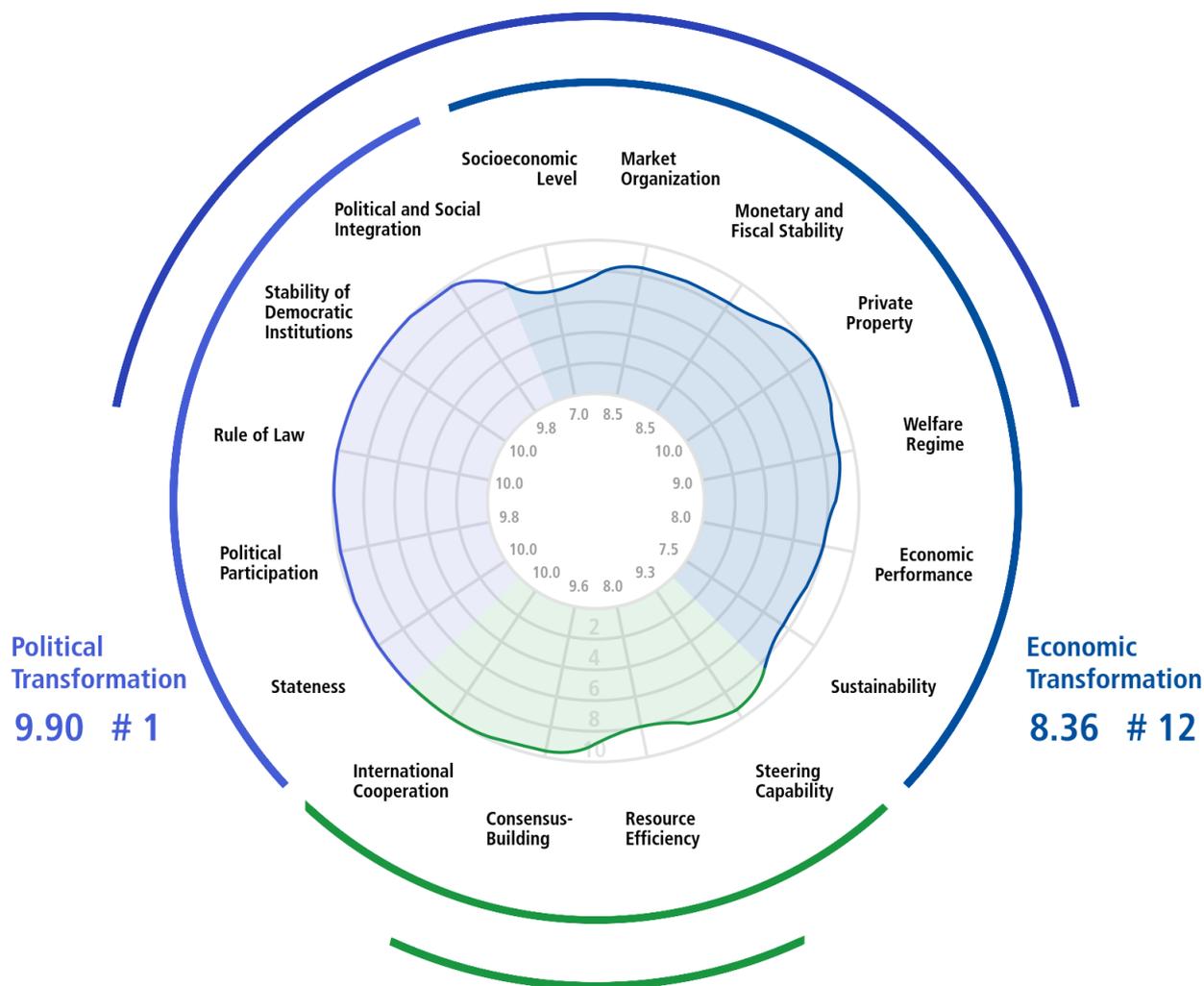


# Uruguay

## Status Index

**9.13 # 6**

on 1-10 scale out of 137



**Political Transformation**  
**9.90 # 1**

**Economic Transformation**  
**8.36 # 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) 2026**. It covers the period from February 1, 2023 to January 31, 2025. 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>0.862</b>	GDP p.c., PPP \$	<b>36418</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.0</b>	HDI rank of 193	<b>48</b>	Gini Index	<b>40.0</b>
Life expectancy	years	<b>78.1</b>	UN Education Index	<b>0.837</b>	Poverty <sup>3</sup>	% <b>0.8</b>
Urban population	%	<b>95.9</b>	Gender inequality <sup>2</sup>	<b>0.218</b>	Aid per capita	\$ -

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. 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 second half of Lacalle Pou's administration (2020 – 2025), Uruguay's transformation continued to advance despite political and structural challenges. The period under review covers the last two years of the coalition government, including the presidential and legislative elections.

At the start of its mandate, the government prioritized improving the fiscal situation, expanding access to international markets, strengthening public security, and reforming social security and education. In its first two years, the government achieved important milestones. It successfully combated the COVID-19 pandemic, passed the controversial Urgent Consideration Law (LUC) in the parliament – an omnibus law of almost 500 articles that modified some 30 public policies – and the five-year budget law that established economic policy guidelines. It also won the referendum called by the opposition and unions against 135 articles of the LUC.

In the second half of its term, the government accelerated its reform of the education system and secured parliamentary approval for its social security reform. The former began with a redesign of education governance approved in the LUC, then continued administratively with changes to the curriculum and the distribution of responsibilities. The latter was approved by the parliament following complex negotiations among the parties in the governing coalition. Although the Trade Union Federation called for a constitutional plebiscite to reverse its main provisions, the reform remains in place after citizens rejected the unions' proposal. Even so, the fact that four out of every 10 voters supported the constitutional amendment proposed by the Trade Union Federation indicates that citizens are not satisfied with the pension reform approved by the Lacalle Pou government.

Under President Lacalle Pou, Uruguay's economy grew strongly in 2021 and 2022, slowed in 2023 due to a drought and rebounded in 2024 with growth exceeding 3%. Key indicators such as real wages, employment, poverty and particularly inflation all improved, which aligned with central bank targets for the first time in more than a decade. However, public finances worsened by the end of the term, with the fiscal deficit returning to 2019 levels despite earlier gains.

In spite of the coalition government's strategic achievements, its public image began to deteriorate in the second half of its term because of a series of scandals tied to corruption and political patronage. These events continued throughout 2022 – 2024, leading to the resignations of ministers and officials close to the president.

Additionally, public concern about high homicide rates led to increased criticism of the government's response. Over the five years of the Lacalle Pou administration, the homicide rate reached its highest level since public data became available. The increase in the homicide rate is linked to war among drug-trafficking gangs operating in the outlying neighborhoods of the capital. This also heightened public concern about the rise in organized crime. Public security remains a significant challenge for Uruguay. The last three governments have attempted to find solutions, but the situation continues to deteriorate.

In international politics, the government promoted free trade agreements with little success. It made a decisive commitment to a China-EU treaty, but the older Mercosur partners blocked that possibility. Uruguay also committed to joining the Pacific Alliance, but its application remains under consideration. Toward the end of its term, the government – assuming that unilateral negotiations were not viable – bet heavily on negotiating from within Mercosur. The possible signing of a Mercosur-EU treaty shows this is the only possible path for the country.

In October and November 2024, legislative and presidential elections were held in which the Frente Amplio, the main opposition party, defeated the parties of the ruling coalition. The left-wing candidate, Yamandú Orsi – a former mayor of Canelones, the second most important department, who holds moderate ideological positions and belongs to the faction of former President José Mujica – defeated the president's heir apparent, Álvaro Delgado – a center-right politician who served as secretary of the Presidency between 2020 and 2024 – in the second round of the presidential election. In the legislative election, the Frente Amplio gained control of the Senate and was only two votes away from controlling the lower house.

Before the end of December, the president-elect announced his cabinet, appointing economist Gabriel Oddone – a former member of a prestigious corporate advisory firm – as economy and finance minister. As is customary in Uruguay, ministerial appointments reflect the balance of internal party factions. The cabinet is 40% female, blends political experience with technical expertise and has an average age of 58, consistent with the Senate except for the 2015 – 2020 period. Yamandú Orsi also confirmed the continuation of co-participation in state entities, ensuring opposition representation on public company boards and decentralized councils.

The new government's agenda is strongly shaped by the state of affairs left by the outgoing government. Unresolved issues from Lacalle Pou's government (e.g., public safety, child poverty, social security and the fiscal deficit) and ongoing ones (e.g., education and negotiations for free trade agreements with Mercosur) will have to be addressed by the new government. In addition, the Frente Amplio made programmatic promises during the campaign linked to improving and redesigning social policies (e.g., transfer and care systems), a strong commitment to technological innovation, and substantial support for small and medium-sized enterprises.

