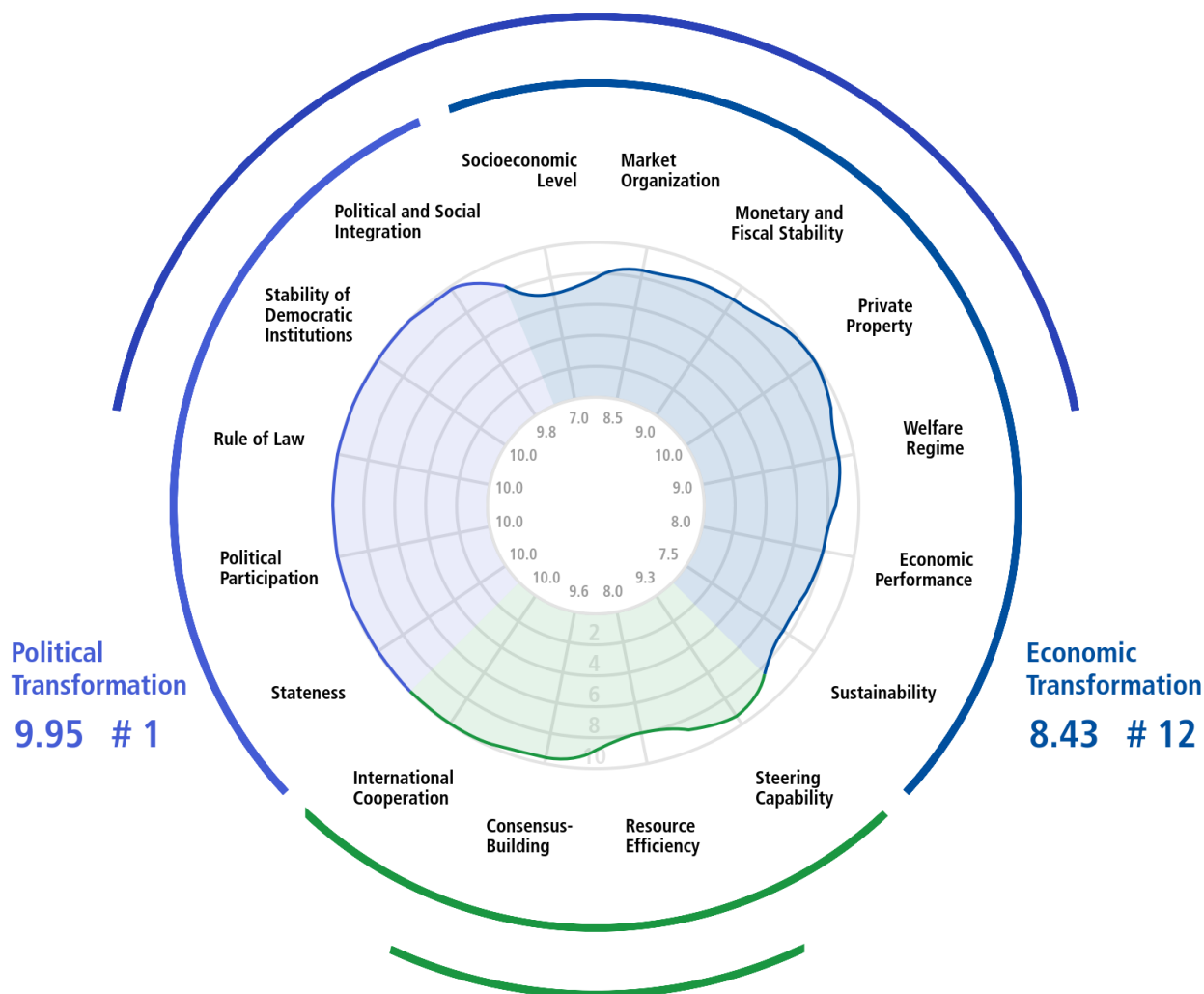


# Uruguay

## Status Index

**9.19 # 5**

on 1-10 scale out of 137



**Political Transformation**  
**9.95 # 1**

**Economic Transformation**  
**8.43 # 12**

## Governance Index

**7.46 # 2**

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. 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	<b>3.4</b>	HDI	<b>0.809</b>	GDP p.c., PPP \$	<b>28842</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-0.1</b>	HDI rank of 189	<b>58</b>	Gini Index	<b>40.8</b>
Life expectancy	years	<b>75.4</b>	UN Education Index	<b>0.767</b>	Poverty <sup>3</sup>	% <b>0.8</b>
Urban population	%	<b>95.7</b>	Gender inequality <sup>2</sup>	<b>0.235</b>	Aid per capita	\$ -

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

During the period under review, Uruguay's transformation process continued to advance despite encountering some political and structural challenges. This timeframe encompassed the second and third years of President Luis Lacalle Pou's coalition government. Initially, the government set out key priorities, including fiscal adjustments, enhancing economic competitiveness, bolstering international engagement, strengthening security measures and initiating reforms in social security and education. Despite the lingering effects of the pandemic, the government made notable strides across most of these objectives, thanks in large part to the cohesive parliamentary support within the five-party governing coalition. In 2020, the approval of an emergency law – comprising over 500 articles that modified more than 30 public policies – and the sending to parliament of some relevant bills in the following years set the stage for progress in the chosen direction, although results remained mixed.

The economic landscape during this period witnessed two distinct phases. First, there was a rebound in 2021 and the first half of 2022, following a steep decline in 2020 due to pandemic-related shutdowns. This phase brought about economic growth, a reduction in the fiscal deficit, and an uptick in employment. However, the latter part of 2022 saw a cooling of the economy due to falling international prices of Uruguay's export commodities and a lack of robust domestic demand, partly stemming from declining household incomes (with the average real salary experiencing a 3.7% decrease).

In the realm of international politics, the government pursued bilateral free trade agreements, leading to friction with Mercosur partners. While negotiations were initiated with China, the European Union, and an application to join the Pacific Alliance, progress has been modest thus far. China's enthusiasm waned when Brazil and Argentina expressed disagreement, the European Union opted to negotiate with the entire Mercosur bloc, and the Pacific Alliance's discussions on Uruguay's entry are expected to take time.

Another policy with mixed results has been that of security. While instances of theft and domestic violence decreased during the review period, homicides linked to drug-trafficking networks and disputes escalated. This remains a significant challenge that successive governments have struggled to address, presenting an ongoing challenge for the political system.

Social security and education reforms have progressed in different ways. The former advanced through parliamentary consideration of a bill, while the latter faced resistance from unions and was pursued through administrative channels. Survey data published in January 2023 indicated low public support for both reforms, with only 26% in favor of the social security reform and 31% endorsing the education reform. Additionally, an unexpected development in the past year involved the arrest of the president's security chief, initially connected to a passport trafficking network. Subsequent judicial investigations have revealed leads implicating senior police officers and members of the president's staff.

Meanwhile, the government's popularity steadily declined throughout 2022. Citizen support decreased by 11 points, dropping from 50% in December 2021 to 39% in December 2022. Furthermore, polls measuring voting intentions began to suggest that the opposition party, Frente Amplio, had a substantial chance of winning the 2024 elections.

## History and Characteristics of Transformation

Uruguay boasts the longest continuous democratic history of any Latin American nation. Since the early 20th century, the country has built a democratic welfare state that paved the way for the development of unprecedented political and social participation on the continent. Early reforms included universal and secret suffrage, fair elections, the separation of state and church, and the introduction of an eight-hour workday. Given the limited involvement of private economic actors, the state assumed a central role in the economy by providing various public services. This approach allowed Uruguay to construct a prosperous, cohesive and modern society during the first half of the 20th century.

Uruguay's prosperity during this period was closely tied to the strong performance of its agricultural exports and was underpinned by an "import substitution development model" aimed at promoting industrial growth. However, this model faced a crisis in the early 1950s due to structural weaknesses, including a small domestic market and a lack of modern technology, along with a decline in prices for traditional exports. These challenges resulted in a prolonged period of economic stagnation, political and social turmoil, and the emergence of the MLN-Tupamaros guerrilla movement. This ultimately culminated in the institutional crisis of 1973. Consequently, the bipartisan system collapsed, and the smaller leftist parties and factions from both traditional parties came together to form the Frente Amplio (FA). While the traditional parties responded to the crisis differently (with a new constitution in 1967 and a revamped electoral platform in 1971), democracy ultimately collapsed in June 1973, leading to the establishment of a civic-military government that lasted for over a decade. The authoritarian regime attempted to address structural

economic issues, such as promoting foreign trade liberalization, while also targeting its leftist opponents. The military regime came to an end in 1985 with the restoration of democratic institutions.

