latinobarómetro Report also shows that public agreement with the "Churchillian" definition of democracy (democracy has problems, but it is the best possible political system) fell by a smaller share than that recorded for support of democracy (84% to 78%).

Trust in specific institutions is not overwhelming, though in most cases is clearly situated above the Latin American and Caribbean average: Government 39% (LAC: 22%), election authority 47% (LAC: 28%), parliament 33% (LAC: 21%), judiciary 39% (LAC: 24%) and political parties 21% (LAC: 13%).

Social capital

9



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, neighborhoods, or other contexts, based on voluntary work and oriented toward helping the community.

During the worst months of the coronavirus pandemic, there were numerous examples of solidarity toward those who had lost income. Social organizations, unions and sports clubs collected food donations and organized "soup kitchens" in clubs or civic centers, where people could eat twice a day for free. In December 2020, a total of 213 soup kitchens were operating in Montevideo, serving almost 40,000 people per day.

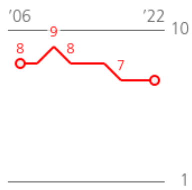
The level of interpersonal trust in Uruguay, according to Latinobarómetro 2018, is not very high, as in all Latin American countries. Only 20% of respondents agree with the sentence “we can trust in most people.” Nevertheless, the country ranks joint first in the hemisphere, along with Colombia and Guatemala, while the number and performance of civil society groups and associations in Uruguay is outstanding.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers
7



Uruguay is 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. However, the second half of the century was marked by economic stagnation and social conflict. After the return of democracy in 1985, the country’s social indicators began to improve. At present, Uruguay has maintained a privileged position in the region. The 2020 HDI Report ranked Uruguay 55 out of 188 countries, third in Latin America, with a score of 0.817 and defined it as a country with high human development.

A report by the National Institute of Statistics (2020) indicated that at the end of 2020, 8.1% of households lived below the poverty line and 0.3% were indigent. This data shows a deterioration in the social situation compared to previous years, which can be attributed to the COVID-19 pandemic. In terms of income distribution, the same report states that the Gini coefficient for Uruguay is 0.387, the lowest in the region according to ECLAC’s Social Panorama of Latin America (2019). The global loss in the HDI due to inequality was 12.9%, once again the lowest in the region.

Economic growth over the past two decades, as well as proactive policies to increase real wages and develop transfer programs, were key factors in these achievements. An official report from the Ministry of Economy shows that the average salary index had increased for 15 consecutive years to 2019, an increase of 63% over the previous 15 years. However, Uruguay’s success in reducing poverty and improving income distribution should not hide the important challenges that the country still has to face.

Gender inequality is still present and seems a difficult problem to solve, despite the fact that the country has experienced some improvements in recent years. The Human Development Report’s Gender Inequality Index 2020 ranked Uruguay 57 out of 162 countries, with a score of 0.275 (third in Latin America after Argentina and Chile). The situation of Afro-descendants is also a challenge for Uruguay. People of African descent comprise 9% of the population but experience a relatively high poverty rate and attain a very low level of education. In 2013, the parliament passed a law to promote labor inclusion and access to higher education for this minority group, but for the moment the results remain very modest.

Economic indicators		2017	2018	2019	2020
GDP	$ M	64234.0	64515.0	61231.1	**53628.8**
GDP growth	%	1.6	0.5	0.4	**-5.9**
Inflation (CPI)	%	6.2	7.6	7.9	**9.8**
Unemployment	%	7.9	8.3	9.4	**12.7**
Foreign direct investment	% of GDP	4.1	2.7	2.1	**-**
Export growth	%	4.9	-1.7	3.6	**-16.2**
Import growth	%	7.1	0.0	1.5	**-10.8**
Current account balance	$ M	-17.8	-335.8	824.1	**-296.8**
Public debt	% of GDP	56.5	58.6	60.5	**68.1**
External debt	$ M	-	-	-	**-**
Total debt service	$ M	-	-	-	**-**
Net lending/borrowing	% of GDP	-2.8	-1.9	-2.8	**-**
Tax revenue	% of GDP	18.3	18.6	18.2	**-**
Government consumption	% of GDP	-	-	-	**-**
Public education spending	% of GDP	4.5	4.7	4.7	**-**
Public health spending	% of GDP	6.7	6.7	-	**-**
R&D expenditure	% of GDP	0.5	0.4	-	**-**
Military expenditure	% of GDP	2.0	2.1	2.1	**2.3**

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market organization

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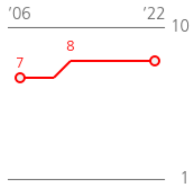

The Uruguayan model of development and welfare, traditionally oriented toward a market economy, is based on a crucial role of the state, either by direct participation in economic activities or by its regulatory role. Since the beginning of the 20th century, several strategic economic activities have been monopolized by state-owned enterprises (fuel, electricity and telecommunications). 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 previously monopolized sectors by the state. The insurance market, the pension system and the mobile telephone network, for instance, work as competitive markets with participation of state enterprises. The leftist governments (2005–2020) did not reverse this liberalizing trend, and rather continued it. In general terms, the Uruguayan economic order rests on tripartite consultations approximating the classic German model, providing for a high degree of consensus on a market economy with social safeguards and the role of the state as a guarantor. Except from the few state-monopolized or strongly regulated activities, there are no significant barriers to entry in markets. Uruguay ranks 66 out of 190 countries in the Doing Business 2020 Report (World Bank) and second in the region behind Chile (57th place). In Uruguay, it takes five procedures, 6.5 days and 24.1% of per capita income to start a business.

Private, domestic and foreign investments have been stimulated for several years. Foreign direct investment (FDI) increased in Uruguay from an average of 2.2% of GDP for the 2001–2004 period to 5.2% for the 2005–2015 period (second in the region after Chile). Between 2017 and 2020, FDI decreased (-8% in 2019), as it did across the entire region. However, the forecasts of independent experts maintain that it will grow again once the coronavirus pandemic is over.

Due to public services being a state monopoly, there are some administered prices, representing about 25% of the goods and services basket. These include prices for electricity, fuel, drinking water, communications and health services. According to the International Labour Organization, the informal economy accounts for 25% of employment in Uruguay.

Competition policy

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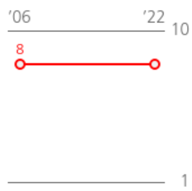

Competition laws to prevent monopolistic structures and conduct are in place, though there are some flaws concerning legal coherence and enforcement. Uruguay did not have any regulations against monopolies or in favor of competition until 2000. As various economic activities have become competitive in the context of the market-oriented reforms conducted in the 1990s, successive governments passed laws to guarantee competence. The first leftist government approved the "Antitrust Act" (Trade Freedom and Free Competition Preservation Act), which entered into force in August 2007. This new institutional framework introduced pre-merger control approval in cases of economic concentration. Although there have been advances –

such as the development of a market for the generation of electricity from renewable sources, which allows for private investment and the sale of energy to the public utility – there are still many activities (fuel or telephony line) that are state monopolies.

The Commission for the Promotion and Defense of Competition is the main agency in charge of regulating sectoral markets. There are also three other important regulatory agencies: the central bank (banks and financial services), the Communication Services Regulatory Unit (URSEC), and the Energy and Water Services Regulatory Unit (URSEA). With the exception of the central bank, the other agencies have shown political and institutional weakness in the regulation of markets where public companies are relevant competitors. For that reason, the new government of Lacalle Pou proposed an institutional reform of these agencies, which was approved by the parliament in July 2020.