## History and Characteristics of Transformation

Uruguay has a long and rich democratic tradition. Beginning in the early 20th century, the traditional political parties collaborated on reforms to establish a competitive political system rooted in secret and universal suffrage, and fair elections. They also spearheaded social reforms, such as the separation of church and state, the establishment of the eight-hour workday, and the legalization of divorce at a woman's request. Given the limited capacity of private economic actors, the state assumed responsibility for providing essential public services, including electricity, fuel, water and telephone services. This framework enabled Uruguay to build a prosperous, cohesive and modern society in the first half of the 20th century.

Uruguay's prosperity was closely tied to strong agricultural exports and the "import substitution model," which aimed to foster domestic industrial growth. By the mid-1950s, however, the model fell into crisis as prices for traditional exports declined and the domestic market could not sustain demand for goods. Economic stagnation and rising inflation fueled political and social unrest, culminating in the emergence of the MLN-Tupamaros guerrilla movement in the early 1960s. In response to mounting challenges, the party system underwent several changes. In 1967, a constitutional reform aimed to streamline decision-making. In 1971, voting options were expanded with the creation of the Frente Amplio and new leadership emerged within the traditional parties. Despite these efforts, democracy collapsed in June 1973, when President Bordaberry, in alliance with the military leadership, dissolved the parliament.

Although its achievements were modest, the ensuing authoritarian regime sought to address structural economic problems by promoting exports and liberalizing foreign trade. After failing to institutionalize the regime through a constitutional plebiscite in 1980, the military was forced to negotiate a transition with democratic political parties. This process led to elections and the restoration of civilian government in 1985.

The re-democratization process was swift, restoring the rule of law and reinstating the political system that had existed prior to the coup d'état. Subsequent governments, led by the traditional parties, pursued gradual economic and state reforms. However, some initiatives, such as the privatization of public enterprises, faced strong resistance from a coalition of the Frente Amplio and social organizations. This coalition leveraged constitutional mechanisms of direct democracy to overturn reforms approved by the parliament. Consequently, the traditional parties consolidated their position in the center-right of the ideological spectrum, advocating for and implementing pro-market policies.

In the 1990s, Uruguay experienced robust economic growth, marked by relatively low inflation and unemployment rates. However, the boom ended abruptly in 2002, when the country faced a severe recession and a financial crisis triggered by Argentina's critical economic situation.

In 1996, Uruguay implemented an electoral reform that introduced a presidential electoral system requiring an absolute majority and, if necessary, a run-off. This reform laid the groundwork for a competitive political landscape defined by the rivalry between two ideologically distinct blocs: the center-left Frente Amplio and the traditional center-right parties.

The Frente Amplio's 2004 victory marked the start of a prosperous period of economic growth and expanded rights that earned Uruguay international recognition. This success coincided with a global commodities boom, which Uruguay leveraged to improve employment rates, increase real wages and significantly reduce poverty. However, in its third term in office, economic growth slowed because of a decline in exports, increasing the fiscal deficit and prompting cuts in public spending. In the 2019 elections, the center-right coalition, led by Lacalle Pou, won the second round of the presidential election. His government overcame the challenges of the COVID-19 pandemic and implemented some of its promised reforms.

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 maintains a monopoly over the use of force throughout its territory. Over the last decade, however, criminal networks linked to drug-trafficking have developed and become active in the capital's outlying neighborhoods. Uruguay has experienced a significant deterioration in public safety, driven primarily by rising drug-trafficking and organized crime. The port of Montevideo has become a key transshipment point for cocaine bound for Europe, leading to increased violence and insecurity, particularly in poorer neighborhoods. Homicides linked to drug-trafficking have risen and public concern over safety has reached unprecedented levels, surpassing economic issues as the primary national concern. Although the government has stepped up police activity and the parliament has passed new laws that increase penalties, public safety remains one of the country's main problems.

The population as a whole accepts the legitimacy of the nation-state. Access to citizenship is granted to all individuals born in the country, foreigners residing in the country and sons and daughters of Uruguayans born abroad. No one is stripped of or denied citizenship on the basis of race, gender, language, religion, political or other opinions, social origin or similar factors.

Religious dogma does not play a significant role in the functioning of Uruguayan institutions. The Catholic Church and the state separated more than a century ago. The state is secular, and religious dogma has no influence on the legal order. The Catholic Church and other religious communities seek to sway public opinion on issues such as sex education and abortion, but these efforts have not yielded significant results. Evangelical groups have tried to expand their presence in the territory, but their influence remains marginal.

Question  
Score

Monopoly on the  
use of force

10



1

State identity

10



1

No interference of  
religious dogmas

10



1

All basic functions of the state are carried out effectively by the various levels of government. Uruguay is a decentralized unitary state with 19 subnational (departmental) governments, 125 municipalities and a variety of autonomous public institutions that specialize in, for example, education, public health, public services and regulation. Members of the boards of directors of public institutions are nominated by the government and appointed by a special majority of the Senate. State infrastructure is well developed; 100% of the population has access to electricity, 99.5% has access to at least a basic water supply and 98.1% has access to basic sanitation.

Basic administration

10



1

## 2 | Political Participation

Elections in Uruguay are free and fair, with no restrictions. All government offices are filled through elections by secret ballot and universal suffrage. The Electoral Court, appointed by the 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 equal access to the media, and election results are accepted without dispute.

Free and fair elections

10



1

In the 2024 presidential and parliamentary elections, the opposition defeated the ruling coalition and the transition of executive power is proceeding without major obstacles. This is the fifth time the governing party has changed since the country's return to democracy in 1985 (1989, 1994, 2004, 2019 and 2024).

Elected representatives hold effective power to govern. There are no nondemocratic actors capable of challenging 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 on political parties, but not enough to change government decisions. In general, the political process occurs within the institutional framework established by the constitution, regardless of which party or coalition is in power.

Effective power to govern

10



1

The constitution guarantees the rights of association and assembly. Governments respect these rights regardless of citizens' interests or the social sectors affected. For instance, unions organized numerous nationwide strikes and demonstrations in 2023 and 2024 to protest pension reforms that aimed to raise the retirement age and reduce benefits. These actions included marches to the Legislative Palace and sit-ins, reflecting strong union mobilization that occurred without any significant or systematic state repression.

Association / assembly rights

10



1

Freedom of expression is fully guaranteed for citizens, groups and the press without 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 left-wing government passed a law regulating media operations, which was widely criticized by opposition parties. Ten years later, the center-right coalition government amended sensitive aspects of this regulation, including the number of media outlets each licensee may control, drawing strong criticism from the left-wing opposition.

In addition, between 2019 and 2024, Uruguay fell from 19th to 51st place in the Reporters Without Borders' World Press Freedom ranking. The non-governmental organization CAINFO reported in its annual report that in the past year there were 59 cases of restrictions on journalists' freedom of expression. Five years earlier, the record stood at only 18 cases.

Freedom of expression

9



1

### 3 | Rule of Law

In Uruguay, there is a clear division of functions among the judiciary, the executive and the legislative branches, with mutual checks and balances. Interbranch conflict is unusual and resolved under the constitution. There are no significant informal institutions that could undermine the separation of powers or the rule of law, and there is no tradition of delegative democracy in Uruguay.

Lacalle Pou's government faced a fragmented legislature that required constant negotiation with opposition parties, particularly the Broad Front (Frente Amplio), to pass significant legislation. This dynamic required strategic alliances, and compromises between the executive and the legislature. There was cooperation on some fronts, including the passage of a vital accountability law and tax reforms, but tensions remained, particularly over contentious issues such as labor rights and social spending.

The justice system is largely professionalized and differentiated, though it is slow. Members of the Supreme Court of Justice are appointed by a qualified majority (two-thirds vote) of the parliament or are promoted by seniority if that fails. The functioning of the judicial structure demonstrates independence from political or economic pressures. Furthermore, there have been no cases of corruption involving members of the judicial system. The 2024 World Justice Project Rule of Law Index Report corroborates these strengths, ranking the Uruguayan judiciary 24th worldwide, and first in Latin America and the Caribbean.

Separation of powers

10



1

Independent judiciary

10



1

However, over the past two years, there have been many disputes and conflicts involving the Attorney General's Office. On the one hand, the parties represented in the parliament could not reach a consensus on the appointment of a new attorney

general, which has weakened the institution's leadership. On the other hand, almost all political parties have filed complaints about prosecutors' performance in sensitive cases, such as those involving corruption by officials in the outgoing government or the trials of military personnel who violated human rights during the last dictatorship. If this scenario continues, the judicial system's credibility could be affected.

Public officials who violate the law and engage in corruption are usually prosecuted vigorously under established laws. Uruguay has generally low levels of corruption, although scandals occasionally arise and impose heavy electoral costs on ruling parties.

During the second half of the outgoing government's term, several political scandals involving corruption or political patronage implicated government leaders.

The list is extensive, comprising more than 20 episodes. Nevertheless, several notable cases stand out, including the tourism minister resigning after being accused of misappropriating public funds during the COVID-19 pandemic; and the presidential security secretary being convicted of leading an organization that processed Uruguayan passports for Russian citizens, facilitating business deals for private companies in exchange for bribes, and spying on two opposition senators, namely the president of the trade union center and a former police chief from the previous administration. Other scandals included the concealment of information from the parliament regarding the issuance of a passport to a Uruguayan drug trafficker arrested in the United Arab Emirates, which led to the resignation of the interior minister and the foreign minister; the prosecution of the government's top senator for sexual crimes against 20 minors; and a case against the housing minister, who provided housing solutions to members of her own party.