The redemocratization process was swift and restored the rule of law and the previous political system. Subsequent governments from the traditional parties gradually implemented economic and state reforms. However, some initiatives, like privatization and state reform, faced resistance from a coalition between the Broad Front and social organizations, which often relied on direct democratic mechanisms. Consequently, the traditional parties became increasingly associated with the center-right of the ideological spectrum, collectively advocating and implementing pro-market reforms, including the demonopolization of the insurance market and ports and the privatization of the state airline and gas. Meanwhile, the FA took on the role of defending state-owned companies and championing the rights of the middle class, workers and the underprivileged.

Throughout the 1990s, Uruguay experienced a period of robust economic growth, characterized by relatively low levels of inflation and unemployment. However, this prosperity abruptly halted in 2002 with a severe recession and financial crisis. In 1996, Uruguay introduced an electoral reform that established the presidential second-round majority election system, laying the groundwork for a competitive political landscape defined by two ideologically opposing blocs: the center-left FA and the two traditional center-right parties.

The FA's victory in the 2004 elections marked the beginning of a highly successful era of economic growth and expanded rights, earning international recognition. This period coincided with the global commodities boom, which Uruguay leveraged to improve employment rates, raise real wages and reduce poverty. Toward the end of this period, economic growth slowed and the country's exports plateaued, making it challenging to increase public spending. In the 2019 elections, a coalition of center-right parties led by Lacalle Pou won the presidential run-off, resulting in a shift in the government's agenda due to the alternating political blocs.

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

The Uruguayan state exercises control and a monopoly on the use of force throughout its territory. Homicide rates have increased in recent years (in 2022, the homicide rate grew by 25% – reversing the decline achieved in 2021) due to the development of criminal networks linked to drug-trafficking. The government has intensified police activity and has approved in parliament an increase in penalties. For citizens, public safety remains one of the country's main problems.

Question  
Score

Monopoly on the  
use of force

10



1

The entire 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 citizenship due to race, gender, language, religion, political or other opinions, national or social origin, etc.

State identity

10



1

Religious dogmas do not play a significant role in the functioning of Uruguayan institutions. The Catholic Church was separated from the state over a century ago. The state is secular, and religious dogmas have no influence on the legal order. The Catholic Church, along with other religious communities, attempts to sway public opinion on matters such as sexual education or abortion, but these efforts have not yielded significant outcomes. Evangelists have made attempts to expand their presence in the territory, but their influence remains marginal.

No interference of  
religious dogmas

10



1

All the basic functions of the state are performed solidly by the different levels of government. Uruguay is a presidential republic with 19 subnational (departmental) governments, 125 municipalities, and a variety of autonomous public institutions specialized in areas such as education, public health, public services and regulatory agencies, whose boards are appointed by the Senate. The state's infrastructure is very solidly developed; 100% of the population has access to electricity, 99.5% to at least basic water supply, and 98.1% to basic sanitation.

Basic administration

10



## 2 | Political Participation

Elections in Uruguay are free and fair, without restrictions. All government positions are elected by secret ballot and universal suffrage. The Electoral Court, appointed by parliament with a two-thirds majority, has a long tradition of impartiality and efficiency. Voting is compulsory for resident citizens, and turnout rates are generally high – over 90% since 1984. Political parties have relatively equal access to the media, and election results are accepted without complaint.

Free and fair elections

10



In the last presidential and parliamentary elections in 2019, the opposition defeated the ruling party, and the alternation in executive power occurred without major difficulties.

The subnational elections (19 departmental governments and 125 municipalities) held in 2020 during the pandemic had a turnout of 85% of eligible citizens.

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

Effective power to govern

10



The constitution guarantees the rights of association and assembly. Governments fully respect these rights, irrespective of the interests of the associated citizens or the type of social sectors involved. During the coronavirus pandemic, the government did not alter the rights of association.

Association / assembly rights

10



Freedom of expression is fully guaranteed for citizens, groups and the press without any kind of censorship, including on the internet. The media are ideologically and politically diverse, ensuring that all relevant opinions are represented on the public agenda. In 2014, the parliament passed legislation to regulate the operation of the media, which faced strong criticism from opposition parties. The new government has submitted a bill to parliament that aims to make partial amendments to the existing law, but it has not yet been approved due to divergent preferences among the ruling coalition parties. Despite this, it appears that the 2014 law has not had any negative impact on freedom of expression.

Freedom of  
expression

10



### 3 | Rule of Law

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 that could undermine the separation of powers or the rule of law as such, and there is also no tradition of delegative democracy in Uruguay.

Separation of  
powers

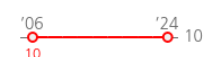
10



The justice system is, for the most part, professionalized and differentiated, although its operation is notably slow. Members of the Supreme Court of Justice are appointed by parliament through a supermajority (2/3), and the functioning of the judicial structure demonstrates a performance independent of political or economic pressures. Furthermore, there have been no cases of corruption involving members of the judicial system. According to the 2022 Report of the World Justice Project on the Rule of Law Index, these strengths are corroborated, as it ranks the Uruguayan judiciary in the 25th position worldwide and first in Latin America and the Caribbean.

Independent  
judiciary

10



The subordinate courts include the Courts of Appeal, District Courts (Juzgados Letrados), Peace Courts (Juzgados de Paz), and Rural Courts (Juzgados Rurales). In 2017, parliament approved a reform to the Criminal Procedure Code, granting the Attorney General's Office the authority to direct investigations and establishing an accusatory criminal process in public hearings overseen by a judge.



Officials who violate the law and engage in corruption are rigorously prosecuted under established laws. In general, Uruguay experiences low levels of corruption, although occasional scandals do arise. Since 1999, Uruguay has maintained an anti-corruption agency, known as the Transparency and Public Ethics Board, which has played a significant role in combating corruption. For example, this agency played a role in prompting the resignation of former Vice President Raul Sendic.

Even so, in 2022, the president's security chief was prosecuted after being found to be linked to a network trafficking illegal passports for Russian citizens. This fact has significant political implications because the defendant was a trusted individual within the president's circle and because the prosecution's investigation revealed that his criminal activities extended to influence peddling on public purchases, espionage on opposition legislators and union leaders, and the provision of services to private individuals that included the use of public resources such as cameras, police officers and information on civilians. Despite the situation causing increasing discredit for the government, the executive branch has not obstructed the investigation nor applied undue pressure on the judges and prosecutors. According to press reports, the legal case involves several police chiefs who have been removed from their positions and made available to the prosecutor's office.

Civil rights are guaranteed by the constitution and are 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. Recent governments have made efforts to provide reparations to victims of crimes committed during the last dictatorship (1973 – 1985). In 2022, parliament analyzed a bill presented by one of the right-wing parties of the ruling coalition that proposes reparations to the families of victims of guerrilla groups that operated prior to the 1973 coup d'état.

#### 4 | Stability of Democratic Institutions

Uruguayan democratic institutions perform their functions effectively 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 continued to function by establishing sanitary protocols. In particular, 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 courts operated as normal.

Prosecution of  
office abuse

10



1

Civil rights

10



1

Performance of  
democratic  
institutions

10



1

Democratic institutions in Uruguay are accepted as legitimate by all relevant political actors. There are no actors with significant veto power outside the constitutional framework. The military is subject to civilian control, and, during the last decade, some members have been tried and imprisoned for crimes committed during the dictatorship. The military as an institution has allowed and accepted the search for the remains of people who disappeared during those years, although its collaboration with justice has not been consistent.