Liberalization of foreign trade
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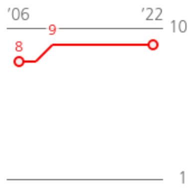

The liberalization of Uruguay’s foreign trade accelerated with the entry of the country into Mercosur in the early 1990s. As this agreement became a free trade zone, most Uruguayan exports went to Argentina and Brazil. As a consequence of the regional crisis of 2001 to 2002, Uruguay’s trade policy began to diversify its range of export markets. Favorable commodity prices have allowed for a steady increase in exports since 2004, reaching its highest historical levels. Non-tariff barriers and other measures that hamper trade are few. All inbound goods coming from non-Mercosur countries are subject to a common external tariff (CET) which varies between 0% and 20% according to the type of good. The average most-favored-nation tariff has been reduced (the simple average MFN applied tariff was 10.3 % in 2017). A 2018 WTO report on trade policies and practices noted that between 2012 and 2017, Uruguay introduced a series of measures to facilitate trade, including the electronic payment of duties and taxes, the use of the digital Single Customs Document (DUA), the introduction of the Foreign Trade Single Window (VUCE), the automated control of port access to the Port of Montevideo, the sea and air electronic manifest, and the Authorized Economic Operator (AEO) program.

The crisis within Mercosur during the last two decades pushed successive Uruguayan governments to promote trade and/or investment agreements with countries outside Mercosur, such as Mexico, the United States and Finland. However, progress in this area has been modest because Argentina and Brazil, major Mercosur partners, vetoed successive bilateral agreement initiatives of Uruguay with China or the European Union. In other words, Uruguay’s political leadership has promoted new free trade agreements with other countries, but major Mercosur partners have prevented it by virtue of Decision 62 adopted in 2000. In January 2021, President Lacalle Pou began negotiations with the president of Brazil, Jair Bolsonaro, with the aim of relaxing restrictions that prevent members signing bilateral agreements with countries outside of the zone.

The government body Uruguay XXI reported that in 2020, as a result of the coronavirus pandemic, exports of goods suffered their worst drop in the last decade (-12.5%). Uruguay exported merchandise to 160 countries worth $8,076 million. China continues to be Uruguay's main export market, accounting for a 27% share of Uruguayan exports. After China, Uruguay's main export markets are Brazil (15%), the European Union (14%), the United States (7%), Argentina (5%) and Mexico (3%). Uruguay's main exports are beef (20%), cellulose (14%), soybeans (9%), dairy products (8%), beverage concentrates (6%) and rice (6%).

The coronavirus pandemic has also impacted imports, with imports registering a 5% drop compared to 2019. Uruguay imported products worth $6,805 million (oil and derivatives, vehicles, chemical inputs, clothing and footwear, and plastics). Its imports mainly come from China, Brazil, the United States, Argentina and the European Union. Production inputs account for almost 60% of imported goods, while 15% of imports are capital goods and 25% are consumer goods. In 2021, the government expects exports to increase by 7%.

Banking system

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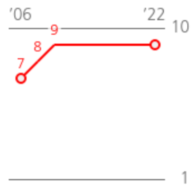

Traditionally, the Uruguayan banking system acted as a regional financial center due to its liberalized regulations and reliability. However, as a consequence of the 2002 financial crisis, some requirements and control over the system have been increased, and the share of non-resident deposits decreased, thus strengthening its position. By the end of 2010, the parliament passed a law on inquiry into banking movements, thus accepting OECD requirements on the controlling of international financial flows. The central bank of Uruguay (BCU) regulates and supervises the financial system through the Financial System Regulatory Agency (SSF). It uses the standards of the Basel Committee on Banking Supervision as reference to define the regulatory framework.

The banking system is composed of two public banks, ten private banks and a wide variety of non-banking institutions that have been established in the country, such as brokerage cooperatives, finance houses, offshore banks, consumer loan companies and currency exchange houses. The state banking institutes are the Banco de la República Oriental del Uruguay (BROU) and Banco Hipotecario del Uruguay (BHU, Mortgage Bank of Uruguay). The first institution operates as the state's commercial bank, contributing to the country's productive, economic and social development. The latter is exclusively dedicated to mortgage loans. The system is well-capitalized, with high levels of international reserves and liquidity, and low non-performing loan ratios (3.1% in 2019). 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.

Following the difficult period 2015–2016, when worsening economic conditions caused an increase in asset risks, various rating agencies have assessed the soundness of the Uruguayan banking system. At the end of 2020, Uruguay had enough assets to meet the following year's maturities and with lines already consistent with contingent loans from international organizations at a similar level. Bank capital to assets ratios have been around 10% since 2010. A recent report from the central bank (December 2020) maintains that, despite the recession generated by the coronavirus pandemic, the solvency of Uruguayan banks, as measured by the capital-risk ratio, is quite comfortable. On average, the capital-risk ratio is two times the regulatory minimum, which includes requirements for credit, market, operational and systemic risks.

8 | Monetary and fiscal stability

Monetary stability

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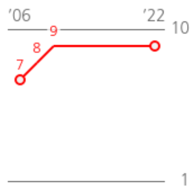

Uruguay's central bank (BCU) is the body in charge of price stability, the regulation of the payment system and the supervision of the financial system. It has technical, administrative and financial autonomy, and its president and two directors are appointed by a three-fifths majority vote of members of the Senate. One of the directors is usually nominated by the largest opposition party. The BCU has made inflation the main target of its monetary policy. The country began to tackle inflation in the early 1990s, using the exchange rate as its main instrument. At the end of the decade, low inflation rates had been achieved, but the national currency had quickly become overvalued, external competitiveness had declined and public debt had increased. The process ended with the financial crisis of 2002, which led to a drastic devaluation of the currency by more than 100% and an increase in the inflation rate to 26%.

After the crisis, the BCU improved the flexibility of exchange rate policy, letting the value of currencies be determined by supply and demand. However, as a result of the global financial crisis of 2008, the national currency began to rise again in value and the government applied different measures to avoid a significant fall. In trying to balance both objectives, the value of the national currency stabilized, but tackling inflation has continued to be a priority for successive governments.

The World Bank's Development Indicators show that the real effective exchange rate grew moderately over the past decade, with a sharp decline in 2014 and a slow rise thereafter. In 2019, Uruguay's real exchange rate stood at 113.1 (2010 = 100). Likewise, inflation has remained high in recent years after having fallen in 2017 (6.6%). According to data from the National Institute of Statistics, Uruguay's interannual inflation rate was 8.4% in 2018, 8% in 2019 and 9.4% in 2020.

The new government of Lacalle Pou stated that the fight against inflation was one of its main challenges. The economic authority considers that one of the main factors that pushes prices up is government spending. Uruguay's fiscal deficit was 5% in 2019, 0.5 percentage points higher than 2018. Therefore, the economic authority has made a series of cuts to public spending (around 15%) through presidential decrees and the approval of legislative initiatives. The BCU aligned itself with this policy and in September 2020 established a target inflation range of 3% to 6%. The BCU also abandoned the monetary aggregate as an instrument of monetary policy to move to the interest rate (the monetary policy rate was set at 4.5%).

The coronavirus pandemic did not affect the exchange rate substantially. In the first month of the pandemic, the U.S. dollar appreciated significantly, but then the exchange rate adjusted. The BCU opportunely relaxed the banking reserve regime, increased the flexibility of regulations for renewing existing credits by the BCU and the Superintendency of Financial Systems, and expanded the guarantees provided by the National Guarantee System (SIGA). In June, the government issued bonds worth some $2,000 million at the lowest rate in history, with the purpose of partially financing the country’s current account deficit.