These scandals discredited the politicians involved and imposed a significant electoral cost on the ruling coalition parties in the 2024 elections. Notably, the executive branch did not obstruct investigations, or exert undue pressure on judges or prosecutors, which shows that the system works.

The constitution guarantees civil rights, which the state generally respects. 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 October 2012, the parliament passed a law recognizing women's rights over their bodies and legalizing abortion. In 2013, a law was passed legalizing same-sex marriage.

In 2018, the parliament approved a law ensuring the economic, social and cultural rights of the LGBTQ+ population, and compensating individuals born before 1975 who were victims of institutional violence based on their gender identity. Recent governments have sought to provide reparations to victims of crimes committed during the last dictatorship (1973 – 1985). In 2023, the parliament passed a law that proposes compensating families of victims of left-wing guerrilla groups that operated before the 1973 coup d'état.

#### Prosecution of office abuse

10



1

#### Civil rights

10



1

#### 4 | Stability of Democratic Institutions

Uruguay's democratic institutions function effectively and in accordance with the constitution and the law. Relations between different levels of government and sectors of the administration continue to function with minimal friction. Even during the COVID-19 pandemic, institutions continued to operate. The parliament held a number of sessions similar to those in other legislative years and the judiciary maintained a reasonable level of functionality.

In 2024, internal party elections were held in June, the first round of the presidential and legislative elections in October and the second round in November. There were no complaints about voting procedures or the counting process in any of the four elections organized by the Electoral Court.

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. As an institution, the military has allowed and accepted the search for the remains of people who disappeared, although its cooperation with justice has not been consistent. However, in the 2024 elections, *Identidad Soberana*, an anti-establishment, anti-vaccination party, secured two seats in the House of Representatives.

#### 5 | Political and Social Integration

The Uruguayan party system is one of the most stable and long-lasting in the world. Since 1971, three political parties have consistently accounted for around 85 – 95% of the vote. Political parties have a factional structure, with internal groups enjoying high public visibility and autonomy in decision-making. These factions are ideologically coherent and demonstrate strong internal discipline in the parliament. Electoral volatility is historically low, with an average of 11% net change in voter share between 1985 and 2019.

In general, the multiparty system has achieved a balance, with two main blocs competing for the political center. The center-right bloc comprises the historical parties (*Partido Colorado* and *Partido Nacional*) and some minor parties, while the center-left bloc is led by the *Frente Amplio*, which won the 2024 election. Minor parties drew significant electoral support in the 2019 and 2024 general elections, leading to increased fragmentation. Despite this bipolar dynamic, polarization is moderate and policymaking demonstrates the capacity of Uruguayan political parties to forge long-term agreements.

Performance of democratic institutions

10



1

Commitment to democratic institutions

10



1

Party system

10



1

Uruguayan parties have relatively strong programmatic identities, but these have become somewhat more flexible in recent years because of party-system fragmentation and shifting coalitions. Moreover, there are signs of increasing polarization between the left-wing and conservative camps.

Uruguayan society has a long tradition of organization and activism. The most prominent and influential groups are trade unions and employers' associations. Trade unions are unified under a national federation, the PIT-CNT, established in the mid-1960s. According to official data, 14.4% of employed people in Uruguay are affiliated with a trade union. Employers' associations lack a national umbrella organization but have strong sector-specific groups representing key economic areas such as agriculture, industry, banking, tourism and exports.

Since 2005, unions and employers, with government mediation, have negotiated wage levels and working conditions through national and sectoral wage councils. Most of these negotiations produce agreements lasting two to three years. Collective bargaining between the three parties was a key instrument in maintaining social stability during the COVID-19 pandemic. Unions accepted temporary wage adjustments and the use of unemployment insurance as part of a collective effort to preserve employment.

Alongside unions and business associations, other important organizations include the (very influential) pensioner, student and various professional (e.g., lawyer and doctor) associations. Over the past two decades, new, specific organizations have developed, such as those for women, people of African descent, LGBTQ+ people, victims of the dictatorship, animal advocates and environmental organizations. In 2018, a powerful social movement linked to agricultural production (Un Solo Uruguay) emerged with a strong oppositional profile that favored a change in government in 2019. However, at the time of writing, Un Solo Uruguay has lost political influence.

Generally, Uruguayan civil society organizations are inclusive, and tend to maintain pragmatic and cooperative attitudes.

Citizen support for democracy remains the highest in Latin America. Comparative public opinion polls, such as Latinobarómetro and Latin American Public Opinion Project (LAPOP), consistently rank Uruguay at the top of regional indexes. The 2024 Latinobarómetro report shows 70% of Uruguayans prefer democracy over any other form of government and their satisfaction with democracy is the highest in the region at 63%. The 2023 LAPOP report indicates 75% of Uruguayans agree with the Churchillian definition of democracy, while the 2024 Latinobarómetro survey reports an even higher figure of 87%.

The 2024 Latinobarómetro report also shows that trust in institutions remains high, with trust in the government at 49% (average for Latin America: 31%), the electoral authority at 60% (Latin America: 34%), the parliament at 49% (Latin America: 24%), the judiciary at 50% (Latin America: 28%) and political parties at 36% (Latin America: 17%).

#### Interest groups

10



1

#### Approval of democracy

10



1

Uruguay has a long tradition of autonomous, self-organized groups pursuing diverse goals. In addition to interest groups, numerous associations related to schools, neighborhoods or other contexts are based on voluntary work and oriented toward helping the community. Soup kitchens promoted by social organizations during the COVID-19 pandemic continued to operate autonomously in subsequent years, with some government support.

According to Latinobarómetro 2024, the level of interpersonal trust among Uruguayans is relatively low (only 20% agree with the statement “we can trust most people”). Nevertheless, Uruguay remains one of the highest-ranked countries in Latin America for social capital.

### Social capital

9



1

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Uruguay remains the country with the highest level of social integration in Latin America. According to the HDI Report 2023 – 2024, Uruguay ranks 52nd out of 188 countries and third in Latin America, with a score of 0.830. The report classifies Uruguay as having a very high level of human development.

According to the Social Panorama of Latin America, published by the Economic Commission for Latin America and the Caribbean in 2024, Uruguay has the lowest proportion of poor households in the region. Since the COVID-19 pandemic, however, Uruguay has not recovered its previous poverty levels, with the incidence of poverty among children worsening. According to UNICEF, in 2024, 150,000 children were living below the poverty line, nearly twice the general poverty incidence.

Additionally, income inequality has increased slightly since the COVID-19 pandemic. According to the Social Development Ministry (MIDES), the Gini coefficient rose from 0.383 in 2019 to 0.4 in 2023.

According to a 2023 report by the International Labor Organization (ILO), Uruguay has the lowest level of informal work in Latin America. Even so, one in four workers do not contribute to the social security system. Likewise, three out of four informal workers are adults living in households below the poverty line; they generally engage in precarious activities and earn very low incomes.

The situation of people of African descent remains a significant challenge for Uruguay. Representing 9% of the population, they are disproportionately affected by high poverty rates and low educational attainment.

Question  
Score

### Socioeconomic barriers

7



1

Economic indicators		2021	2022	2023	2024
GDP	\$ M	60739.1	70594.1	77991.7	<b>80961.5</b>
GDP growth	%	5.8	4.5	0.7	<b>3.1</b>
Inflation (CPI)	%	7.7	9.1	5.9	<b>4.8</b>
Unemployment	%	9.3	7.9	8.4	<b>8.4</b>
Foreign direct investment	% of GDP	8.5	12.5	-6.9	<b>-3.0</b>
Export growth	%	14.7	11.3	0.8	<b>8.3</b>
Import growth	%	18.4	14.3	5.7	<b>-1.5</b>
Current account balance	\$ M	-1478.1	-2675.1	-2654.0	<b>-837.5</b>
Public debt	% of GDP	64.1	59.9	64.0	<b>68.7</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	17.8	18.6	18.7	-
Government consumption	% of GDP	-	-	-	-
Public education spending	% of GDP	4.5	4.5	4.8	-
Public health spending	% of GDP	6.5	6.3	-	-
R&D expenditure	% of GDP	0.6	0.6	-	-
Military expenditure	% of GDP	2.1	1.8	2.0	-

Sources (as of December 2025): 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 direct participation in economic activities or through regulation. During the 20th century, state companies monopolized several strategic economic activities (fuel, electricity and telecommunications). The trend toward liberalization, which began under the last dictatorship and continued slowly under subsequent democratic governments, led to the involvement of the private sector in a number of branches previously monopolized by the state. For example, the insurance market, the pension system and

Market organization

8



the mobile telephone network function as competitive markets with the participation of state companies. Left-wing governments (2005 – 2020) did not reverse this liberalizing trend but continued it. The outgoing government had attempted to expand opportunities for private entrepreneurs, but some initiatives had been blocked by coalition partners.