Commitment to democratic institutions



## 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 captured nearly 95% of the votes. The political parties have a fractionalized structure with groups with high public visibility and autonomy in decision-making. These fractions are ideologically coherent and disciplined in parliament. In the 2019 elections, a new political party emerged – Cabildo Abierto – of conservative ideology that obtained 11% of the votes and is led by the former Army Commander, Guido Manini Ríos. Although some of its members have had ambiguous positions on democracy and the recent history of the country, the party joined President Lacalle Pou's government coalition, taking over two important ministries – Public Health and Housing – and voting for all the bills the government sent to parliament. Despite the emergence of this new party, electoral volatility in Uruguay is historically low, averaging 11% between 1985 and 2019.

Party system



Overall, the party system has achieved a multiparty balance, with two main blocs engaging in intense competition. The center-right bloc in the government consists of the historical parties (Partido Colorado and Partido Nacional), as well as Cabildo Abierto, along with some minor parties (Partido Independiente and Partido de la Gente). The center-left bloc, led by Frente Amplio, governed the country from 2005 to 2020. Despite the bipolar dynamics, polarization is minimal and the policymaking process demonstrates the ability of Uruguayan political parties to forge long-term agreements.

Uruguayan society has a long tradition of organized social groups. The most prominent and influential groups are trade unions and business associations. Unions are organized in a single national association, the PIT-CNT, which was 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 in the country (agriculture, industry, banking, tourism and export sector). Since 2005, unions and employers have negotiated wages and working conditions within a specific institutional framework (Wages Council) with the mediation of the government, and most of them have reached long-term agreements. Collective bargaining was an important instrument to maintain stability during the economic and social crisis caused by the pandemic.

Interest groups



Along with trade unions and business associations, there are other important organizations, such as pensioners (very influential), students, and various professional associations (lawyers, doctors, etc.). In the last decade, new specific organizations have been developed, such as those for women, Afro-descendants, LGBTQ+ individuals, victims of the dictatorship, animal defenders and environmental organizations. In 2018, a powerful social movement linked to agriculture (Un Solo Uruguay) with a strong opposition profile to the government emerged. Its activity was influential in the 2019 electoral outcome, but in this period, it has lost political influence.

In general terms, the organizations of Uruguayan society are inclusive and tend to balance and maintain pragmatic and cooperative attitudes.

Citizens' support for democracy remains the highest in Latin America. Comparative public opinion surveys, such as Latinobarómetro or LAPOP, place Uruguay in the top positions in regional rankings.

The Latinobarómetro Corporation showed in its 2019 report a slight decrease in support for democracy in Uruguay (from 70% to 61%). However, its 2021 report indicates that this proportion rose again to 74%, similar to levels observed in 2015 and prior years. According to Lapop's 2021 Report, Uruguay holds the top position in the continental ranking of support for democracy, with a rate of 80%.

The Latinobarómetro 2021 report shows that trust in institutions remains relatively high: government at 56% (LAC: 27%); electoral authority at 64% (LAC: 31%); parliament at 51% (LAC: 20%); judiciary at 56% (LAC: 25%); and political parties at 33% (LAC: 13%).

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.

The soup kitchens promoted by social organizations during the most critical moments of the pandemic continued to operate autonomously, receiving government support. The total number of soup kitchens dropped from 330 in 2021 to 280 by the end of 2022.

The level of interpersonal trust among Uruguayan people is reported to be relatively low, according to the Latinobarómetro 2021 (only 21% agree with the statement "we can trust in most people"). However, Uruguay still maintains its position as the top-ranked country in Latin America in this regard.

Approval of democracy

10



1

Social capital

9



1

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Uruguay remains the most socially integrated country in Latin America. In the first half of the 20th century, it was ranked among the most developed nations worldwide. However, the second half of the century witnessed economic stagnation and social conflict. Following the restoration of democracy in 1985, the country's social indicators began to improve. Currently, Uruguay maintains a privileged position in the region. According to the 2022 HDI Report, Uruguay ranks 58th out of 188 countries, placing third in Latin America, with a score of 0.809. The report categorizes Uruguay as a country with a very high level of human development.

A report from the National Institute of Statistics in the first half of 2022 indicated that 7.4% of households lived below the poverty line, and 0.3% were indigent. These measurements were made using new estimation methods that were updated in 2021. According to the Social Panorama of Latin America, published by the Economic Commission for Latin America and the Caribbean in 2021, Uruguay had the lowest poverty rate in the region. The report analyzed the impact of the pandemic on poverty levels. In terms of income distribution, the Gini coefficient for Uruguay was 0.40 in 2020, the lowest rate in the region. However, this represents a one-tenth worsening compared to 2018.

Economic growth until the pandemic allowed for a sustained increase in real wages and levels of social cohesion. However, the 2020 crisis had negative consequences for the informal sectors of the economy. An official report from the Ministry of Labor and Social Security shows that the Average Real Wage Index fell by approximately 3.4% between March 2020 and October 2022. The goal of the Ministry of Economy and Finance, established in the national budget approved in 2020, is to complete the government period with a real salary similar to that of December 2019.

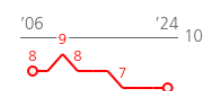
On the other hand, gender inequality is still present and seems to be a difficult problem to solve, despite the fact that the country has experienced some improvements in recent years. In the 2019 legislative elections, the gender quota continued to be applied with moderate success – 29% of the seats in the Senate are occupied by women and 22% in the lower house. According to the Gender Inequality Index of the Human Development Report 2022, Uruguay is ranked 58th with a score of 0.235 (third in Latin America, after Chile and Argentina).

The situation of people of African descent is also a challenge for Uruguay. Afro-descendants comprise 9% of the population, yet their poverty rate is relatively high, and their level of education is very low. In 2013, parliament passed legislation to encourage labor inclusion and enhance access to education for this minority group, but the outcomes have been modest.

Question  
Score

Socioeconomic  
barriers

7



1

Economic indicators		2019	2020	2021	2022
GDP	\$ M	62048.6	53666.9	61412.3	<b>71177.1</b>
GDP growth	%	0.7	-6.3	5.3	<b>4.9</b>
Inflation (CPI)	%	7.9	9.8	7.7	<b>9.1</b>
Unemployment	%	8.7	10.3	9.3	<b>7.8</b>
Foreign direct investment	% of GDP	2.4	1.0	5.9	<b>13.2</b>
Export growth	%	4.6	-16.3	11.7	<b>11.1</b>
Import growth	%	1.3	-12.2	18.2	<b>12.5</b>
Current account balance	\$ M	769.9	-431.5	-1550.6	<b>-2500.5</b>
Public debt	% of GDP	59.8	68.1	63.4	<b>59.3</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	17.9	18.5	-	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	4.6	4.5	4.4	<b>4.4</b>
Public health spending	% of GDP	6.3	6.6	-	-
R&D expenditure	% of GDP	0.4	0.4	-	-
Military expenditure	% of GDP	1.9	2.0	2.1	<b>1.9</b>

Sources (as of December 2023): 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

The Uruguayan development and welfare model, traditionally oriented toward a market economy, is based on a crucial role for the state, either through its direct participation in economic activities or through its regulatory role. During the 20th century, several strategic economic activities have been monopolized by state companies (fuel, electricity and telecommunications). The liberalization trend that began under the last dictatorship and advanced slowly under subsequent democratic governments implied the incorporation of the private sector into a series of sectors previously monopolized by the state. For example, the insurance market, the pension

Market organization

8



system and the mobile telephone network function as competitive markets with the participation of state companies. Leftist governments (2005 – 2020) did not reverse this liberalizing trend but rather continued it.

The current government has made efforts to expand opportunities for private entrepreneurs, but some initiatives have been blocked by coalition partners.

In general terms, the Uruguayan economic order rests on tripartite consultations that are similar to the classic German model, which ensures a high degree of consensus on a market economy with social guarantees and the role of the state as a guarantor. With the exception of a few activities monopolized by the state or heavily regulated, there are no significant barriers to entry into the markets.

Private, national and foreign investments have been stimulated in recent decades. During the period from 2005 to 2015, foreign direct investment (FDI) was 5.2% of GDP (second in the region after Chile). During the period from 2016 to 2018, FDI fell drastically, as in the entire region. However, according to a report by the Uruguay XXI government agency, in 2021 FDI returned to values similar to 2017 (4.8% of GDP). The rebound is mainly explained by the boom in the mergers and acquisitions market and the reinvestment of multinational companies.