Fiscal stability

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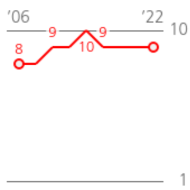

After the 2002 financial crisis, Uruguay reached its highest levels of fiscal deficit and external debts in more than a decade. The first administration of President Vázquez (2005–2010) took advantage of the favorable external situation and the economy began a historical cycle of economic growth. The government managed to reduce the fiscal deficit while increasing public expenditure, especially on education and health. However, the policy of “growth with income distribution” led to increasing fiscal deficits. While in 2011 the fiscal deficit was 1.7% of GDP, in 2016 it had already risen to 4% and in 2019 it stood at 5%.

On March 1, 2020, in his inauguration speech, President Lacalle Pou announced that he would seek to balance fiscal accounts in order to achieve sustained economic development. The government’s plan aimed at reducing the fiscal deficit by two points throughout its term. However, the emergence of the coronavirus pandemic on March 13 presented a severe obstacle to achieving that goal. The strategy to tackle the coronavirus pandemic discarded the possibility of a society-wide lockdown and focused on citizens exercising “responsible freedom.” The government protected people’s health but without destroying the economy. During 2020, social spending aimed at the most vulnerable population groups was modest, while the budget of several ministries not directly involved in the country’s pandemic response were cut by 15%. At the end of the year, Uruguay’s fiscal deficit stood at 5.8%, just one percentage point more than at the beginning of the year.

To respond to the pandemic, the government sent a bill to parliament that created the COVID-19 Solidarity Fund, in order to address the national health emergency. The fund was made up of the 2019 profits of the Republic Bank (Banco República) and the National Development Corporation (CND); contingent loans from multilateral organizations (the Inter-American Development Bank transferred $400 million and maintained an open line for $1 billion); donations from companies or individuals; and a tax applied for a period of three months to the salaries of the heads of the three branches of the state and the high state bureaucracy.

The COVID-19 Solidarity Fund focused on increasing existing transfers to the most vulnerable households; the development of the capacities of the health care system

(CTIs, hospitals specializing in COVID-19, development of serological tests and health care supplies); lines of credit for small and medium-sized companies; and assistance to the Social Security Bank (BPS), the agency in charge of paying unemployment insurance (more than 100,000 private workers were referred to unemployment insurance during the first six months of the pandemic). As reported by the minister of economy, Azucena Arbeleche, at the beginning of February 2021, the COVID-19 Solidarity Fund had spent $700 million since the start of the pandemic (1% of GDP), with a further $550 million provided to cover loans under the National Guarantee System.

The opposition has criticized the lack of transparency in the management of the COVID-19 Solidarity Fund, with the government having declared that this information is to remain confidential until the end of the pandemic, in accordance with the exceptions established in the Law on Access to Public Information of 2008. Another frequent criticism refers to the insufficiency of social spending in the attention to the vulnerable social sectors. According to the 2020 ECLAC report, Uruguay invested only 1.4% of GDP during the first year of the pandemic.

9 | Private Property

Property rights
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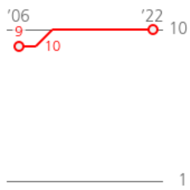

Since the origins of the Uruguayan nation-state, property rights have been constitutionally protected and enforced at the same level as other fundamental rights (life, freedom, honor, security and work). Regulations on acquisition, benefits, use and sale are well-defined and enforced. Property rights can be limited solely by law and based on reasons of public interest. The constitution establishes that, in the event of expropriation, payment of fair compensation must be made in advance. Uruguay has not registered cases where foreign investments have been expropriated. In recent years, the country has been improving its property rights regulations for economic activities to promote private investments, especially from abroad.

Private enterprise
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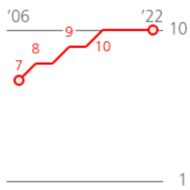

During the first decades of the 20th century, Uruguay became a state-centered capitalist economy. In the 1990s, governments promoted liberalizing reforms in the context of the Washington Consensus policies. However, the process was gradual, and some privatizations were blocked by opposition parties and social movements, using direct democracy mechanisms. The last three leftist governments have not followed a strategy of privatizing state-owned enterprises, although they have promoted private investments and public-private joint ventures in infrastructure developments. The Investment Promotion Law 16.906 (1998) and the Decree 455/007 (2007) have played a crucial role in the increase of foreign direct investment until 2015. In the last decade, governments have tried to attract private investment in order to develop various strategic projects. In some cases (e.g., ocean port, prospecting for oil along the Uruguayan coast and a regasification plant), the results were not good. In other cases (e.g., plants for cellulose processing), the investments were made possible thanks to a proactive attitude of the successive presidents.

The new government has emphasized the role that private companies can play as an engine of the economy. The design of the government's COVID-19 response strategy has been careful not to burden companies with the cost of the crisis. Although there have been no initiatives to privatize public services, several initiatives that seek to deregulate public service areas (e.g., internet services and fuel distribution) have been sent to the parliament. Likewise, in 2020, the government formulated several initiatives that aimed to support companies during the pandemic, including reducing the tax burden, increasing the flexibility of certain controls and expanding credit guarantees for borrowers.

10 | Welfare Regime

Social safety nets

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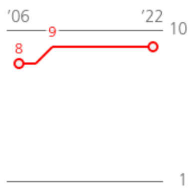

Uruguay has long been a traditional welfare state with social democratic characteristics, although its welfare provision has seriously deteriorated due to neoliberal policies and recurring economic crises. Nevertheless, social spending in Uruguay has remained the highest in Latin America.

The pension system was created in the first decades of the 20th century and underwent three major reforms. The last of the three reforms was the creation in 1997 of a mixed public-private system with a distribution pillar for low wages and an individual savings pillar for higher wages. The sustained increase in real wages over the last 15 years led to an increase in pensions, as a result the system began to experience severe financing problems. The new government of Lacalle Pou convened a commission of experts to diagnose the problem and propose possible reforms to the system. To resolve the structural problems of the traditional health care system, in 2008, the Integrated National Health System (SNIS) was created, which expanded coverage to public servants, spouses and children of low-income workers, and pensioners. The SNIS put public and private providers on the same level in order to provide health care competitively.

In 2005, the Ministry of Social Development was created, which developed new social policies that expanded monetary transfers to low-income workers in social sectors. For example, the Equity Plan provides transfers to some 118,000 families with children (family allowances), while the Social Card Uruguay (TUS) supports some 87,000 in-need households.

The combination of the SNIS and social transfer policies, together with the increase in salaries and pensions, contributed to a significant reduction in poverty. According to a March 2021 report from the National Institute of Statistics, 8.1% of households were living in poverty at the end of the first year of the coronavirus pandemic, while 0.3% were living in extreme poverty.

The new government developed a series of measures to deal with the socioeconomic effects of the pandemic: it doubled cash transfers (TUS Card), delivered food baskets to those enrolled in the Equity Plan (Family Allowances) and created electronic mechanisms for the registration of new people in vulnerable situations (TuApp application). These measures were designed to be implemented a short period of time, but the persistence of the pandemic forced the government to renew the benefits five times and establish monetary transfers for autonomous civil society initiatives (e.g., soup kitchens). Government authorities estimate that they have spent some $700 million (slightly more than 1% of GDP) on addressing the social consequences of the coronavirus pandemic.