In general terms, Uruguay's economic order rests on tripartite consultations similar to the classic German model, ensuring a high degree of consensus on a market economy with social guarantees and on the state's role as guarantor. With the exception of a few activities monopolized by the state or heavily regulated, there are no significant barriers to entering markets. However, a substantial share of labor remains informal, despite informal employment decreasing to 21.7% in December 2024, down from nearly 25% in 2019, according to a report by the Ministry of Labor and Social Security (MTSS).

Private investment, both domestic and foreign, has been stimulated in recent decades. There are no restrictions on cross-border labor mobility and capital movement is allowed with few obstacles, with currency convertibility. Between 2005 and 2015, FDI was 5.2% of GDP (the second highest in the region after Chile). However, FDI fell dramatically between 2016 and 2020, as it did throughout the region, though recovered in 2021 and 2022, returning to levels similar to those of 2017 (4% of GDP). A report by the government agency Uruguay XXI indicates that, over the past two years, FDI was 2% of GDP. Spain accounts for 18% of foreign investment in Uruguay, followed by Finland (13%), Argentina (12%) and Brazil (10%).

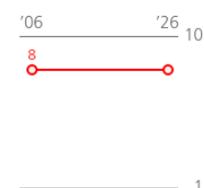
Because various public services are state monopolies, administered prices account for approximately 25% of the basket of goods and services. These include electricity, fuel, drinking water, communications and health services.

Competition laws are in place to prevent monopolistic structures and behavior, though legal coherence and enforcement remain deficient. Uruguay did not have any anti-monopoly regulations in favor of competition until 2000. During the market reforms of the 1990s, several economic activities became competitive, prompting successive governments to pass laws to guarantee competition. In 2007, the first left-wing government passed an antitrust law (the Law on the Preservation of Commercial Freedom and Free Competition), which introduced premerger control for cases of economic concentration. There has been progress, for example, in the development of a market for renewable energy generation that allows private investment and the sale of energy to utility companies. However, many activities, such as fuel and telephone lines, remain state monopolies.

The Commission for the Promotion and Defense of Competition is the main body responsible for regulating sectoral markets (it represents Uruguay in the International Competition Network). In 2024, the commission denied the multinational food company MINERVA's request to acquire several meat processing plants in different

Competition policy

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regions of the country, stating that the decision was intended to preserve competition in the meat industry. In addition, there are three other critical regulatory bodies: the central bank (banks and financial services), the Regulatory Unit for Communications Services (URSEC), and the Regulatory Unit for Energy and Water Services (URSEA). With the exception of the central bank, the other organizations have demonstrated political and institutional vulnerabilities in market regulation, in which public companies are important competitors. Lacalle Pou's government approved an institutional reform for these organizations, but the situation has not changed. The appointment of directors along party lines often weakens the technical autonomy of these agencies.

Uruguay's entry into Mercosur in the early 1990s accelerated the liberalization of foreign trade. The regional crisis of 2001/2002 forced Uruguay to continue expanding its export markets. This expansion peaked in 2013/2014. Non-tariff barriers and other trade obstacles are limited. All goods from non-Mercosur countries are subject to a common external tariff (CET) ranging from 0% to 20%, depending on the type of goods. As of 2022, Uruguay's average most-favored-nation tariff is 10.1%. Progress has been made in import procedures and customs valuation, as highlighted in the WTO Trade Policy Review.

During the Lacalle Pou administration, Uruguay adopted a more critical stance toward Mercosur and sought a free trade agreement with China. Progress was modest, however, because of a permanent blockade imposed first by Argentina and later by Brazil. Changes in the governments of Mercosur's largest partners made it possible to rechannel and conclude an agreement with the European Union, which is subject to ratification by the parliaments of EU member states. Likewise, Mercosur concluded a free trade agreement with Singapore, and resumed negotiations with Canada and Vietnam.

The government agency Uruguay XXI's Annual Foreign Trade Report states that goods exports totaled \$12,845 million in 2024, a 13% increase from 2023. China was the top buyer of Uruguayan goods with 24%, followed by Brazil with 18%, the European Union with 14%, the United States with 9% and Argentina with 5%. The main exported products were cellulose (20%), beef (16%), soybeans (9%), dairy products (6%), beverage concentrates (6%), rice (4%), vehicles (4%), meat byproducts (3%) and wood (3%).

On the other hand, service exports make up an increasingly large share of Uruguay's export basket. According to central bank figures, service exports totaled \$6.984 billion in 2024, up 2% from the previous year. Imports of goods excluding oil, oil products and energy reached \$10.875 billion in 2024, up 2.1%. Intermediate goods (production inputs) account for 44% of total imports, consumer goods 37% and capital goods 18% (e.g., vehicles for agricultural production, computers and machinery). Uruguay's main suppliers are China, Brazil, the United States, Argentina and the European Union.

Liberalization of  
foreign trade

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The Economic Freedom Network's Index of Economic Freedom (ILE) ranks Uruguay 57th out of 165 countries worldwide. In South America, Uruguay ranks third in economic freedom, behind Chile and Peru.

The Uruguayan banking system served as a regional financial center for decades, thanks to liberalized regulations and a reputation for reliability. In the wake of the 2002 financial crisis, the country implemented controls on the system, reducing nonresident deposits. A significant measure was the enactment of the 2010 law, which examined banking transactions and complied with OECD requirements for monitoring international financial flows.

The Central Bank of Uruguay (BCU) regulates and supervises the financial system through the Superintendency of Retirement and Pension Fund Insurance (SSF). It uses Basel Committee on Banking Supervision standards as a reference in defining the regulatory framework. The banking system comprises two public banks, 10 private banks and a wide variety of nonbank institutions established in the country, such as brokerage cooperatives, finance houses, offshore banks, consumer loan companies and currency exchange offices. The state-owned banking institutions are the Bank of the Eastern Republic of Uruguay (BROU) and the Mortgage Bank of Uruguay (BHU). The former operates as the state's commercial bank, contributing to the country's productive, economic and social development. The latter is dedicated exclusively to mortgage lending.

The system is well capitalized, with high levels of international reserves, liquidity and a low rate of non-performing loans (2% in 2024). In 2023, the system achieved record profitability, with a return on average assets of 2.5% and a return on average equity of 23%. The banks' capital-asset ratios stood at 9.6% in 2022. According to a BCU report (December 2021), the solvency of Uruguayan banks, as measured by the risk capital ratio, is quite secure (an average of 1.85 times the regulatory minimum, which includes credit, market, operational and systemic risk requirements).

Banks are funded primarily by stable deposits. Confidence in the financial system, and improved financial supervision and regulation have consistently reduced the risk of deposit volatility. At the end of 2023, foreign currency deposits comprised 70% of total deposits and deposits from nonresidents accounted for 8% of the total.

#### Banking system

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## 8 | Monetary and fiscal stability

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 three-fifths majority vote of the Senate, following a proposal from the executive branch. Generally, one of the three directors is nominated by the largest opposition party.

After the 2002 crisis, the BCU adopted a flexible exchange rate policy that allowed the currency's value to be set by supply and demand. However, following the 2008 global financial crisis, the government had to intervene in the market to prevent excessive appreciation of the local currency. Thus, controlling inflation remained a priority for the BCU, but supporting the exchange rate limited the use of monetary tools to steer prices toward the target range.

Following the 2020 change in government, exchange rate policy became more orthodox and the real exchange rate fell out of balance, reaching its lowest point in January 2024 (76.6, 2019 base 100). In 2020, the new Lacalle Pou administration adopted a fiscal rule aimed at a more credible commitment to reducing the fiscal deficit. At the same time, the economic authority judged that public spending was one of the main factors driving up prices, and therefore restrained it between 2020 and 2022, until the fiscal deficit was reduced to 3% of GDP.

However, inflation remained above the target range. Only in 2023, after a sharp drop in international prices for tradable goods and imported deflation from the Argentine economy, did inflation begin to fall to the levels set by the BCU. The behavior of the price index showed no connection between public spending levels and inflation, as inflation fell while spending rose, widening the fiscal deficit.

The left-wing governments (2005 – 2020) took advantage of favorable external conditions to increase spending, especially in areas such as public education, health and security. However, the “growth with income distribution” policy increased the fiscal deficit, especially as the international context changed. In 2011, the fiscal deficit was 1.7% of GDP, but by 2019 it had risen to 4.3%.

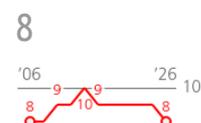
During the 2019 election campaign, President Lacalle Pou promised to balance the fiscal accounts to achieve sustained economic development. Although the COVID-19 pandemic initially worsened the fiscal results (5.8% at the end of 2020), the government reduced the deficit to 3.4% in 2022. The adoption of a fiscal rule is based on the structural fiscal outcome, the targets set for this outcome and the debt ceilings established by law in the parliament. However, that trend changed in 2023, when the deficit stood at 3.8%, and worsened in 2024, closing the year with a deficit similar to that of 2019 (4.2%).