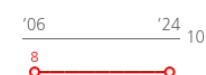
Because public services are a state monopoly, there are some administered prices, which account for approximately 25% of the basket of goods and services. These include electricity, fuel, drinking water, communications and health services. According to a report by the Ministry of Labor and Social Security (MTSS) and the United Nations Development Program (UNDP) in April 2022, informal labor accounted for 22% of employment, down from the near 25% recorded in 2019.

Competition laws are in place to prevent monopolistic structures and conduct, although there are some flaws regarding legal coherence and enforcement. Uruguay did not have any regulations against monopolies in favor of competition until 2000. In the context of the market reforms of the 1990s, various economic activities became competitive, prompting successive governments to pass laws ensuring competition. In 2007, the first leftist government approved the so-called Antitrust Act (Trade Freedom and Free Competition Preservation Act), which introduced pre-merger control for cases of economic concentration. While there have been advancements, such as the development of a market for renewable energy generation, enabling private investment and energy sales to the public utility, there are still many activities, like fuel and telephony lines, that remain state monopolies.

The Commission for the Promotion and Defense of Competition is the primary agency responsible for regulating sectoral markets (and represents Uruguay in the International Competition Network). Additionally, there are three other significant regulatory agencies: the central bank (banks and financial services), the Communication Services Regulatory Unit (URSEC), and the Energy and Water Services Regulatory Unit (URSEA). Except for the central bank, the other agencies have demonstrated political and institutional vulnerabilities in regulating markets

Competition policy

8



1

where public companies are significant competitors. In 2020, the Lacalle Pou government approved an institutional reform for these agencies, although its impact remains uncertain.

Uruguay's entry into Mercosur in the early 1990s hastened the liberalization of foreign trade. The free trade zone directed a majority of Uruguayan exports toward Argentina and Brazil. However, the regional crisis of 2001/2002 prompted Uruguay to broaden its range of export markets. The favorable prices of raw materials have facilitated a consistent growth in exports since 2004, which reached their peak in 2013 and 2014.

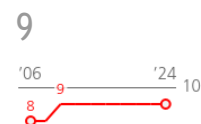
Non-tariff barriers and other trade hindrances are limited. All merchandise from non-Mercosur countries undergoes a common external tariff (CET) ranging from 0% to 20%, depending on the type of goods. In 2022, the simple average applied MFN tariff was 10.1%. Additionally, progress has been made in import procedures, customs valuation and intellectual property protection, as highlighted in the WTO Trade Policy Review.

The crisis within Mercosur during the last two decades has prompted Uruguayan governments to promote trade and/or investment agreements with non-Mercosur countries, including Mexico, the United States and Finland. However, progress in this area has been modest due to Argentina and Brazil vetoing successive initiatives for Uruguay's bilateral agreements. Despite this, President Lacalle Pou has proposed on multiple occasions to make the operation of the block more flexible, but his partners have not supported the initiative. In July 2022, the Uruguayan government announced the start of formal negotiations with China for the approval of a free trade agreement, but the foreign ministries of Argentina and Brazil announced that this agreement should not materialize. Uruguay's drive to finalize free trade agreements beyond Mercosur will continue, but it is certain that it will face critical situations with its two main partners.

The government agency Uruguay XXI reported that in 2022, exports of goods reached an all-time record, increasing by 16.5% compared to 2021. Uruguay exported goods with a total value of \$13,356 million. China emerged as the main buyer, accounting for 28% of Uruguayan goods purchased. The European Union followed with a share of 15%, while Brazil, Argentina, the United States and Mexico accounted for 14%, 9%, 6% and 3%, respectively. Beef comprised 19% of Uruguay's exports in 2022, with cellulose and soybeans each representing 14%. Meanwhile, dairy products accounted for 7%, beverage concentrate for 45%, and both timber and rice constituted 4% of the total exports.

Likewise, in 2022, imports increased by 22%. Uruguay imported \$10,941 million worth of products (excluding oil and petroleum products) in various items such as vehicles, chemical inputs, clothing and footwear, and plastics. Its primary partners were China, Brazil, the United States, Argentina and the European Union. Approximately 46% of the imported goods are production inputs, 21% are capital goods and 33% are consumer goods.

Liberalization of foreign trade



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The Uruguayan banking system was a regional financial center for decades, thanks to its liberalized regulations and recognized reliability. In the wake of the 2002 financial crisis, the country implemented controls on the system, resulting in a reduction of non-resident deposits. A significant measure taken was the enactment of the 2010 law, which investigated bank movements and complied with the OECD's requirements for monitoring international financial flows.

Uruguay's central bank, 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 a reference to define the regulatory framework.

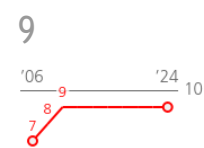
The banking system comprises two public banks, ten private banks and a wide variety of non-banking institutions established in the country, such as brokerage cooperatives, finance houses, offshore banks, consumer loan companies and currency exchange houses. The state banking institutions are the Banco de la República Oriental del Uruguay (BROU) and the Banco Hipotecario del Uruguay (BHU, Mortgage Bank of Uruguay). The former 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 a low non-performing loan ratio (2.2% in 2022).

The global crisis triggered by the pandemic has had a limited impact on the country's financial sector. Government debt ratios are declining, and risks and vulnerability are low.

In early 2022, Uruguay had adequate assets to confront maturities in the coming year, and it already had arrangements in place for contingent loans with international organizations at a similar level (over half of the debt is due after 2027). Bank capital-to-asset ratios have remained around 10% since 2010, and according to a BCU report (December 2021), the solvency of Uruguayan banks, as measured by the risk capital ratio, is quite secure (on average 1.85 times the regulatory minimum, which includes credit, market, operational and systemic risk requirements).

Banking system



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## 8 | Monetary and fiscal stability

The central bank, the BCU, is responsible for maintaining price stability, regulating the payment system and supervising the financial system. The BCU operates with technical, administrative and financial autonomy. Its president and two directors are appointed by a vote of 3/5 members of the Senate. Typically, one of the three directors is nominated by the largest opposition party.

The BCU has made inflation the primary target of its monetary policy. Following the 2002 crisis, the BCU implemented a flexible exchange rate policy, which allowed the value of currencies to be determined by supply and demand. However, as a result of the global financial crisis in 2008, the national currency's value increased once again, prompting the government to implement various measures to prevent a significant decline. By attempting to balance both objectives, currency values stabilized; nevertheless, combating inflation remains a priority for successive governments. During the current decade, Uruguay's real effective exchange rate has steadily increased and reached 89.5 in 2022 (2017 = 100).

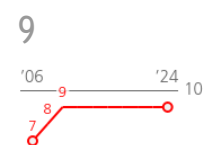
The economic authority assumed the fight against inflation as one of the main challenges and believed that public spending was one of the main factors pushing prices up. Therefore, during the triennium from 2020 to 2022, public spending was contained, reducing the fiscal deficit from 5% to 2.6%. However, inflation has remained well above the 5.8% target set in the 2020 national budget. Although year-on-year inflation closed at 7.7% in 2021, it rose again to 8.3% in 2022. The Ministry of Economy and Finance expects this index to decrease to 6.7% in 2023 and to reach the expected 5.8% in 2024, the final year of the mandate.

The administration of left-wing governments (2005–2020) took advantage of the favorable external situation to increase spending, particularly in areas such as public education and health. However, the “growth with income distribution” policy resulted in an increase in the fiscal deficit, particularly when the international context changed. In 2011, the fiscal deficit was 1.7% of GDP, but by 2019, it had risen to 5%.

The new government of President Lacalle Pou promised to balance the fiscal accounts in order to achieve sustained economic development. The government's plan involved reducing the fiscal deficit by two points over the course of the period. Despite the pandemic initially exacerbating fiscal results (5.8% at the end of 2020), the government succeeded in reducing the deficit in 2022. Through a sustained effort to control spending – despite also experiencing a decline in real wages – Uruguay achieved a greater improvement in public accounts than the annual goal of 2.8%.