Equal opportunity

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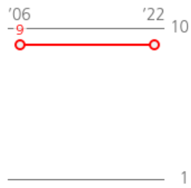

Uruguay has no significant ethnic or religious minorities. The country adopted a law in 2004 aimed at combating racism, xenophobia and discrimination. The main differences in opportunities for people are those derived from income and gender. In a country with an almost universal literacy level (99%), the differences between men and women can be seen as one of the main factors of inequality. The Gender Parity Index (GPI) for the gross enrollment ratio shows a balance between men and women at the primary and secondary education level, and a significant imbalance in favor of women at the tertiary level (1.7). Despite this, unemployment is higher than the average among women (52% of the population) and citizens of Afro-descendent (8% of the population). Although the female labor market participation rate has increased in recent decades, the activity rate of women is still lower than that of men (71% compared to 56%). In November 2020, the female unemployment rate was 14.1%, while the male unemployment rate was 8.1%. This gender gap is greatest among the poorest sectors of society.

The presence of women in public office is low. However, some improvements have been made. In 2009, a law was passed that introduced a one-third gender quota for elected political party officials, and a one-third quota for subsequent legislative and subnational elections. Thanks to this provision, women hold 23% of the lower house seats and 28% of the upper house seats in the last two legislatures.

In 2013, a law legalized same-sex marriage, while another law introduced mechanisms to improve labor market access for people of African descent and provide them with access to higher education scholarships. The parliament also passed a law in October 2012 that legalizes abortion in recognition of the rights of women over their own bodies. Finally, in 2018, the parliament approved a law that guarantees the economic, social and cultural rights of the LGBT population and compensates people born before 1975 who were victims of institutional violence because of their gender identity.

A substantial challenge for social integration in Uruguay is the recent increase in immigration from different countries in the region. Between 2005 and 2019, some 85,000 citizens from Venezuela, Argentina, Brazil, Cuba, Colombia, the Dominican Republic and the United States have settled in Uruguay. In 2020 alone, some 11,000 citizens – the majority from Argentina – entered the country with the aim of starting a new life in the country. The vast majority of immigrants have high educational levels but have found it difficult to obtain job positions commensurate with their training. In turn, approximately 20% of immigrants live in poverty and require social benefits to survive. In primary education, progress has been made to improve the social integration of immigrant children through solidarity initiatives that appeal to an established topoi of Uruguayan social history ("Uruguay, a country of immigrants").

11 | Economic Performance

Output strength

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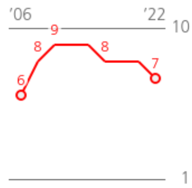

The unfavorable international context since 2015 led to a sharp slowdown in the Uruguayan economy, which showed lower rates of growth and a significant increase in the fiscal deficit. The coronavirus crisis has further exacerbated this trend. Even if Uruguay fared better than most Latin American countries, the economic consequences have been severe: domestic production has declined, exports have contracted, GDP has shrunk, unemployment has increased, and the pressures on state services, subsidies and the budget have increased. During the review period, GDP grew by 2.6% in 2017, 1.6% in 2018 and 0.2% in 2019. According to official estimates disclosed in January 2021, the Uruguayan economy contracted by 5.8% of GDP during the last year.

GDP per capita grew by 24% over the last decade, increasing from $18,003 in 2011 to $22,455 in 2019. The economic slowdown that began in 2015 led to an increase in the fiscal deficit (5% in 2019 and 5.8% in 2020), which was regularly financed by external debt. At the end of 2020, public debt amounted to 66% of GDP and net debt to 36% of GDP (about $18.5 billion). That year, the three main risk rating agencies categorized Uruguayan debt as BBB (stable). Seeking to increase predictability, the five-year Budget Law promoted by the new government included a rule that capped public debt for the years 2020 and 2021. Although the pandemic aggravated problems in the economy, the government's austerity policies achieved savings of $660 million in structural spending ($380 million from the central government and $280 million from public companies), despite the fact that revenue from the revenue department fell by 2.7% and that of customs by 1.9%.

Gross capital formation has continued to decline over the last five years. In 2014, this amount was equivalent to 21.2% of GDP, while in 2019 it had fallen to 16.2%. Unsurprisingly, FDI also fell dramatically (an estimated 11% for 2020) after two years of modest growth (2% and 1.7%). International foreign exchange reserves remain high ($16.46 billion) and the central bank generally uses them to mitigate volatility in the value of the U.S. dollar in the local market. A report from this agency, dated September 2020, reported that the current account balance corresponding to the rolling year showed a deficit of 0.5% of GDP. At the end of 2020, the inflation rate reached 9.4%, the highest rate recorded since 2015 and well above the target range established by the central bank (3–7%).

A report from the National Institute of Statistics published in January 2021, confirmed that the unemployment rate had worsened. At the end of November 2020, 10.9% of active people were unemployed (8.1% among men and 14.1% among women, with slightly more people in the interior than in the capital). The activity rate had decreased to 61.7%, from 62.2% in 2019.

12 | Sustainability

Environmental policy

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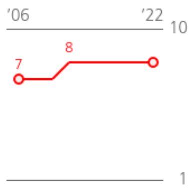


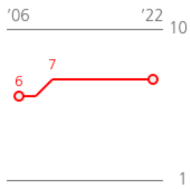
Environmental concerns have been increasingly taken into account by Uruguayan policies. The country has had an environmental protection law since 2000. Recent governments have developed alternative energy sources to oil, such as the production and use of biofuels and wind energy. These ventures, driven by public and private investment, have become one of the most successful policies of the last decade. In 2016, 98% of the electricity consumed by the country came from renewable sources (50% hydroelectric dams, 40% wind and solar energy, and 8% biomass-based sources). According to the 2020 report of the World Economic Forum, Uruguay ranks 11th in the world for energy transition. Another significant improvement in this field was the implementation of the National System of Protected Areas (SNAP), which has incorporated 12 areas since 2008.

Environmental awareness among the population has increased and the issue is increasingly present in public debate. At the end of the last administration's term, the creation of a new pulp industrial plant with Finnish capital was approved. The construction of the plant will involve substantial environmental changes, which provoked criticism from environmental groups. While the new government reviewed the investment conditions, it did not stop the process, verifying that the works will comply with the environmental standards required by law. In addition, President Lacalle Pou proposed the creation of the Ministry of the Environment, which the parliament approved in June 2020.

Despite notable progress, some problems with wastewater treatment, and the extensive use of pesticides and fertilizers in agribusiness still persist. There are also problems with the intensive production of rice in southern Brazil, which has polluted the Uruguay River and Laguna Merín (the second largest lake in South America). Negotiations with the Brazilian government have generated some minimal results. For example, in November 2020, the environment ministries of both countries announced the development of a binational project financed by the FAO, which will prepare a diagnosis of shared water resources. The 2020 Environmental Performance Index from Yale and Columbia Universities ranked Uruguay 61 out of 180 countries.

Education policy / R&D

7



The previous administrations significantly increased public spending on education (5% of GDP) and kept a R&D investment around 0.3% of GDP. In 2005, an independent government agency to promote scientific research and innovation (ANII) and the National System of Investigators (SNI) were created, the latter comprising about 1,200 researchers who receive a monthly payment for carrying out their work. In order to improve investment in R&D, the last government in 2018 promoted a law establishing tax incentives for companies that are active in this field. The impact of this policy, however, has so far not been evaluated.