### Monetary stability



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### Fiscal stability



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While opposition economists believed that the procyclical increase in public spending was intended to influence the election outcome, ministry officials said that lower inflation reduced tax revenue, causing an unexpected imbalance in the public accounts. This forced the government to violate its own fiscal rule and, in mid-2023, ask the parliament to modify the borrowing limit to finance the deficit. As a result, consolidated gross debt rose from 59.9% of GDP in 2019 to 70.8% in November 2024.

Meanwhile, the Debt Management Unit of the Ministry of Economy and Finance reported at the end of 2024 that Uruguay's net debt amounted to 55.8% of GDP, up from 44.4% in 2019. Similarly, the ministry estimates that the country will have no problem meeting the government's financing needs and that 80% of these funds will come from issuing debt on international markets.

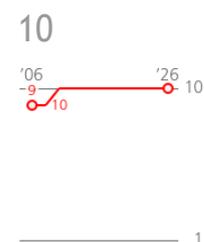
## 9 | Private Property

Since the founding 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 only by law and for reasons of public interest. The constitution establishes that, in the event of expropriation, fair compensation must be paid in advance. Uruguay has not recorded cases in which foreign investments have been expropriated. In recent years, the country has been improving property-rights regulations for economic activities to promote private investment, especially from abroad. To protect intellectual property, a patent law was passed in 2023. In June 2024, with votes from all parties, the parliament approved Uruguay's accession to the Patent Cooperation Treaty (PCT).

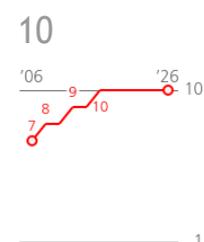
During the first decades of the 20th century, Uruguay became a state-centered capitalist economy. In the 1990s, governments promoted liberalizing reforms in the context of Washington Consensus policies. However, the process was gradual, and some privatizations were blocked by opposition parties and social movements using direct-democracy mechanisms. Left-wing governments have not pursued a strategy of privatizing state-owned enterprises, although they have promoted private investment and public-private joint ventures in infrastructure development. The Investment Promotion Law 16.906 (1998) and Decree 455/007 (2007) played a crucial role in increasing FDI until 2015. In the last decade, governments have tried to attract private investment to develop various strategic projects. In some cases, the results were unsuccessful (an ocean port and a regasification plant). In other cases, the investments were made possible by the presidents' proactive leadership (cellulose processing plants).

The outgoing Lacalle Pou government has emphasized the role of private companies as the engine of the economy. Its strategy to address the COVID-19 pandemic's economic consequences has sought not to burden companies with the cost of the

Property rights



Private enterprise



crisis. While there have been no initiatives to privatize public services, several service areas, including home internet provision, fuel distribution and airports across the country, have been deregulated by decree.

## 10 | Welfare Regime

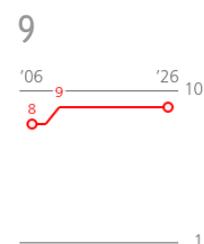
Uruguay has long maintained a traditional welfare state with social democratic features, but it has deteriorated somewhat due to neoliberal policies and recurring economic crises. Despite these challenges, social spending in Uruguay has remained the highest in Latin America for decades. The Ministry of Development reported that, in 2022, 50.9% of public social spending was allocated to security and social assistance, 24.5% to health, 18.4% to education, 5.4% to housing, and 0.8% to culture and sport.

Uruguay's pension system was established in the early 20th century. Before the civil-military dictatorship (1973 – 1985), it was fragmented and financially strained. In the following years, reforms focused on consolidating benefits and providing general financial support, improving its sustainability. In 1989, a retirees' organization led a successful plebiscite to enshrine pension indexation in the constitution. As pensions gradually increased, new taxes were introduced to meet financial obligations. In 1997, the parliament reformed the system, creating a mixed public-private model with a distribution pillar for low wages and an individual savings pillar for higher wages. According to the government, pension coverage for individuals aged 65 and older exceeds 96%. However, rising real wages over the past decade have driven pension increases, putting renewed pressure on the system's finances.

In 2023, Lacalle Pou's government introduced a reform bill that raised the retirement age from 60 to 65 and changed how benefits are calculated. The law passed with votes from the coalition parties but was rejected by the Frente Amplio, which regarded the system's redesign as "detrimental only to active workers." In turn, the Trade Union Federation promoted a constitutional plebiscite to reverse the law and introduce major changes to the retirement system (eliminating individual savings fund administrators and equating the minimum retirement pension with the national minimum wage). The plebiscite, held alongside the national election, failed, but it demonstrated that a significant share of the population was not satisfied with the amendment approved by the outgoing government.

Uruguay's traditional health system had limited coverage, restricted to formal employees of private companies and delivered through private providers. Public employees had specific health protections negotiated by unions at each government institution. This arrangement produced large inequalities in coverage, and people with informal jobs or no regular income could access only low-budget public services. In 2008, the Integrated National Health System (SNIS) was created and expanded coverage to public servants and to the spouses and children of low-income

Social safety nets



workers and pensioners (2012). The SNIS is financed by contributions from workers, employers and the state to a general fund (FONASA). The system places public and private providers on equal footing to compete in providing medical care, as they receive payment for each individual they cover. According to the Ministry of Public Health, the SNIS covered 73% of the population in 2022. The SNIS and social transfer policies, together with improved wages and pensions, contributed to a significant reduction in poverty. Public spending on health accounted for 6.4% of GDP in 2022, the highest percentage in Latin America. Despite this progress, many specialists argue that the SNIS should be redesigned to improve its operation and the types of services provided.

Additionally, in 2005, the Ministry of Social Development was created to implement policies aimed at extremely vulnerable sectors. Its main cash transfer programs are the Equity Plan, which provides financial allowances to about 118,000 families with children (family allowances), and the Uruguay Social Card (TUS), which serves about 87,000 vulnerable households. These institutions proved very useful to the Uruguayan government in responding effectively to the COVID-19 pandemic in 2020. The outgoing government did not introduce any major changes to the ministry's programs, which had been designed by previous left-wing governments, and invested almost 2% of GDP to address the emergency situation in informal social sectors.

Uruguay has no significant ethnic or religious minorities. In 2004, the country adopted a law aimed at combating racism, xenophobia and discrimination. In 2013, a law was enacted to enhance labor market access for people of African descent and offer them access to higher education scholarships.

Differences in opportunity mainly stem from income and gender. In a country with near-universal literacy (99%), gender disparities remain a primary source of inequality. The Gender Parity Index (GPI) for the gross enrollment ratio shows parity at the primary and secondary levels but a significant female advantage at the tertiary level (1.4). Despite this, unemployment rates for women (52% of the population) and Afro-descendant citizens (8% of the population) exceed the average. Although women's participation in the labor force has risen in recent decades, their activity rate remains lower than men's (54% versus 68%). As of July 2024, the female unemployment rate was 9.3%, while the male rate was 5.9%. This gap is most pronounced in the poorest sectors of society.

Gender inequality remains a persistent challenge, despite some progress over the past decade. In the 2024 legislative elections, the gender quota was applied with moderate success, resulting in women holding 29% of seats in the Senate and 28% in the lower house. In the 2022 Human Development Report's Gender Inequality Index, Uruguay ranks 58th globally and third in Latin America behind Chile and Argentina. Women's representation in public office remains low, despite the one-third gender quota that has applied to legislative and subnational elections since 2009.

Equal opportunity

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The recent influx of immigrants from across the region poses a significant challenge to social integration in Uruguay. Between 2005 and 2022, nearly 100,000 people from Venezuela, Argentina, Brazil, Cuba, Colombia, the Dominican Republic and the United States have established residence in Uruguay. Although most are highly educated, they have struggled to secure jobs that match their qualifications. About 30% of these immigrants live in poverty and rely on social benefits for their survival. In primary education, efforts to enhance the social integration of immigrant children include solidarity initiatives that draw on Uruguay's rich history as a nation of immigrants.

## 11 | Economic Performance

After a 7.4% decline in GDP during the COVID-19 pandemic, Uruguay's economy recorded two years of spectacular growth, with GDP growing by 5.6% in 2021 and 4.8% in 2022, driven by increased international trade and higher export prices. GDP per capita reached \$34,062 (PPP) in 2023, up from \$32,746 in 2022.

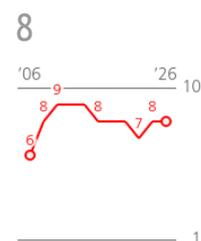
However, in 2023, the economy slowed sharply because of a drop in production caused by drought and other unusual phenomena, such as an exchange rate disparity with Argentina. It is estimated that in 2023 Uruguayans spent just over 1% of GDP in Argentina. Although the figures for 2024 have not been published, growth in the Uruguayan economy is estimated to exceed 3% of GDP. Exports and private consumption, supported by improvements in the labor market and inflation within the BCU's target range, help explain last year's good performance.

The unemployment rate improved during the period under review, aligning with the level of economic activity. In 2020, the first year of the COVID-19 pandemic, unemployment stood at 10.3% of the economically active population. The subsequent economic recovery helped it decline to 9.3% and 7.9% in the following years. The slowdown in 2023 was accompanied by a half-point increase in unemployment (8.4%), while the recovery in 2024 marked a one-point decrease (7.4%).