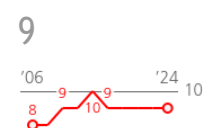
The Debt Management Unit of the Ministry of Economy and Finance reported at the end of 2022 that Uruguay's net debt represents 67.6% of GDP. Likewise, it is estimated that the country will have no problems solving the government's financing needs and that 89% of these funds will arise from the placement of debt in international markets.

### Monetary stability



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### Fiscal stability



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## 9 | Private Property

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.

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 leftist governments did not follow a strategy of privatizing state-owned enterprises, although they have promoted private investments and public-private joint ventures in infrastructure development. The Investment Promotion Law 16.906 (1998) and Decree 455/007 (2007) have played a crucial role in increasing FDI until 2015. In the last decade, governments have tried to attract private investments to develop different strategic projects. In some cases, the results were not good (ocean port, regasification plant, etc.), and in others, the investments were made possible thanks to a proactive attitude of the presidents (plants for cellulose processing).

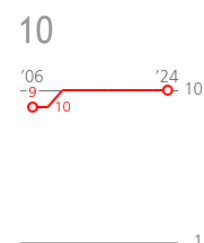
The government of Lacalle Pou has emphasized the role of private companies as the engine of the economy. The strategy to address the economic consequences of the pandemic has been careful not to burden companies with the cost of the crisis. While there have been no initiatives to privatize public services, various service areas, such as the provision of internet to homes, fuel distribution and airports in different locations in the country, have been deregulated through decrees.

## 10 | Welfare Regime

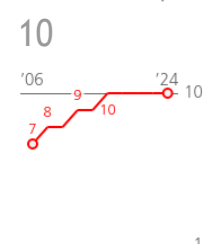
Uruguay has long employed a traditional welfare state with social democratic features; however, it suffered from some deterioration as a result of neoliberal policies and recurring economic crises. Despite these challenges, social spending in Uruguay has consistently remained the highest in Latin America for decades.

The pension system was created in the first decades of the 20th century. Prior to the civil-military dictatorship of 1973 to 1985, the system was fragmented and faced financing problems. However, a series of reforms – based on concentrating benefits and providing general financial assistance – in the years that followed made it sustainable. In 1989, a retirees' organization successfully initiated a plebiscite to

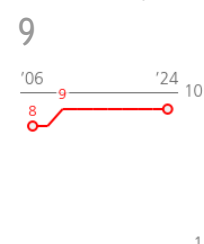
Property rights



Private enterprise



Social safety nets



incorporate pension indexation into the constitution. Consequently, pensions gradually improved, necessitating the creation of new taxes to fulfill the obligations. In 1997, parliament passed a reform that established a mixed public-private system with a distribution pillar for low wages and an individual savings pillar for higher wages. As per the government agency, the pension scheme's coverage for individuals aged 65 and above exceeds 96%.

The growth in real wages over the past decade has driven the increase in pensions, which is why the system currently faces financing problems. The new government initially assembled a commission of experts to analyze the situation and suggest potential adjustments to the system. Finally, in the latter half of 2022, a bill to revamp the social security system was introduced to parliament. The bill includes several noteworthy changes, such as raising the retirement age from 60 to 65 years and implementing a transitional phase for the shift between systems.

The traditional health system in Uruguay had low coverage that only included formal workers from private companies through private providers. Public employees had specific health protections negotiated by unions at each government institution. This situation generated large inequalities in care coverage, while people with informal jobs or no regular income could only access low-budget public services. 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 (2012). The SNIS puts public and private providers on the same level to provide medical care competitively. The SNIS and the social transfer policies, together with the improvement in wages and pensions, contributed to a significant reduction in poverty. Public spending on health represents 6.93% of GDP, the highest percentage in Latin America.

In 2005, the Ministry of Social Development was created, oriented toward the execution of social policies for sectors in extreme vulnerability. Its main monetary transfer programs are the Equity Plan, which transfers amounts to nearly 118,000 families with children (family allowances), and the Uruguay Social Card (TUS) for nearly 87,000 vulnerable households. These institutions were very useful for the Uruguayan government to effectively face the pandemic. During 2020 and 2021, Uruguay invested almost two points of its GDP to address the emergency situation in the informal social sectors. However, it would seem that this investment was not enough. The latest report from the National Institute of Statistics (INE), corresponding to the first semester of 2022, indicates that 10.7% of people are in a situation of poverty (in 2020 it was 11.8%, but in 2019, only 8.6%), and 0.3% are in a situation of indigence.

Uruguay has no significant ethnic or religious minorities. The country adopted a law in 2004 aimed at combating racism, xenophobia and discrimination. People's differing opportunities mainly stem from income and gender. In a nation where literacy levels are nearly universal (99%), gender disparities stand out as one of the primary sources of inequality. The Gender Parity Index (GPI) for the gross enrollment ratio indicates a balance between the sexes at the primary and secondary education levels but reveals a significant imbalance favoring women at the tertiary level (with a ratio of 1.4). Despite this, unemployment rates for women (52% of the population) and Afro-descendant citizens (8% of the population) surpass the average. While women's labor force participation has risen in recent decades, their activity rate remains lower than that of men (68% compared to 54%). As of August 2021, the female unemployment rate reached 9.8%, while the male unemployment rate stood at 7.2%. This discrepancy is most pronounced in the poorest sectors of society.

The presence of women in public office is low. Since 2009, a one-third gender quota has been applied for legislative and subnational elections. This provision raised women's participation to 23% in the lower house and to 28% in the Senate in the last two legislatures.

In 2013, a law was passed legalizing same-sex marriage, and another law was enacted to enhance access for people of African descent to the labor market and offer them access to higher education scholarships. In October 2012, parliament also passed a law recognizing women's rights over their own bodies, legalizing abortion. Furthermore, in 2018, parliament approved a law ensuring the economic, social and cultural rights of the LGBTQ+ population and providing compensation to individuals born before 1975 who were victims of institutional violence based on their gender identity.

A significant challenge for social integration in Uruguay is the recent influx of immigrants from various countries in the region. From 2005 to 2022, nearly 100,000 individuals from Venezuela, Argentina, Brazil, Cuba, Colombia, the Dominican Republic and the United States have established residence in Uruguay. While most immigrants possess a high level of education, they have encountered difficulties in securing positions that match their qualifications. Additionally, around 30% of these immigrants live in poverty and rely on social benefits for their survival. Efforts have been made in primary education to enhance the social integration of immigrant children through solidarity initiatives that draw on Uruguay's rich history as a nation of immigrants.

Equal opportunity

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## 11 | Economic Performance

The review period was marked by three significant economic phases. The first occurred during the year of the pandemic, which saw a 6.1% decline in GDP. The second phase was characterized by an economic rebound after the pandemic, with growth rates of 4.4% in 2021 and 5.4% in the first half of 2022. The third phase encompasses the latter half of 2022, during which growth rates began to stagnate due to the decrease in international prices of exportable products and the persistent uncertainty surrounding the performance of crucial sectors like tourism.

ECLAC reports a GDP per capita growth of 4.0% in 2021 and 5.1% in 2022. For 2023, the Ministry of Economy and Finance expects a GDP growth of 3%. However, various events, such as the lack of rain in the summer, could potentially lower the forecast. At the end of 2022, the activity rate stood at 62.9%, and the employment rate was 57.5%, showing a slight improvement compared to the previous year. The unemployment rate dropped to 8.5%, reaching the lowest level since 2019.

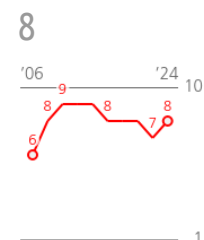
Despite the fact that the BCU raised the interest rate several times (at the time of this writing: 11.5%), inflation could not be reduced to the levels expected by the economic authority – 7.7% in 2021 and 8.3% in 2022. However, the outlook for next year is encouraging, as both the government and companies expect inflation to be below 8% and a drop in interest rates of approximately one point. Control of the fiscal deficit allowed the government to increase its credibility and maintain the investor grade on public debt. In 2022, public debt amounted to 67.6% of GDP, and all maturities for the next year have been financed. Gross capital formation increased in 2021, reaching 18.4% of GDP after five years of permanent decline (minimum 16.2% in 2019). FDI also increased, and international foreign exchange reserves remained high.