The country has a strong education system nationwide, with almost 100% enrollment rates in primary and secondary schools, and a literacy rate of 98.7% (2018). In 2009, Uruguay developed an educational plan (Plan Ceibal) focused on "one laptop per child," which was implemented in all public schools in the country. Later, the plan was expanded to secondary and technical schools. This technological innovation did not generate rapid results, but – over the last year of the coronavirus pandemic – it offered considerable advantages for the development of distance teaching.

The Program for International Student Assessment (PISA) shows that the quality of education in Uruguay remains stagnant, especially in secondary education. The tertiary education system showed progress with the development of public university campuses throughout the country, reforms of undergraduate curricular programs and the institutionalization of graduate programs in almost all areas of knowledge. The UN Education Index for 2019 ranked Uruguay 59 out of 189 countries globally and fourth in the region (behind Argentina, Chile and Cuba), with a score of 0.765.

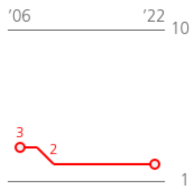
During the 2019 election campaign, the issue of education policy was widely debated. The winning candidate, Luis Lacalle Pou, promised to improve the quality of teaching through a series of institutional and content reforms. In June 2020, the parliament approved an omnibus law, which contained a chapter that would enshrine changes in the composition of the educational management bodies. The government's intention was to improve the efficiency of these bodies (councils) and limit the veto capacity of the teachers' unions. During 2020, the unions criticized various administrative decisions related to the pandemic (e.g., the relevance of distance teaching) and especially the reduction of teaching positions in secondary education. The Frente Amplio, the main opposition party, allied with the unions and a group of social organizations, beginning in January 2021, to collect signatures for a referendum petition on the aforementioned omnibus law, which introduced institutional changes to the governance of education.

Governance

I. Level of Difficulty

Structural constraints

2

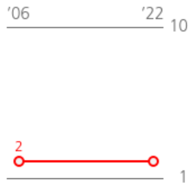


In Uruguay, there are no significant structural restrictions, such as natural disasters, permanent pandemics or extreme poverty. The country enjoys a privileged geographic location (although it depends to a large extent on the economic and political developments, and decisions of its large neighboring countries, for which it has often also served as a "safe haven") and has an educated and relatively rich population (by regional comparison). However, the fact that a number of key structural reforms, which the country needs in order to cope with present and future challenges, have been repeatedly postponed (or in the best cases severely watered down) by successive governments over decades, which has constrained the country's potential governance capacity (e.g., administrative and tax reforms, civil service reforms, infrastructure, tertiary education, and R&D).

As in all countries in the region, the COVID-19 pandemic has had a substantial impact on Uruguay, even though the country was better prepared than many others to face the virus when it arrived in March 2020. Unlike in neighboring countries, when the pandemic hit, Uruguay's economy was not in crisis, political parties were willing to cooperate, health care system was powerful and covered the entire country, scientists were able to develop serological tests and discover the genome of the different strains of the virus, social protection system was solid and flexible (including the unemployment insurance and social programs), and citizens had a fairly homogeneous political culture, which increased public perception of the risks and cooperation with the government. By February 2021, more than 52,000 people had been infected by the virus, of which around 46,000 people had recovered, 569 people had died and almost 6,000 people were still ill. According to data from February 21, 2021, the infection rate was 1.5% and the fatality rate was 1.09%. While Uruguay has fared better than most Latin American countries, the economic consequences have been severe: domestic production declined, exports contracted, GDP shrunk, unemployment increased, and the pressures on state services, subsidies and budget increased.

Civil society traditions

2

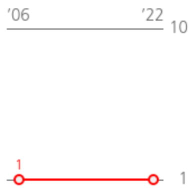


As stated previously (see “Social capital”), Uruguayan civil society has a long tradition of civic engagement and a rich participatory civic culture. There are numerous and active civic associations and there is still a significant and relatively high level of social trust. According to a report prepared by the Institute of Communication and Development (ICD), an independent government organization, Uruguay had 3,330 civil society organizations in 2019. In first place are institutions of social inclusion (26%), followed by organizations of “ideas, culture and free time” (13%), “work and production” (13%), “children and adolescents” (11%), “participation and rights” (8%), “education” (8%), “environment” (5%), and “diversity and gender” (4%).

According to the Latinobarómetro 2018, interpersonal trust is still low, with 20% of respondents agreeing with the phrase “we can trust most people”. Nevertheless, Uruguay continues to show the highest level in the continent. During the coronavirus pandemic, many social organizations (e.g., unions and clubs) organized “soup kitchens,” so that people who had lost their income could eat lunch and dinner. These organizations receive food donations from individuals and companies, and occasionally receive financial assistance from the Ministry of Social Development and departmental governments. According to a report by the organization Solidaridad.Uy in December 2020, Uruguay has more than 700 soup kitchens, which are managed by some 6,000 volunteers and serve around 40,000 vulnerable people.

Conflict intensity

1



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.

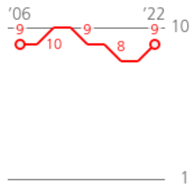
The coronavirus pandemic did not create a political gap between political actors. The government’s health strategy was supported by the entire political system, while public discussions focused on the economic consequences of the pandemic and the transparency of decision-making (e.g., in the execution of the Coronavirus Solidarity Fund and negotiation of vaccines).

II. Governance Performance

14 | Steering Capability

Question
Score

Prioritization
9



All post-dictatorship Uruguayan governments have been committed to democracy and the rule of law, as well as to a market economy, showing a broad consensus among political elites. Beyond that, since the 1990s, governments have shown an increasing tendency to establish strategic priorities to develop democracy and a market economy with social safeguards. Regarding the latter, governments focused first on controlling inflation and subsequently on establishing the conditions to promote FDI.

The governments of the leftist party, Frente Amplio (2005–2020), continued with these strategic objectives, while also adding the fight against poverty, the reduction of the informal sector, labor market reforms, and investment in education and health care. However, this cycle has meant that important reforms that the country must address have been left pending, such as a new education reform, a public administration reform and the improved regulation of public companies.

Since at least 1995, Uruguayan governments have had stable legislative majorities (with the exception of the 2002–2005 period), which in turn provided favorable conditions for innovation. Incoming president Lacalle Pou has built a majority coalition consisting of several parties. The multicolor agreement is based on a program signed in the second presidential round (called "Compromiso por el País"), which ensures the government controls 56% of the seats in each of the chambers. Although the coalition comprises five parties, only three are essential to make any legislative initiative viable: Partido Nacional (PN) of President Lacalle Pou; Partido Colorado (PC), led by former President Sanguinetti; and Cabildo Abierto (CA), led by a former army commander. The traditional parties (the PN and PC) have a strong liberal ideological convergence, but CA holds divergent points of view, especially on economic issues. The leaders of CA distrust foreign investment and are firm defenders of public companies, and perceive the world through a strong nationalist framework.

At the beginning of the coalition government's mandate (March 1, 2020), President Lacalle Pou prioritized adjustment policies with a view to reducing the fiscal deficit and containing inflation. He also proposed an omnibus bill for urgent consideration, containing more than 500 articles. The main modifications focused on public safety, education, the regulation of public companies and the creation of a fiscal rule. This bill was sent to the parliament in April and approved in June, with many modifications introduced by legislators of the main coalition partners. Half of the articles were also approved by legislators of the Frente Amplio, the main opposition party. Although the pandemic led to the introduction of severe restrictions – the special committees created in each chamber to analyze the project held brief sessions – more than 100 social organizations submitted opinions on the contents of the bill. Similarly, parliamentary discussion of the five-year budget, which was submitted to the parliament in September and approved in December, proceeded without any major problems. By the end of the year, the new coalition government had managed to get through most of its legislative agenda without the pandemic affecting its priorities.