On the other hand, in 2023, the inflation rate finally aligned with levels expected by the economic authority, falling from 9.1% in 2022 to 5.9% in 2023 and 5.5% in 2024 – the lowest level since 2003. Although the inflation rate has been within the target range (between 3% and 6%) for 16 months, economists cannot agree on the reasons for its decline. The development of the exchange rate amid a falling U.S. dollar, the decline in the international price of tradable products and the import of deflation from the Argentine economy are among the most frequently mentioned factors.

Gross capital formation reached 17.3% of GDP in 2023 after two consecutive years above 18%. FDI improved significantly after the COVID-19 pandemic, at 5.7% of GDP in 2021 and 12.2% in 2022, but came to an abrupt halt the following year, falling to its lowest level so far this century at -0.6%. This trend, observed throughout the continent that year, continued into the first half of 2024.

Output strength



## 12 | Sustainability

Uruguay's policies take environmental concerns into account. In 2000, the country enacted an environmental protection law. Recent administrations have developed alternative energy sources, including biofuel production and wind energy, as substitutes for oil. These initiatives, supported by public and private investment, have been among the most successful policies of the past 15 years.

According to a report by the Ministry of Industry, Energy and Mining, almost 60% of the electricity consumed in Uruguay in 2023 came from renewable energy sources such as wind, hydro, biomass and solar. In the World Energy Council Report 2023, Uruguay ranks 21st in the global energy transition ranking. The report's Trilemma Index shows the country performs best in the energy equity dimension. However, it ranks lower in the energy security dimension due to dependence on oil imports and in the environmental sustainability dimension because of per capita carbon emissions. Although absolute mitigation targets had been introduced for the three main greenhouse gases by 2030, the country still has a long way to go on this issue.

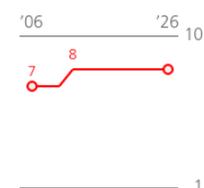
Another significant improvement in this field was the implementation of the National System of Protected Areas (SNAP), which has added 12 areas since 2008. Environmental awareness has grown among the population, and the issue is increasingly present in public debate.

The industrial pulp mill program developed over the past two decades has drawn strong criticism from environmental groups. Pulp production has become one of the country's two main exports, but environmental risks have increased given the characteristics of this type of production. Since then, the government has established precise controls and has imposed fines on companies that do not comply with environmental standards.

The creation of the Ministry of Environment in 2020 has been an important step in the country's commitment to these policies. The outgoing administration developed a sanitation plan for several interior cities and a water management program involving private companies, which drew criticism from environmental groups. By the end of the Lacalle Pou administration in 2024, the government authorized a controversial project to provide drinking water to the metropolitan area of Montevideo. The project was resisted by the political opposition, and several academic and social movements on environmental grounds.

Environmental  
policy

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Uruguay maintains a robust national education system, with enrollment rates near 100% in both primary and secondary schools. Left-wing governments substantially increased public education spending to nearly 5% of GDP and maintained investment in R&D at about 0.5% of GDP. The 2020 change in government did not lead to substantial changes. According to official sources, public education spending rose from 4.7% of GDP in 2019 to 4.9% in 2023, and spending on R&D rose from 0.58% in 2019 to 0.68% in 2022.

Moreover, Uruguay developed an educational plan known as Plan Ceibal for all public schools in 2009, focused on providing one laptop per child. The plan was later expanded to include secondary and technical schools. In 2005, Uruguay created the National Agency for Research and Innovation, an independent government agency, along with the National System of Researchers, which consists of 1,200 researchers who receive monthly payments for their work.

Despite reasonable budgetary investment and adequate institutions, the Uruguayan education system has faced public scrutiny over the last 15 years. The Program for International Student Assessment (PISA) indicates that education in Uruguay has stagnated, especially in secondary school performance. Secondary school graduation rates and the share of students entering tertiary education indicate problems with inclusion and efficiency. Lacalle Pou's coalition government promoted an education reform aimed at redesigning education management bodies, modifying the curriculum and restructuring secondary education cycles, including nominal changes and the merging of subjects. Known as the Educational Transformation, the reform gained momentum in 2022, but quickly met opposition from the unions, which viewed it as a pro-market reform. The Frente Amplio was also critical in the parliament. However, during the 2024 election campaign, the Frente Amplio did not propose a complete reversal of the changes, as it shares the diagnosis that Uruguay's education system faces urgent problems.

Finally, the tertiary education system has made progress, creating a public technological university that operates in major interior cities and establishing postgraduate programs across nearly all scientific fields. At the same time, private universities have expanded enrollment, and developed cooperative and complementary relationships with the public system.

Education policy /  
R&D

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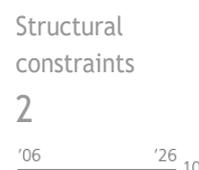


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# Governance

## I. Level of Difficulty

Uruguay faces no major structural constraints such as natural disasters, pandemics or extreme poverty. Although it benefits from a favorable geographic location, its economy remains highly dependent on its larger neighbors in the Mercosur trading bloc. The population is well integrated, with low levels of extreme poverty and a relatively high level of education by regional standards.



Uruguayan civil society has a long tradition of civic engagement and a rich participatory culture. Numerous civic associations exist, and institutional trust remains significant and relatively high.



Regarding political engagement, voter turnout in the June 2024 primaries, in which voting is voluntary, fell to a record low of 36% – the lowest since 1999. By contrast, several direct democracy initiatives showed high levels of social mobilization.

The Mapping Civil Society project, developed by the Inter-American Development Bank (IDB), and the Institute of Communication and Development (ICD), records 2,599 social associations as of the end of 2024. Traditional organizations (e.g., trade unions, business chambers, professional associations and student unions) represent 22%. Meanwhile, organizations oriented toward social inclusion and community work represent 40%; cultural, training and education associations represent 16%; organizations promoting rights represent 7%; religious organizations represent 4%; cooperatives represent 2%; and research centers represent 2%.



Uruguay has no significant ethnic or religious conflicts. The primary social conflict revolves around income distribution, which labor unions address through legal and peaceful means, such as demonstrations or strikes. Social integration has slightly deteriorated since the COVID-19 pandemic, as income inequality and child poverty have risen. There are also increasing signs of territorial segregation in urban areas such as Montevideo and its metropolitan area. This conflict manifests in politics as an ideological divide between the left and the right and is typically resolved through democratic processes, usually by reaching agreements and consensus rather than confrontation.



Although the world seems to be sliding toward ideological polarization, these impulses in Uruguay have until now been largely isolated and eclipsed by the political system’s prevailing moderation.



## 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, indicating broad consensus among political elites. Beyond that, since the 1990s, governments have increasingly set strategic priorities to develop democracy and a market economy with social safeguards. In terms of the latter, governments initially focused on controlling inflation, then on establishing conditions to promote FDI. The left-wing 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 the country needed to address, such as educational reform, public administration reform and improved regulation of public companies.

Since at least 1995, Uruguayan governments have maintained stable legislative majorities (except the 2002–05 period), creating favorable conditions for innovation policy. President Lacalle Pou formed a majority coalition comprising several parties with cabinet posts. This multiparty agreement, known as the “Compromiso por el País,” guaranteed the government control of 56% of the seats in both chambers. Although the coalition is made up of five parties, only three were essential to pass legislative initiatives: Partido Nacional (PN), led by President Lacalle Pou; Colorado Party (PC), led by former President Sanguinetti; and Cabildo Abierto (CA), led by former army commander Manini Ríos. While the PN and PC share a strong liberal ideological orientation, the CA holds divergent views, particularly on economic issues.

President Lacalle Pou prioritized adjustment policies to reduce the fiscal deficit and contain inflation. After the difficulties caused by the COVID-19 pandemic, his administration succeeded in reducing inflation, but it failed to cut public spending or reduce the fiscal deficit. In 2024, an election year in Uruguay, the government prioritized short-term electoral considerations and exceeded planned public spending.

The parliament also passed an omnibus law that altered public security policies, educational governance and the regulation of public companies, and introduced a fiscal rule. After the COVID-19 pandemic, the government focused on two main objectives: education reform and social security reform. The education authorities promoted the first through administrative resolutions, but the education unions rejected several of its measures. The second objective involved the approval of a law that raised the retirement age to 65 and modified the calculation of pensions. During

Question  
Score

Prioritization

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the parliamentary process, the coalition parties introduced several changes that the president had to accept to ensure the reform's approval. The opposition rejected the initiative because the redesign of the system was detrimental to working people. After the reform was enacted, the Trade Union Federation promoted a constitutional plebiscite that had the support of the more left-wing factions within the Frente Amplio. However, it failed at the ballot box.