Although the government has shown optimism regarding the country's economic performance, there are some difficulties that must be faced, such as the appreciation of the currency against the dollar and the high costs that the summer drought will impose on agribusiness.

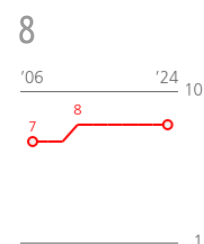
## 12 | Sustainability

Environmental concerns are increasingly taken into account by Uruguayan policies. The country implemented an environmental protection law in 2000. Recent administrations have developed alternative energy sources, including biofuel production and wind energy, as substitutes for oil. These initiatives, supported by both public and private investments, have been among the most successful policies of the past ten years. From 2017 to 2021, 94% of Uruguay's electricity generation came from renewable sources. According to the Trilemma Index 2021 by the World Energy Council (WEC), Uruguay is ranked 13th in the global energy transition ranking.

Output strength



Environmental policy



Another significant improvement in this field was the implementation of the National System of Protected Areas (SNAP), which has incorporated twelve areas since 2008. Environmental awareness has made some progress within the population, and the issue is increasingly present in public debate.

The program of industrial pulp mills developed over the last two decades has drawn strong criticism from environmental groups. Since then, the Department of the Environment has established precise controls and applied fines to companies that do not comply with the environmental standards required by law. The creation of the Ministry of the Environment in 2020 has been an important step in the country's commitment to these policies. Among its priorities are a sanitation plan in various cities in the interior of the country and a water management program with the participation of private companies, which will imply a public investment of approximately \$210 million. In December 2022, the country introduced, for the first time, absolute mitigation targets for the three main greenhouse gases (GHG) for the year 2030. The Ministry of Environment is exploring the possibility of establishing tax incentives for companies that comply with environmental policies, and there are already some tax benefits for landowners who preserve native forests.

Despite these advances, the road ahead for the country is long. The 2022 Environmental Performance Index, prepared by the universities of Yale and Columbia, ranked Uruguay in 113th place out of 180 countries, with very low scores in Ecosystem Vitality and Climate Policy.

Uruguay maintains a robust national education system with nearly 100% enrollment rates in both primary and secondary schools. Previous left-wing governments witnessed substantial growth in public spending on education, reaching nearly 5% of GDP, while also maintaining R&D investment at around 0.3% of GDP. However, based on official sources, as of 2021, public spending on education has decreased to 4.7% of GDP, with R&D spending also experiencing a decline to 0.2% of GDP.

In 2009, Uruguay developed an educational plan known as Plan Ceibal, which focused on providing “one laptop per child” and was implemented in all public schools across the country. Subsequently, the plan was expanded to include secondary and technical schools. Additionally, in 2005, Uruguay established an independent government agency named the National Agency for Research and Innovation (ANII), along with the creation of the National System of Researchers (SNI), which consists of 1,200 researchers who receive a monthly payment for their work.

However, during the last decade, the educational system has come under scrutiny by public opinion. The Program for International Student Assessment (PISA) reveals that education in Uruguay has remained stagnant, particularly at the secondary level. On the other hand, the tertiary education system has made strides with the establishment of public university campuses nationwide and the establishment of

Education policy /  
R&D

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postgraduate programs in nearly all fields of study. According to the U.N. Education Index for 2021, Uruguay maintains the fourth position in the region (following Argentina, Chile, and Cuba) with a score of 0.765, which has remained unchanged since 2019.

The new government of Luis Lacalle Pou has prioritized education reform. In June 2020, parliament approved several institutional changes to education management bodies. The government's goal is to enhance the efficiency of these bodies, known as councils, by reducing the veto power of teachers' unions. In 2022, the Central Board of Education (CODICEN) announced the initiation of a reform of the curricular programs, aligning them with competencies, and restructuring the formats of the secondary education cycles, including nominal changes and subject fusion. Additionally, there is a commitment to decentralize educational centers and empower school directors. Once again, the unions have opposed these changes, viewing them as pro-market reforms. The opposition in parliament has also been critical, maintaining a stance of constant oversight over the education authorities.

## Governance

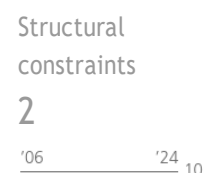
### I. Level of Difficulty

In Uruguay, there are no structural restrictions such as natural disasters, pandemic diseases or extreme poverty. The country benefits from a privileged geographic location, although it is reliant to a significant extent on its large neighboring countries. Additionally, Uruguay possesses an educated and relatively affluent population in the regional context. Given the current development conditions, the country must prioritize strengthening its educational system, developing its infrastructure and further expanding market access for its exports.

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. The fourth part consists of 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%), “diversity and gender” (4%), etc.

Although interpersonal trust is still low – according to the Latinobarómetro 2020, 21% agree with the phrase “we can trust most people” – Uruguay continues to show the highest level on the continent.

After the pandemic, numerous social organizations maintained so-called soup kitchens to assist individuals in poverty and address their basic needs. These initiatives are sustained through contributions from individuals and companies, as well as budgetary funds from the Ministry of Social Development and departmental governments.





Uruguay has no significant ethnic or religious conflicts. The primary social conflict revolves around income distribution, which is addressed through legal and peaceful means by labor unions, such as demonstrations or strikes. This conflict manifests in politics as an ideological divide between the left and right, and it is typically resolved through democratic processes, usually by reaching agreements and consensus instead of confrontation.

The pandemic did not create a political divide among political actors. Although a few politicians from both blocs have adopted polarizing discourses – especially on social networks – the majority of the political elite maintain respectful relations based on dialogue.

Conflict intensity



## II. Governance Performance

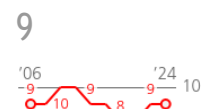
### 14 | Steering Capability

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. In terms of the latter, governments initially focused on controlling inflation, followed by establishing conditions to promote FDI. The leftist governments (2005 – 2020) continued to pursue these strategic objectives, while also prioritizing the fight against poverty, the reduction of informality, labor market reforms, and investment in education and health. However, this cycle left unresolved reforms that the country needed to address, such as the new educational reform, public administration reform and improved regulation of public companies.

Since at least 1995, Uruguayan governments have maintained stable legislative majorities (with the exception of the 2002 – 2005 period), creating favorable conditions for innovation. President Lacalle Pou has constructed a majority coalition comprising several parties that hold cabinet memberships. This multiparty agreement, known as the “Compromiso por el País,” was signed during the second round of the presidential election, granting the government control of 56% of the seats in both chambers. While the coalition consists of five parties, only three are essential for achieving legislative initiatives: the Partido Nacional (PN), led by President Lacalle Pou; the Colorado Party (PC), led by former President Sanguinetti; and the Cabildo Abierto (CA), led by a former army commander. While PN and PC share a strong liberal ideological alignment, CA holds divergent perspectives, particularly regarding economic matters. CA leaders harbor mistrust toward foreign investment and staunchly defend public enterprises, viewing the world through a nationalist lens.

Question  
Score

Prioritization



President Lacalle Pou prioritized adjustment policies with the goal of reducing the fiscal deficit and containing inflation. He also successfully passed an omnibus law that altered public security policies, educational governance, the regulation of public companies and implemented a fiscal rule. Following the pandemic, the government focused on two main objectives: educational reform and social security reform. The former is being carried out by education authorities through administrative resolutions, while the latter involves approving a reform that raises the retirement age to 65 years and adjusts pension calculations. The project has already been approved by the Senate and is likely to be approved by the Chamber of Deputies.

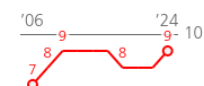
Finally, the government has the Office of Planning and Budget (OPP), which reports to the Presidency of the Republic. This agency advises the government in defining the economic and social strategy, as well as in formulating national and departmental plans, programs, and policies related to the elaboration and evaluation of performance indicators. It is also responsible for analyzing budgets, investment plans and public service fees and leads the processes of state modernization and decentralization.