There have been some interesting institutional innovations in the way the government conducted its response to the coronavirus pandemic. The president led the government's strategy with the support of the health authority, the national emergency system (SINAE), and an honorary scientific advisory group (GACH). The GACH consists of more than a hundred academics and is led by three highly prestigious scientists. This scheme shielded the economic team, which continued to work on adjustment policies, including a 15% cut in budget execution for the ministries not directly involved in the health crisis.

Implementation

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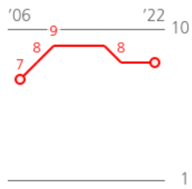

Recent Uruguayan governments have effectively implemented a large number of reforms. During the first government of Tabaré Vázquez (2005–2010), several outstanding reforms were launched, including fiscal, health care and financial reforms. These reforms were continued by the Mujica administration, without significant obstacles from opposition groups. In 2013, the government supported the legalization of abortion, same-sex marriages, and the production, sale and use of marijuana. However, the implementation of some new policies has been hampered by a still relatively large and vested bureaucracy. Significant obstacles have been encountered in the implementation of administrative and civil service reforms (Reforma del Estado) due to the mobilization of powerful public employee unions. The few successful reforms of the bureaucracy have focused on strategic agencies that could facilitate more efficient operations in some areas of the economy (revenue department, customs offices and public companies). Education is another area of public policy where reforms have been systematically blocked.

The new government of President Lacalle Pou has promised to address these challenges. In order to do so, President Lacalle Pou's government has promoted institutional changes, some of which have already been approved by the parliament (e.g., education, civil service and pension reforms). However, the pandemic has altered the government's priorities and made the reform process slower than expected. However, it should be remembered that historically in Uruguay successful reforms have been implemented gradually in order to achieve a broad consensus among the stakeholders involved. The pandemic could also be an opportunity for reforms to be seen as a pressing need.

An example of effective policy implementation during the coronavirus pandemic has been Uruguay's successful vaccination policy. Initially, Uruguay had problems obtaining vaccines because the WHO Covax program did not comply with the agreement signed in 2020. This situation meant that Uruguay was the last country in South America to receive vaccines. However, the agreements quickly reached with the government of China and with Pfizer-BioNTech enabled Uruguay to receive a large volume of doses. On March 1, Uruguay began its vaccination process. Within just one month, it had supplied a first vaccine dose to 20% of the population and a second dose to 3%, with Uruguay ranking among the 10 countries that have made the most progress in this area. This result speaks to the strength of the Integrated Health System (SNIS), the definition of an adequate logistics plan led by the health authority, and the development of alliances between the state and technology provider companies, which enabled more than one million people (a third of the population) to be registered to be vaccinated in just two weeks.

Policy learning

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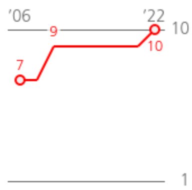

The Uruguayan political system has demonstrated a capacity for learning. The leftist governments (2005–2015) showed governance innovation by implementing several original reforms, such as the integrated national health care system, tax reforms, the renewable energy program, the legalization of marijuana and a financial inclusion program. The agenda of Lacalle Pou's new government has prioritized reforms to education, the regulation of public companies and social security. The educational reform began with an institutional redesign of education governance, which was approved by the parliament in June 2020, in order to avoid unions vetoing the reforms, as they had under previous governments. The changes to the regulation of public companies have focused on strengthening the capacities and autonomy of the units that regulate the water, energy and communications markets. The social security reform began with the creation of a committee of academic and party experts, which will diagnose systemic problems and develop a set of possible solutions.

The government's pandemic response also demonstrated significant innovation. The president led the government's response with the support of the Ministry of Public Health (the health authority) and the National Emergency System (SINAE), with additional expert advice provided by an honorary group of more than 100 experts led by three highly reputable scientists (GACH). The new structures enabled the government to effectively and legitimately exhort citizens to face the pandemic responsibly, while gaining the confidence of the political opposition. This kind of government innovation coexists with an ideological rigidity in managing public spending. In contrast to the flexibility shown by many countries around the world, Uruguay's economic leadership has shown very little willingness to increase public spending in order to mitigate the consequences of the pandemic.

15 | Resource Efficiency

Efficient use of assets

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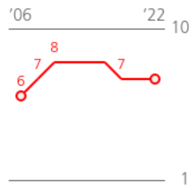

Uruguay has traditionally had a clientelist system of appointing public administration officials. Since the reforms of the 1990s, governments have worked to address this problem by reducing the number of state employees or by privatizing public companies. Previous governments made significant changes by incorporating more competitive hiring procedures without completely eliminating political influence. However, they failed to reform the civil service in a modern and efficient way because civil service unions strongly resisted the reforms and the respective governments lacked a clear strategy to tackle the problem.

Generally speaking, the government makes efficient use of most of its available human, financial and organizational resources. However, the state bureaucracy is oversized and many agencies are inefficient. The new government promised to reform state structures in order to make them more efficient, but the emergence of the coronavirus pandemic has pushed back the reform timeframe. The Civil Service Office has concentrated more on correctly diagnosing problems and guaranteeing teleworking conditions for public sector employees, rather than formulating concrete proposals to improve the functioning of state agencies. The 2005 budget law created the Debt Management Unit (UGD), within the Ministry of Economy and Finance (MEF), with the aim of developing an independent administration to oversee the central government's financial obligations and cash flows. The UGD ensures government financing at the lowest cost possible, following the risk exposure parameters. It has a strong operational capacity, develops research methods and promotes a proactive approach to the investment community. Information related to public debt is available on the UGD and MEF websites, and the results are audited by the parliament when the budget laws are processed. Likewise, in 2006, a new fiscal rule was made law. The rule established maximum levels of net public sector debt, while also including escape clauses that allow the limits established by parliament to be exceeded in the face of unforeseen adverse shocks. The urgent consideration law promoted by the new president introduced mechanisms to prevent the government avoiding the legally established levels.

In 2020, the pandemic forced the government to reallocate resources from ministries not directly involved in the crisis to agencies in charge of public health, social policies and unemployment. The reallocation was done by the MEF, which defined the Coronavirus Fund as an extra public budget item. In this way, the additional costs associated with the pandemic can be easily monitored by analyzing the balances of the Coronavirus Fund. However, not all information about the fund is freely accessible, because the government has declared certain pieces of information to be reserved (e.g., private donations), following the exceptions established by the law on public access to information.

Policy coordination

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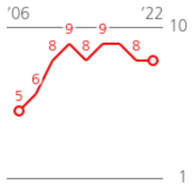

Past governments have tried to coordinate conflicting objectives and have acted in a largely consistent manner. At certain times, they tried different forms of horizontal coordination, including specialized ad hoc cabinets (e.g., a research and innovation cabinet, and a social cabinet) in which different ministries coordinate policies in order to avoid overlap and achieve more efficient results. Some of the main reforms launched by previous governments required considerable coordination, such as the tax and health care reforms, which affected workers' rights and wages. In 2016, the government created an interministerial commission to oversee the restructuring of the oil company ANCAP. The same modality has been used to address climatic disasters (e.g., droughts and floods), with the National Emergency System (SINAE) coordinating the activities of ministries and local governments. During the coronavirus pandemic, SINAE has played a crucial role in coordinating resources between different levels of government.