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

Lacalle Pou's government implemented its strategic decisions effectively. For example, the government aimed to reduce the fiscal deficit, and a few days before the outbreak of the COVID-19 pandemic, the president issued a decree cutting public spending by 15% across all government agencies. Another example was the parliament's approval of reforms in 2020. These public policy changes stemmed from an omnibus law, which was put to a referendum after the opposition gathered enough signatures. Once ratified by citizens, the government implemented the reforms quickly and without major obstacles. In education, one change replaced the old councils, composed of representatives of political parties and unions, with a single-person management structure. Other examples include the fuel pricing policy and the mobile phone number portability policy. Similar processes occurred with social security and education reforms.

The social security reform approved in 2023 was the most important policy reform of the Lacalle Pou administration. Given the coalition's legislative majority, the reform was implemented with few obstacles. By the end of the administration, the government passed some additional minor but important laws, including the reform of the media law that had been passed during the Frente Amplio administration.

The Uruguayan political system has a remarkable capacity for learning and adaptation. Under the left-wing governments of 2005 – 2020, innovative reforms were implemented, such as the integrated national health system, tax reform, the Ceibal (one laptop per child) plan and the renewable energy program. Similarly, the current Lacalle Pou government has also prioritized a series of reforms, including education, social security and the regulation of public enterprises.

The education reform began with an institutional redesign of governance and continued with changes to subject content and greater decentralization of educational centers. Technical experts from the public education agency participated in formulating these changes. The social security reform began with an all-party committee of experts who formulated the project and, later, with a parliamentary vote

#### Implementation

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#### Policy learning

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supported by all parties in the government coalition. To this end, the president softened his positions and accepted amendments proposed by his partners that enabled the law to be passed. Although the opposition raised objections, 31 of the 330 articles were voted on by all parties. The regulatory reforms for public companies focused on strengthening the capacity and autonomy of regulatory units in markets where the state competes with the private sector (e.g., water, energy and communications). The modifications were based on evaluations carried out by the parliament and on party programs presented in the 2019 elections. All parties voted to approve it.

Therefore, the Uruguayan political system's learning capacity is evident in its ability to forge political consensus grounded in experience and technical input, an essential condition for reforms to be sustainable over time.

## 15 | Resource Efficiency

Public administration reform has been on the agenda since the beginning of the 1990s. Governments led by the traditional parties sought to reduce the number of civil servants, and to privatize and close some public companies and agencies. Subsequent left-wing governments introduced more competitive hiring procedures, such as open calls and lotteries, but failed to comprehensively reform the state due to resistance from civil servants' unions. The Lacalle Pou government focused on resolving specific problems and improving the performance of certain bodies, such as the market regulatory agencies.

Despite this, Uruguayan governments use available human, financial and organizational resources with reasonable efficiency. Although there are no independent audits, the budget execution process is closely overseen by oversight bodies such as the Court of Auditors and the Internal Audit of the Nation to avoid irresponsible spending. In 2020, Lacalle Pou's government ordered a 15% cut in budget spending and conducted audits of various organizations. Since then, ministries and government agencies have adapted to the budget cuts by maximizing available resources.

However, during the Lacalle Pou administration, several instances of politically motivated public service appointments have been documented. For example, several members of the National and Colorado parties were appointed as officials of the Comisión Técnico Mixta de Salto Grande, a binational commission charged with managing the Uruguay River basin.

Efficient use of assets

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Left-wing governments (2005 – 2020) addressed contradictory objectives by developing forms of horizontal coordination, such as the social cabinet or the innovation cabinet. Both were composed of multiple ministries, and their central objectives were to avoid policy overlap and improve efficiency.

The same approach has been used to handle climate disasters such as droughts and floods, with the National Emergency System (SINAE) coordinating the activities of ministries and local governments. The outgoing Lacalle Pou government did not create ad hoc cabinets but developed permanent coordination among ministries to address issues such as the demolition of settlements for public safety. Nevertheless, some friction persists, especially between the Ministry of Economy and public agencies that seek larger budgets, and trade-offs are not always well resolved by public authorities.

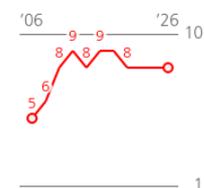
Uruguay stands out as the least corrupt country in the region, due in part to its solid legal framework against corruption. Since 1998, Uruguay has had an anti-corruption law that penalizes acts of corruption and has created a specialized, independent body to fight it, the Board of Transparency and Public Ethics (JUTEP). Under current regulations, senior public officials, including the president, ministers and legislators, as well as their spouses, are required to file sworn statements about their finances. In 2008, a law was passed guaranteeing access to public information and establishing a special unit, the Public Information Access Unit, to oversee and promote compliance with the law. In addition, the parliament created special courts and prosecutors for organized crime that same year.

In 2009, the government created the National Anti-Money Laundering Secretariat (SENACLAFT). In 2015, SENACLAFT was transformed by law into a decentralized body with technical autonomy, and investigative and supervisory powers over the nonfinancial sector. That same year, a law on political party financing was enacted, establishing transparency and accountability standards for campaign spending, limiting private donations and guaranteeing public funding for election campaigns. In 2024, the law was amended to strengthen enforcement. The ceilings for private donations were lowered, the supervisory mechanism was improved (including the Court of Auditors), and progressive sanctions were created for candidates and parties that failed to comply with the regulations. The parliament approved a bill in 2024 to regulate party financing. However, according to experts, it was incomplete and did not provide the necessary resources to ensure effective control.

Uruguay has also implemented a comprehensive public procurement system that covers the entire procurement process, from placing orders to receiving invoices for goods and services. In addition, the State Suppliers' Register provides general information about suppliers and records all communications from them. These systems are publicly accessible.

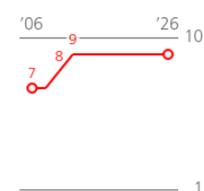
#### Policy coordination

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#### Anti-corruption policy

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During the Lacalle Pou administration, however, there was clear backsliding in this area. JUTEP's activity and effectiveness declined, as it failed to secure the sworn financial declarations of the spouses of a senator and a vice minister. SENACLAFT detected virtually no suspicious financial transactions for five years. Meanwhile, the head of presidential security was arrested over links to a criminal network that forged Uruguayan passports for Russian citizens. In addition, a former minister of tourism was investigated for embezzlement and several police chiefs resigned over acts of corruption. Although these events are highly unfavorable for the political system, it is important to emphasize that in all cases the judiciary, the Prosecutor's Office and the media have acted with complete independence, despite recent controversies involving the Prosecutor's Office.

## 16 | Consensus-Building

In Uruguay, consensus on democracy is unanimous, and the system operates in a highly consensual way, with broad agreement on important issues. This consensus is evident in how the political system approaches various policy issues. President Lacalle Pou expressed his willingness to work with the opposition party in his inauguration speech, and during the first year of the COVID-19 pandemic, he held personal meetings with leaders of the Frente Amplio. In 2022, Lacalle Pou called on leaders of the other parties and announced that the government would negotiate a free trade agreement with China. Later, the government convened experts from all parties to analyze the country's grave security challenges. Although political debate shows some polarization, especially on social networks, the parties' programs and legislative initiatives continue to demonstrate a high degree of convergence.

No relevant Uruguayan political party proposes abolishing the market economy. The 2024 elections revealed broad programmatic agreement among the main parties on various economic policies. However, a public debate persists – rooted in diverse ideological perspectives – over the extent of state intervention in the economy and the nature of fiscal and monetary policies. Although factions within the Frente Amplio may criticize capitalism, their limited political support prevents any substantial impact. Within the governing coalition, no party challenges the capitalist framework of society.

Consensus on goals



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There are no significant anti-democratic actors in Uruguay, whether on the far left or right. When such actors appear publicly, they are immediately condemned and isolated. In the 2019 elections, the *Cabildo Abierto* party, led by former army commander Guido Manini Ríos, emerged with right-wing, nationalist rhetoric. Some analysts feared the party would adopt extremist positions. However, five years later, its members have shown moderate political behavior.

In the 2024 election, the anti-establishment party *Identidad Soberana* (Sovereign Identity) won two seats in the lower house. Its leader is Gustavo Salle, a lawyer who became known in the media for his constant criticism of successive governments for favoring foreign investment, gender equality policies and the U.N. 2030 agenda. Regarding *Cabildo Abierto*, it is very likely this party will moderate over time.

Uruguay has no relevant regional, ethnic or religious conflicts. Class conflict, or distributive conflict, is the only active cleavage reflected in the political system. Political leaders maintain the conflict within the rule of law, avoiding excessive or violent demonstrations and expanding consensus across dividing lines. During the 2019 election campaign, immigration controversies emerged, and the *Cabildo Abierto* party promised to implement measures to tackle illegal immigration and restore public order. However, after the election, this rhetoric has largely subsided, giving way to a proactive, integrative immigration strategy.

Uruguay has a long tradition of social participation in debates on social policy. For example, the 1966 constitution established that the Social Welfare Bank (BPS), the body in charge of social benefits (pensions, unemployment insurance and 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 been conducted at the national level under the regulations of the Electoral Court. This model has been applied in other areas of public policy.