The Lacalle Pou administration has effectively implemented its strategic decisions. For instance, a few days prior to the outbreak of the pandemic, the president issued a decree that reduced public spending by 15% across all government agencies, and this goal was successfully achieved without significant difficulties. Another example is the passage of reforms in parliament in 2020. Although these changes in public policies stemmed from an omnibus law submitted to a referendum after the opposition gathered enough signatures, once it was ratified by the citizenry, the government promptly implemented the reforms without major hurdles. One of the implemented changes was the replacement of the old councils made up of political representatives and representatives of the teachers' unions with unipersonal directorates at the education level. Other examples include the transfer of powers to the respective independent regulatory units concerning the fuel price fixing policy or the number portability policy in the mobile telephony market.

Overall, it could be said that in Uruguay, the challenge in terms of strategic decisions on public policies lies not so much in the implementation stage as in the approval stage. The case of the referendum against the 2020 Omnibus Law serves as an example of the difficulties encountered during the approval process. Another potential obstacle may arise within the parliamentary arena, often due to disagreements within the ruling coalition. Bureaucracies typically adhere to the political directives set by their hierarchies, and although they may occasionally be inefficient, they generally succeed in achieving their stated goals.

Implementation

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The Uruguayan political system has a notable capacity for learning and adaptation. During the leftist governments between 2005 and 2020, original reforms were implemented, such as the integrated national health system, tax reform and the renewable energy program. The current government of Lacalle Pou has also prioritized a set of reforms, including education, regulation of public companies and social security.

The educational reform initiative began with an institutional redesign of governance and continues with changes in subject content and increased decentralization of educational centers. Technical experts from the public education agency participated in formulating these changes. The regulatory reforms for public companies focus on strengthening the capacities and autonomy of regulatory units in the water, energy and communications markets. These modifications are based on evaluations carried out by parliament and party programs presented during the last election. The social security reform started with a committee of experts from all parties, with the entire government coalition supporting the resulting bill. Although the opposition has some objections, they recognize the urgent need for reform.

The political system's capacity for learning is reflected in its ability to find paths of political consensus based on technical expertise, which is essential for reforms to be sustainable over time. The current government has not overlooked this aspect but has made some significant decisions. For example, it has dissolved the Management and Evaluation Office (AGEV) in the Planning and Budget Office and has prioritized advice from private universities. In doing so, it has slowed down the process of building the capacities of the OPP, opting instead for alternative sources of technical advice.

## 15 | Resource Efficiency

Uruguay has grappled with a patronage system of appointments in the public administration, which has prompted efforts to trim the number of state employees or privatize public companies since the reforms of the 1990s. Left-wing governments have introduced more competitive contracting procedures, though political influence persists. Despite declarations of civil service reform, these governments encountered significant resistance from civil servants and lacked a cohesive strategy to tackle the issue.

Despite this, Uruguayan governments have effectively utilized available human, financial and organizational resources. Although there are no independent audits, the budget execution process is closely monitored by strict controllers such as the Court of Accounts and Internal Audit of the Nation to prevent irresponsible spending. In 2020, the new government decreed a 15% reduction in public spending and conducted audits of various agencies. Over the next two years, government ministries and

### Policy learning

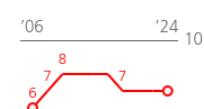
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### Efficient use of assets

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agencies adapted to the budget cuts by maximizing available resources. The National Civil Service Office (ONSC) has identified issues with bureaucracy, but its draft reform proposals have yet to become bills. Some members of the ruling coalition fear that attempting such a reform in the fourth year of the mandate could pose an electoral risk.

Previous governments have attempted to coordinate conflicting objectives and have acted consistently. At certain times, various forms of horizontal coordination were attempted through specialized ad hoc cabinets – such as the research and innovation cabinet and the social cabinet – in which different ministries coordinate policies to avoid overlapping and achieve more efficient results. Some of the main reforms that were promoted required a significant coordination effort, such as the tax and health reforms, which impacted the rights and salaries of workers. The same approach has been used to address climatic disasters, such as droughts and floods, where the National Emergency System (SINAE) coordinates the activity of ministries and local governments. During the coronavirus pandemic, SINAE played a crucial role in coordinating resources between the different levels of government.

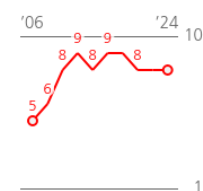
Uruguay stands out as the least corrupt country in the region, thanks in part to its robust anti-corruption legal framework. Since 1998, the country has had an anti-corruption law that criminalizes acts of corruption, and it has created an independent specialized agency to combat corruption – the Board of Transparency and Public Ethics (JUTEP). Under current regulations, high-ranking public officials, including the president, ministers, and legislators and their spouses, are required to submit sworn declarations on their financial situation. In 2008, a law was passed guaranteeing access to public information, which established a special unit – the Unit for Access to Public Information – to monitor and promote compliance with the law. Additionally, special courts and prosecutors for organized crime were created by the parliament in the same year. In 2009, a law on the financing of political parties was enacted, which established rules of transparency and accountability for campaign spending, limited the amounts of private donations, and guaranteed public financing of electoral campaigns. Although the law has been appropriately designed, its enforcement has been hampered by the lack of resources of the institution in charge of compliance – the Corte Electoral.

Moreover, Uruguay has implemented a comprehensive public procurement system that encompasses the entire contracting process, from order placement to receipt of the invoice for rendered goods or services. Additionally, the State Suppliers Registry offers general supplier information and records all communications received from them. These systems are readily accessible to the general public.

Nonetheless, at present, there has been a decline in the effectiveness of the Anti-Corruption Board, as it has failed to obtain sworn financial statements from the spouses of a senator and a vice-minister. Additionally, a former Minister of Tourism from the current government was investigated for embezzlement, and the head of presidential security was arrested for being linked to a criminal network that falsified Uruguayan passports for Russian citizens.

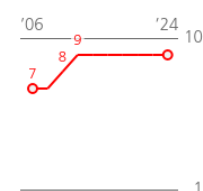
#### Policy coordination

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#### Anti-corruption policy

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Although these events are unfavorable for the political system, it is important to highlight that in all cases the judiciary, the prosecutor's office and the media have acted with complete independence. Additionally, the government has not applied any undue pressure on the activity of judges and prosecutors.

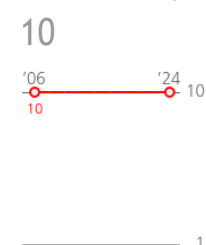
## 16 | Consensus-Building

The consensus on democracy is unanimous in Uruguay, and democracy works in a highly consensual manner with broad agreement on important issues. This consensus is evident in the approach of the political system to various policy issues. During the previous administration, President Vázquez invited leaders of the opposition parties to examine relevant issues such as public safety or the potential positive outcomes of oil exploration. President Lacalle Pou expressed his willingness to work with the opposition party in his inauguration speech, and during the first year of the pandemic, he held personal meetings with leaders of the Frente Amplio. In 2022, Lacalle Pou called on the leaders of the other parties to announce that the government would negotiate a free trade agreement with China. Later on, the government summoned experts from all parties to jointly analyze the grave security challenges faced by the country. Although the political debate shows some level of polarization, especially on social networks, the parties' programs and legislative initiatives still demonstrate a high degree of convergence.

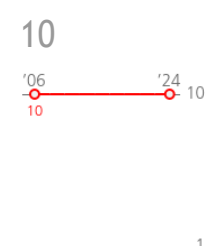
No Uruguayan political party proposes the abolition of the market economy. The 2019 elections revealed extensive programmatic agreements on various economic policies among the main parties. However, a public debate persists, stemming from diverse ideological perspectives regarding the extent of state intervention in the economy and the nature of fiscal and monetary policies. Although factions within the Frente Amplio may scrutinize capitalism, their limited political support inhibits any substantial impact. Within the governing coalition, no party challenges the capitalist framework of society.

There are no significant anti-democratic actors in Uruguay, whether on the extreme left or right, and when such an actor publicly appears, they are immediately condemned and isolated. In the 2019 elections, the Cabildo Abierto party emerged, led by former Army Commander Guido Manini Ríos, with a right-wing and nationalist speech. Some analysts feared that this party would adopt extremist positions, but three years after the elections, its members show moderate political behavior. The new party is a member of the ruling coalition, heading two important ministries (Housing and Public Health), and its legislators have shown loyalty to the government in major votes. From time to time, some of its adherents express radical views on social networks, but in all cases, the party leadership has publicly censored hate speech.