Anti-corruption policy

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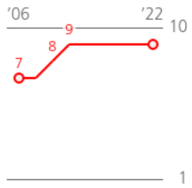

Uruguay has been largely successful in containing corruption. The country has had an anti-corruption law since 1998, which has been subsequently revised. The 1998 law established that corruption was a criminal offense and created an independent specialized agency to combat corruption (the Board of Transparency and Public Ethics, JUTEP). Current regulations require high-ranking public officials, including the president, ministers and legislators, to formally declare their financial situations. In 2008, a law was passed that guarantees the right to access public information and that created a special unit (the Unit for Access to Public Information, UAIP) to monitor and promote compliance with the law. Also in 2008, the parliament established several special courts and appointed prosecutors to tackle organized crime.

In 2009, a law on the financing of political parties was passed, which established rules of transparency and accountability for campaign spending. The law also guarantees public financing of electoral campaigns and limits the amount of private donations that can be received. Although this law was well designed, its application has been deficient since the institution in charge of compliance (Corte Electoral) lacks the necessary resources to efficiently verify the financial statements of political parties.

In 2008, the parliament passed a law creating the State Agency for Procurement and Contracting (ACCE) within the executive branch. The agency created the Single Registry of State Suppliers (2012), and later enabled a digital purchasing system and an integrated financial information system. The purchasing system can be consulted by anyone via a corresponding website, while the financial information system has access to legislators and other public authorities. The urgent consideration law, which was approved in 2020, transformed the ACCE into an independent body of the executive branch and changed the agency's name to the State Purchasing Regulatory Agency (ARCE).

16 | Consensus-Building

Consensus on goals

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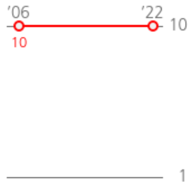

Consensus on democracy is unanimous in Uruguay. Furthermore, democracy works in a highly consensual manner, with broad agreement on important issues. This consensus is evident in the way the political system has approached various policy issues. During his second term, President Vázquez invited the leaders of the opposition parties to examine relevant issues such as public safety or oil exploration. The new president, Lacalle Pou, expressed in his inauguration speech his willingness to work with the opposition party and during the first year of the pandemic he held personal meetings with leaders of the Frente Amplio. When the coronavirus pandemic forced the suspension of the departmental and municipal elections on May 10, the political parties together voted to pass a law that gave the Corte Electoral (Electoral Tribunal) the power to set a new date (September 27, 2020). Although the political debate suggests a level of polarization, especially in social networks, the parties' programs and their legislative initiatives continue to show a high degree of convergence.

No Uruguayan political party rejects the principles of a market economy. The 2019 elections showed a wide range of programmatic agreements between the main parties in different areas of economic policies. Even so, there is a public debate rooted in different ideological views regarding the degree of state intervention in the economy, and the preferred type of fiscal and monetary policy. While there are factions within the Frente Amplio that question capitalism, their weak political base prevents them from significantly influencing policymaking. In the governing coalition, no party questions the capitalist organization of society.

Anti-democratic actors

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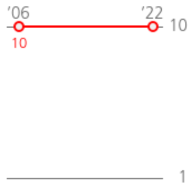

There are no significant anti-democratic actors in Uruguay, whether on the extreme left or right, and when anti-democratic actors gain public attention, they are immediately condemned and isolated. In the 2019 elections, the right-wing, nationalist Cabildo Abierto party emerged, led by the former army commander Guido Manini Ríos. The new party attracted many activists from the traditional parties and quickly developed a national organization. Its voters represent 11% of the electorate, and one in four of its voters had voted for the Frente Amplio in 2014 and the rest for the traditional parties. In the second presidential round of voting, Cabildo Abierto supported Lacalle Pou and has subsequently joined the government coalition, assuming two ministerial positions (housing and public health). In general terms, the party has been a loyal partner of the president, voting in parliament for all the initiatives presented by the executive. Some of its adherents are right-wing extremists, who on certain occasions have expressed radical opinions on social media. In all cases, the party leadership has publicly censored these examples of hate speech.

Cleavage / conflict management

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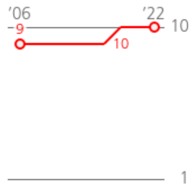

Uruguay has no relevant regional, ethnic or religious conflicts. Class or distributive conflict is the only cleavage that is active and reflected in the political system. The political leadership manages to maintain the conflict inside the rule of law, avoids excessive or violent demonstrations, and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

Civil society participation

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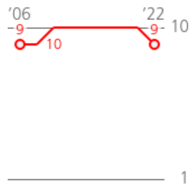

Uruguay, its leadership and its political parties have a long tradition of civil society participation in political debates at almost all stages. In a number of fields, particularly with respect to social policies, participation has even been institutionalized. The 1966 constitution, for example, established that the board of directors of Banco de Previsión Social (BPS), the agency in charge of social benefits (e.g., pensions, unemployment insurance and occupational health insurance), had to include social representatives (one representing employees, another representing employers and a third representing retirees). Since 2006, the election of these representatives has been carried out at the national level and under the regulations of the Electoral Tribunal. This model was applied in other areas of public policy. The education law approved in 2008 established the presence of teachers' representatives in the central governing councils of the education system and in the specific councils (primary, secondary and technical education).

In addition, Uruguay has an institutional framework that requires investors in projects that potentially affect the environment to assess the environmental impact of the initiative and to establish two public forums to consult affected groups. In general, these events are attended by well-organized groups concerned about the environmental impact of companies. To further promote participation, the parliament passed a law in 2009 that created a third level of government (municipal councils) and a mayor in cities with a population of more than 5,000. A law passed in 2014 established the possibility to create municipalities in towns with more than 2,000 inhabitants.

Left-wing governments (2005–2020) prioritized social participation in the formulation and implementation of policies, creating forums for debate on public policy reform processes (National Dialogue for Social Security, 2006–2008; National Congress of Education, 2007–2008; Dialogue for National Defense, 2007–2008).

The new government led by Lacalle Pou has not shown such a determined commitment in this regard. Even during his first months in office, Lacalle Pou managed to pass a reform of the educational system that eliminates the participation of teacher representatives in the specific councils (primary, secondary and technical), reducing social participation in the Central Directive Council. However, the government's public health response to the pandemic strongly emphasized the individual responsibility of citizens. “Responsible freedom” was the president’s preferred concept for involving citizens in self-care policy. This idea was very well received, because it contrasted with the confinement people experienced in countries that opted for a lockdown (e.g., Argentina, Chile, Italy and Spain) and that the television news showed daily. The autonomous initiatives of civil society organizations (e.g., soup kitchens) were occasionally supported, but not sponsored or promoted, by the government.

Reconciliation
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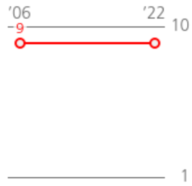

The reconciliation between victims and perpetrators of past crimes has been one of the most challenging issues for the Uruguayan political system. The amnesty law (Ley de Caducidad) passed shortly after the end of the dictatorship failed to solve this problem, as it never achieved consensus. Thus, the issue has reemerged repeatedly over the last 30 years. In 2000, President Batlle created the Commission for Peace, intended to obtain information about kidnapped children and the remains of missing people. The leftist 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. After the Supreme Court declared the amnesty law unconstitutional, the legislature passed a new law in 2011 that established that those crimes were non-lapsable crimes against humanity. However, this law was declared unconstitutional by the Supreme Court, because the parliament cannot override a law (and thus nullify its consequences), it can only repeal a law. Today, the victims of the dictatorship present their claims before the courts. The cases are subjected to criteria applied by judges regarding these events or are not considered crimes against humanity. Some claims progress but others remain stalled. President Mujica (2010–2015) tried to convince the public that the real solution to the problem will come with time and the death of all actors from that period. This view is not satisfactory to the families of the victims who demanded that the ruling party act with greater determination on the issue. President Vázquez (2015–2020) took up the issue and formed a new peace commission composed of people committed to human rights, although no relevant progress was made.