Uruguay's environmental policy includes an institutional framework that requires investors to assess the ecological impact of their activities and establish two public forums to consult affected groups. These forums are usually attended by well-organized groups concerned about companies' environmental impact. During the Lacalle Pou administration, environmental organizations mobilized to block the Arazatí project – an initiative promoted by the state water company in association with private companies – to supply the capital's metropolitan area. They also stopped a construction project in the tourist area of Punta Ballena. The initiative had been backed by the departmental government, but mechanisms for participation guaranteed by law combined with public pressure from associations led the courts to annul the permits.

Anti-democratic actors

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Cleavage / conflict management

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Public consultation

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Furthermore, in 2009, the parliament passed a law creating a third level of government: municipal councils and mayors in cities with more than 2,000 inhabitants. A total of 89 municipalities were initially created, but within 10 years the number had risen to 125, as the law provides mechanisms for creating new territorial units in each department.

The left-wing governments (2005 – 2020) prioritized social participation in policy formulation and implementation, creating forums for debate on public policy reforms, such as the National Dialogue for Social Security, the National Congress of Education and the Dialogue for National Defense. By contrast, the outgoing Lacalle Pou government has shown no particular commitment in this regard. During its first months in office, it even passed a reform that eliminated the participation of teachers' representatives in primary, secondary and technical education councils. However, the government maintained the involvement of teachers' representatives on the Central Board of Education.

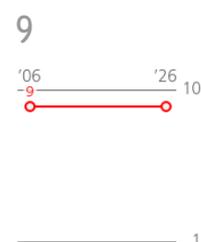
At the same time, certain major policy decisions, such as extending the port concession with Katoen Natie, the multinational that controls the port of Montevideo, have been made with minimal public or parliamentary input, raising concerns about transparency and democratic oversight. A similar pattern occurred under the Lacalle Pou administration with the decision to build a water intake system to purify water (the so-called Proyecto Neptuno, also known as the Arazatí project).

In 2000, President Batlle established the Commission for Peace to investigate the whereabouts of kidnapped children and locate the remains of those who disappeared during the military dictatorship. Subsequent left-wing governments made progress in prosecuting civilians and military personnel responsible for human rights violations during that period. After the Supreme Court declared the 1986 amnesty law unconstitutional in 2011, the legislature passed a new law defining these offenses as inalienable crimes against humanity. However, the Supreme Court later struck down this law as well, ruling that parliament cannot retroactively nullify a law or its legal consequences – it may only repeal it.

Today, victims of the dictatorship present their claims in court, and the outcome depends on judges' assessment of the facts, including whether they are considered crimes against humanity. Some claims move forward, while others remain stalled.

The government of Lacalle Pou has not interfered with judges' work and continues to support the search for the remains of disappeared detainees. The right-wing Cabildo Abierto party, a member of the governing coalition, introduced a bill to provide financial compensation to relatives of victims of the 1960s guerrillas. This initiative sparked significant debate over the measure's relevance. However, in 2023, the parliament ultimately approved a very similar law proposed by the executive branch, with the support of all parties in the governing coalition.

Reconciliation



The families of victims of the dictatorship continue to call for a more proactive role from the executive, particularly the Ministry of Defense, to make progress in locating the remains of their relatives who were killed or went missing during the dictatorship.

## 17 | International Cooperation

Because of its small size, Uruguay is relatively dependent and prefers to cooperate, although international cooperation is not a sine qua non for its development. Since 2018, Uruguay has not been eligible for several sources of funding because it has been classified as a middle-income country. 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 established to coordinate the country's projects in this area.

The Uruguayan political leadership has made targeted use of international assistance consistent with its long-term development strategy and domestic policy agenda. It has focused aid on environmental issues, gender, cultural development, human rights and the promotion of R&D. Different governments have sought to improve program coordination across the various state levels and to use resources from international cooperation more efficiently.

During the COVID-19 pandemic, Uruguay requested financing from the Inter-American Development Bank (IDB) to create the Coronavirus Solidarity Fund. At present, the country has IDB financing lines for security, gender and climate change policies. In 2023, CAF approved financing for social protection programs aimed at vulnerable populations, and focused on issues such as education, early childhood care and health care.

The Uruguayan government has been considered a credible and reliable partner by the international community, regardless of which party is in power. The country has built a reputation for respecting commitments, contracts and the rule of law, as reflected in its handling of the 2002 financial crisis and the 2010 dispute with Argentina over pulp mills. As a result of being perceived as a reliable country, FDI grew between 2005 and 2015, and again after the COVID-19 pandemic.

International reliability and sound management of public accounts have helped the country secure many benefits, including preserving its investment-grade status. 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

Effective use of support



Credibility



(OEA) on the protection of life and human rights. On environmental issues, Uruguay has signed the Kyoto Protocol and ratified its subsequent amendments, in addition to approving the Montreal Protocol on the Ozone Layer in the parliament.

Another indication of Uruguay's reliability as an international partner has been the European Union's 2011 removal of Uruguay from its list of countries accused of being tax havens (gray list). This decision resulted from the Uruguayan government's proactive policy of modifying certain banking regulations and demonstrating a willingness to cooperate with various international actors.

Uruguay's political leadership has consistently shown a strong inclination to collaborate with neighboring nations, as evidenced by the country's involvement in numerous international and regional initiatives. Uruguay was a founding member of the United Nations, the Organization of American States (OAS) and Mercosur. Notably, the country actively advocates regional and international integration, supports Mercosur and pursues trade agreements beyond its borders.

During his term in office, President Lacalle Pou called for a more flexible approach toward Mercosur so Uruguay could sign free trade agreements with China and the European Union. This strategy provoked resistance from other members of the bloc, but President Lula and later President Milei recognized the legitimacy of Uruguay's position.

Uruguay seeks to foster strong bilateral cooperation with neighboring countries, regardless of the ideological orientation of their governments.

The outgoing government adopted a position more aligned with the United States by condemning the authoritarian governments of Cuba, Venezuela and Nicaragua in many international forums. It also requested Uruguay's entry into the Pacific Alliance, a move that would, in practice, make Mercosur more flexible. However, despite the Uruguayan government's efforts, Mercosur still blocks progress on bilateral agreements with third countries.

Regional  
cooperation

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## Strategic Outlook

Over the past two decades, Uruguay has made progress in its economic and political transformation. Given its current stage of development, Uruguay should continue to prioritize education, infrastructure development and access to export markets. The political landscape is characterized by competition for the center between two well-defined party blocs, with relatively small programmatic differences across most areas of public policy. In recent years, public debate has deteriorated as some actors have engaged in aggressive political discourse and manipulated information to gain political support. The intertemporal consensus on public policy tends to follow a specific pattern: the government introduces reforms and the opposition criticizes them (and even votes against them). However, when there is a change in the governing party, the new administration does not reverse all the reforms enacted by the previous government, though it tends to introduce small changes. This model of positive accumulation has enabled long-term policy stability in areas such as the macroeconomy, energy, agro-export production and foreign investment.

However, the country's main challenge remains the sustainability of its economic development model, which is highly dependent on external factors such as export prices and FDI. Lacalle Pou's coalition government addressed urgent macroeconomic issues, such as the fiscal deficit, but – toward the end of its term – public accounts were similar to those of the previous government. Moreover, it did not substantially improve the conditions for accessing international markets because of the limitations imposed by Mercosur on bilateral free trade agreements with third countries. Nevertheless, the country has experienced stable growth over time thanks to the quality of its products, its reputation as a reliable partner and its solid democratic institutions.

The victory of the Frente Amplio in the 2024 election shows that the public was not satisfied with Lacalle Pou's coalition government. Remarkable achievements such as combating the COVID-19 pandemic, stimulating economic growth, lowering inflation and increasing real wages were not enough to secure the re-election of the coalition of parties that had promised a second stage of transformation. It seems clear that corruption and political patronage scandals in the second half of its term damaged confidence in the government. In addition, problems that a majority of the population perceive as important worsened notably. For example, the government was unable to resolve or simply ignored child poverty, rising homicides linked to drug-trafficking, prison overcrowding and the growing number of people with addictions living on the streets.

Therefore, the government of President-elect Yamandú Orsi will face a similar challenge to its predecessor, namely increasing the rate of economic growth. However, it will also confront other challenges related to child poverty, public safety, drug-trafficking and prison overcrowding. In turn, because the government's reform program will need to gain parliamentary approval, the Frente Amplio will have to address an additional challenge: despite controlling the Senate, the Frente Amplio is two votes short of a majority in the House of Representatives. This quasi-parliamentary majority is unusual in Uruguayan politics and requires the government to negotiate

“law by law” in the lower house. Even if successful, such negotiations and their accompanying concessions will entail additional costs, as well as inevitably delay the legislative process.

The new government will also have to navigate the particular interests of its unionized electoral base. Managing these demands will be challenging for a left-leaning governing party and particularly for the Ministry of Economy. This difficulty constrains what reforms the government can pursue to promote economic growth and address its main strategic challenges. For example, during the 15 years of left-wing governments between 2005 and 2020, trade unions at times obstructed education reforms and efforts to modernize public administration.

Thus, Uruguay’s government faces the challenge of balancing fiscal discipline with social demands, addressing rising crime and drug-trafficking, and implementing education and labor reforms to enhance productivity and reduce inequality.