Consensus on goals



Anti-democratic actors



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 within the rule of law, avoiding excessive or violent demonstrations, and expanding consensus across the dividing lines.

Cleavage /  
conflict  
management

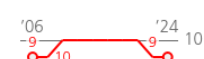
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Uruguay has a long tradition of social participation in the discussion of social policies. For example, the 1966 constitution established that the Banco de Previsión Social (BPS), the agency in charge of social benefits (pensions, unemployment insurance, occupational health insurance), has social representatives on its board of directors – one for employees, another for employers and a third for retirees. Since 2006, the election of these representatives has taken place at the national level and under the regulations of the Electoral Court. This model has been 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.

Public  
consultation

9



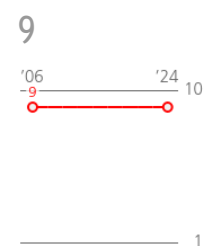
In environmental policy, Uruguay has an institutional framework that requires investors in projects that potentially alter the environment to assess the environmental impact of the initiative and to establish two public forums to consult affected groups. Typically, these events are attended by well-organized groups concerned about the environmental impact of companies. To further promote participation, the parliament passed a law in 2009 creating a third level of government – municipal councils and a mayor in cities with a population of more than 2,000.

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

The Lacalle Pou government has not demonstrated such a determined commitment in this regard. Even during its first months in office, it successfully passed a reform that eliminated the participation of teacher representatives in the primary, secondary and technical education councils. However, the participation of teacher representatives on the Central Board of Education was preserved.

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) approved shortly after the end of the dictatorship failed to solve this problem, as it never reached a consensus. Therefore, the problem has resurfaced repeatedly over the past 30 years. In the year 2000, President Batlle created the Commission for Peace, aimed at obtaining information on kidnapped children and the remains of disappeared persons. The left-wing governments made some progress in imprisoning civilians and soldiers responsible for violating human rights during those years. After the Supreme Court declared the amnesty law unconstitutional in 2011, the legislature passed a new law establishing those crimes as inalienable crimes against humanity. However, the Supreme Court declared this law unconstitutional as well, since parliament cannot nullify a law and its consequences but can only repeal it. Today, the victims of the dictatorship present their claims before the courts, and the outcome is subject to the judges' criteria regarding these facts, whether or not they are considered crimes against humanity. Some claims are progressing, while others remain stalled. The government of Lacalle Pou has not interfered with the judges' work and continues to support the search for the remains of disappeared detainees. The right-wing Cabildo Abierto party, a member of the government coalition, has presented a bill that provides monetary compensation to the relatives of victims of the guerrillas in the 1960s. This move sparked a significant debate on the measure's appropriateness, but it is likely that the bill will be approved before the end of the legislature, given the parliamentary majority supporting the government.

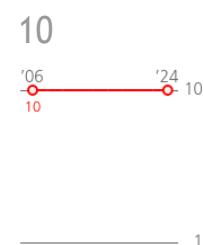
#### Reconciliation



## 17 | International Cooperation

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 has ceased to be eligible for several sources of financing. Dozens of countries and multilateral agencies provide aid, but the most relevant are the Inter-American Development Bank (IDB), the World Bank, the Development Bank of Latin America (CAF), the European Union, Spain and Japan. In 2010, the Uruguayan Agency for International Cooperation (AUCI) was created to coordinate the country's projects in this area.

#### Effective use of support



The Uruguayan political leadership has made well-targeted use of international assistance in accordance with its long-term development strategy and its domestic policy agenda. It has focused aid on environmental issues, gender, cultural development, human rights and the promotion of R&D. The different governments have made an effort to improve the coordination of programs between the various state levels and the efficiency of the use of resources from international cooperation.

During the pandemic, Uruguay requested financing from the Inter-American Development Bank (IDB) for the creation of the Coronavirus Solidarity Fund. At present, the country has financing lines from the IDB in the areas of security, gender and climate change policies.

The Uruguayan government has been 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, all of which is reflected in the solutions to the financial crisis of 2002 and the dispute with Argentina over pulp mills in 2010. As a result of being perceived as a reliable country, FDI grew during the decade from 2005 to 2015, and Uruguay obtained many benefits, including maintaining its investment grade status up to the present. These trends remain stable over time, regardless of the ideology of the ruling party.

In addition, Uruguay has signed international treaties related to the protection of human rights, such as 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 and the Convention on the Elimination of All Forms of Discrimination Against Women. With the return to democracy in 1985, Uruguay ratified the Pact of San José de Costa Rica (OEA) on the protection of life and human rights. In environmental matters, Uruguay has signed the Kyoto Protocol and ratified its subsequent amendments, in addition to approving the Montreal Protocol on the Ozone Layer in parliament.

Another proof of its reliability as an international partner has been the 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 to modify certain rules related to the banking system and demonstrate a willingness to cooperate with various international actors.

The Uruguayan political leadership has consistently displayed a strong inclination to collaborate with neighboring nations, evident in the country's involvement in numerous international and regional initiatives. Uruguay played a pivotal role as a founding member of the United Nations, the Organization of American States (OAS), and Mercosur. Notably, the country actively advocates for regional and international integration, supporting Mercosur as well as pursuing trade agreements beyond its borders. To this end, the government of Lacalle Pou has advocated for a more flexible approach to Mercosur, enabling Uruguay to enter into free trade agreements with non-member countries or blocs such as China and the European Union. This strategy has encountered resistance from other bloc members, but President Lula, who was recently elected, has acknowledged the legitimacy of Uruguay's position. In terms of its relationship with neighboring countries, Uruguay strives to foster robust bilateral cooperation regardless of the ideological orientation of the respective governments.

The new government's agenda includes a position more aligned with the United States in condemning the authoritarian governments of Cuba, Venezuela and Nicaragua. Additionally, they aim to address Uruguay's request to join the Pacific Alliance.

### Credibility

10



1

### Regional cooperation

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## Strategic Outlook

Over the past two decades, Uruguay has made notable progress in both its economic and political transformation. The political landscape is characterized by two well-defined blocs, although these parties have relatively small programmatic differences, leading them to differentiate themselves through nuanced public policy positions. Consensus on long-term policies typically involves a specific approach: the government introduces reforms, while the opposition critiques them. Interestingly, when a change in government occurs, the new administration tends not to reverse these reforms but instead introduces its own agenda.

However, the primary challenge facing the country is the sustainability of its economic development, which heavily relies on external factors such as export product prices and FDI. President Lacalle Pou's coalition government has addressed pressing macroeconomic issues, including the fiscal deficit, but has encountered difficulties in improving economic conditions for accessing international markets. Uruguay's foreign policy, centered on seeking free trade agreements, has faced constraints within the Mercosur partnership. Nevertheless, the nation has experienced moderate growth thanks to the quality of its products, its reputation as a reliable partner, and its robust democratic institutions. Based on these strengths, any government elected in 2024 should focus on seizing opportunities to diversify export products and move toward higher levels of value-added production.

In the second part of its mandate, the government has pushed forward with two relevant reforms: the reform of the pension system and the transformation of educational policies. It is also striving to address security issues, particularly those related to drug trafficking, through the construction of a cross-party agreement. However, these initiatives are strongly influenced by the upcoming 2024 general election. President Lacalle Pou's challenge for the remainder of his term is to maintain unity within the governing coalition, even as coalition partners seek to distinguish themselves from his party. This requires a complex process of negotiation and trade-offs to secure the approval of reforms. President Lacalle Pou has displayed flexible and patient leadership within the coalition, making it likely that he will navigate these challenges successfully. However, the opposition party (Frente Amplio) could win in 2024, a prospect that presents the party with a strategic dilemma. It is likely that the opposition will choose not to block the reforms but rather criticize them vehemently and promise amendments in the event of their accession to power. In this context, the primary task for both sides should be to avoid overemphasizing political differences for electoral purposes, as is seen in neighboring populist states, and instead engage in constructive debates to develop solid solutions to the country's challenges. Uruguay is well-positioned for such deliberations, thanks to its balanced political culture.