The new government has promised to continue searching for the remains of detainees who disappeared and not to obstruct the work of the judges.

17 | International Cooperation

Effective use of support

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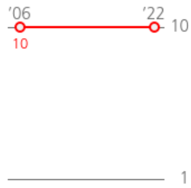

Due to its small size, Uruguay is a relatively dependent country that prefers to cooperate, although international cooperation is not a sine qua non factor for its development. Since 2018, Uruguay became non-eligible for a number of funding sources. Dozens of countries and multilateral agencies provide aid, but the most relevant are the Inter-American Development Bank (IDB), the World Bank, the European Union, Spain and Japan. In 2010, the Uruguayan Agency for International Cooperation (AUCI) was created. A report by AUCI, released in 2019, states that in Uruguay there were 505 international cooperation initiatives worth $141 million.

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 made efforts to improve the coordination of programs between different state levels and efficiency in the use of resources gained by international cooperation.

During the coronavirus pandemic, Uruguay requested financing from the Inter-American Development Bank in order to create the Coronavirus Solidarity Fund. This money was used to reinforce the health care structure (intensive care beds and a specialized hospital) and to support various initiatives related to scientific development. The economic authority stated in December 2020 that the government could resort to new contingency loans to finance the purchase of vaccines.

Credibility

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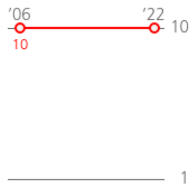

The Uruguayan government is considered a credible and reliable partner by the international community. The country has built a reputation for respecting commitments, contracts and the rule of law, which was reflected in the solutions to the financial crisis of 2002 and the dispute with Argentina over pulp mills in 2010. As a consequence of being perceived as a reliable partner, FDI grew between 2005 and 2015, and Uruguay obtained many benefits, including the maintenance of the investment grade status until the present. In addition, Uruguay has signed international treaties relating to the protection of human rights. These include the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social and Cultural Rights; the International Convention on the Elimination of All Forms of Racial Discrimination; the Convention on the Elimination of All Forms of Discrimination against Women. With the return to democracy in 1985, parliament ratified the Pact of San José de Costa Rica (OAS) regarding the protection of life and human rights. Regarding the environment, Uruguay has signed the Kyoto Protocol and has ratified its subsequent amendments as well as approving in parliament the Montreal Protocol on the Ozone Layer.

Another proof of its reliability as an international partner has been the recent exclusion of Uruguay from the list of countries accused of being tax havens by the European Union (gray list). This decision is the result of a proactive policy of the Uruguayan government for modifying some rules related to the banking system and demonstrating willingness to cooperate with different international actors.

The coronavirus pandemic has not affected Uruguay's international reputation. In March 2020, Uruguay issued public debt, and the markets acquired the bonds in record time at interest rates and terms beneficial to the country. Over the first eight months of the pandemic, numerous agencies, media outlets and governments around the world highlighted Uruguay as an example of good performance in responding to the coronavirus pandemic.

During a recent Mercosur summit, President Lacalle Pou proposed relaxing the rules that prohibit the countries of the bloc from signing agreements with third countries. The Uruguayan government believes that based on its international reputation, the country could reach free trade agreements with China, the United States and possibly the European Union. Despite having the support of Brazil and Paraguay, the proposal was not successful – for now – due to Argentina's rejection of it. Previous Uruguayan presidents tried to achieve the same goal and were systematically blocked by the main members of Mercosur. Only in 2002 did Uruguay manage to sign a bilateral free trade agreement with Mexico.

Regional cooperation

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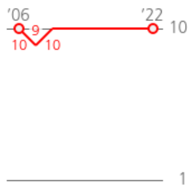

The Uruguayan political leadership has always shown a strong predisposition to cooperate with neighboring countries, reflected in the country's participation in most international or regional initiatives. Uruguay was a founding member of the United Nations, the Organization of American States (OAS) and Mercosur. In particular, the country strongly promotes regional and international integration, not only supporting Mercosur but also looking for trade agreements outside the region.

Regarding its relationship with neighboring countries, Uruguay has tried to develop solid cooperative relations, independently of the ideological tendencies of the respective governments. When Mauricio Macri assumed the presidency of Argentina, President Vázquez had no problem maintaining a friendly relationship with that country. Similarly, Uruguay's new president, Lacalle Pou, has had no difficulty in developing a friendly bond with Argentine President Alberto Fernández, despite the ideological differences that separate them.

In addition, in January 2021, Lacalle Pou began to work together with Brazilian President Jair Bolsonaro to make Mercosur more flexible in order to enable individual member states to conclude bilateral agreements with extra-regional countries. The new government's agenda includes a more determined position of censorship toward the Venezuelan government and a more intense relationship with the countries that make up the Pacific Alliance.

Strategic Outlook

Over the last 15 years, Uruguay's economic and political transformation has advanced successfully. However, this period shows that the country's main challenge continues to be the sustainability of its economic development. The excellent performance of the economy between 2005 and 2015, and several important structural reforms have ensured the institutional and economic stability of the country. However, under the previous government (2015–2020), economic growth slowed as a consequence of the fall in the prices of exportable products, which led to an increase in the fiscal deficit.

Although most social indicators did not deteriorate, some unresolved problems (e.g., public security and the increase in unemployment) favored the victory of the opposition in the 2019 elections. The agenda proposed by the new president aimed to solve some of the problems inherited from the previous government. The new government's agenda includes reducing public spending, redesigning market incentives, increasing the flexibility of Mercosur to enable member states to negotiate bilateral free trade agreements, advancing educational reform, strengthening social security and emphasizing public security issues.

The emergence of the coronavirus pandemic created a critical dilemma for the government, forcing the government to decide between putting its reformist agenda on standby until the pandemic ends or trying to advance its reform agenda while also responding to the pandemic. The government chose the latter option and designed a health care strategy that did not rely on the use of a nation-wide lockdown. Success in containing the spread of the coronavirus during the first eight months of the pandemic allowed institutions to function normally, which opened the way to two substantive legislative successes: the approval of the omnibus reform law – of urgent consideration – and the five-year budget.

Despite the fact that the pandemic had a large impact on the performance of the economy and led to an increase in poverty, the government has maintained significant public support.

Given the characteristics of President Lacalle Pou's government, it seems clear that public support will be a central factor for the government's future strategy. To continue developing his program, the president must maintain his coalition, which comprises five parties. The president's party controls less than one-third of the seats and is therefore absolutely dependent on its partners to pass legislation. The specialized literature shows that a drastic decline in the popularity of the government will create strong incentives for junior coalition partners to leave the cabinet.

Over the coming years, the government's reform agenda will have to coexist with measures that address the social and economic consequences of the pandemic. This situation will present several dilemmas for the government given the liberal ideas of the economic team (which has little desire to increase spending) and the orientation of some coalition partners to respond to the demands of their voters. One possibility that the government has not yet explored is to reach a national agreement with the opposition party regarding a post-pandemic recovery plan. Such an initiative would be beneficial to the government because it would protect the president politically (political costs would be shared), it would hold the coalition government together (there would be no incentive to leave the cabinet) and it would buy time to move forward with the president's reform agenda.