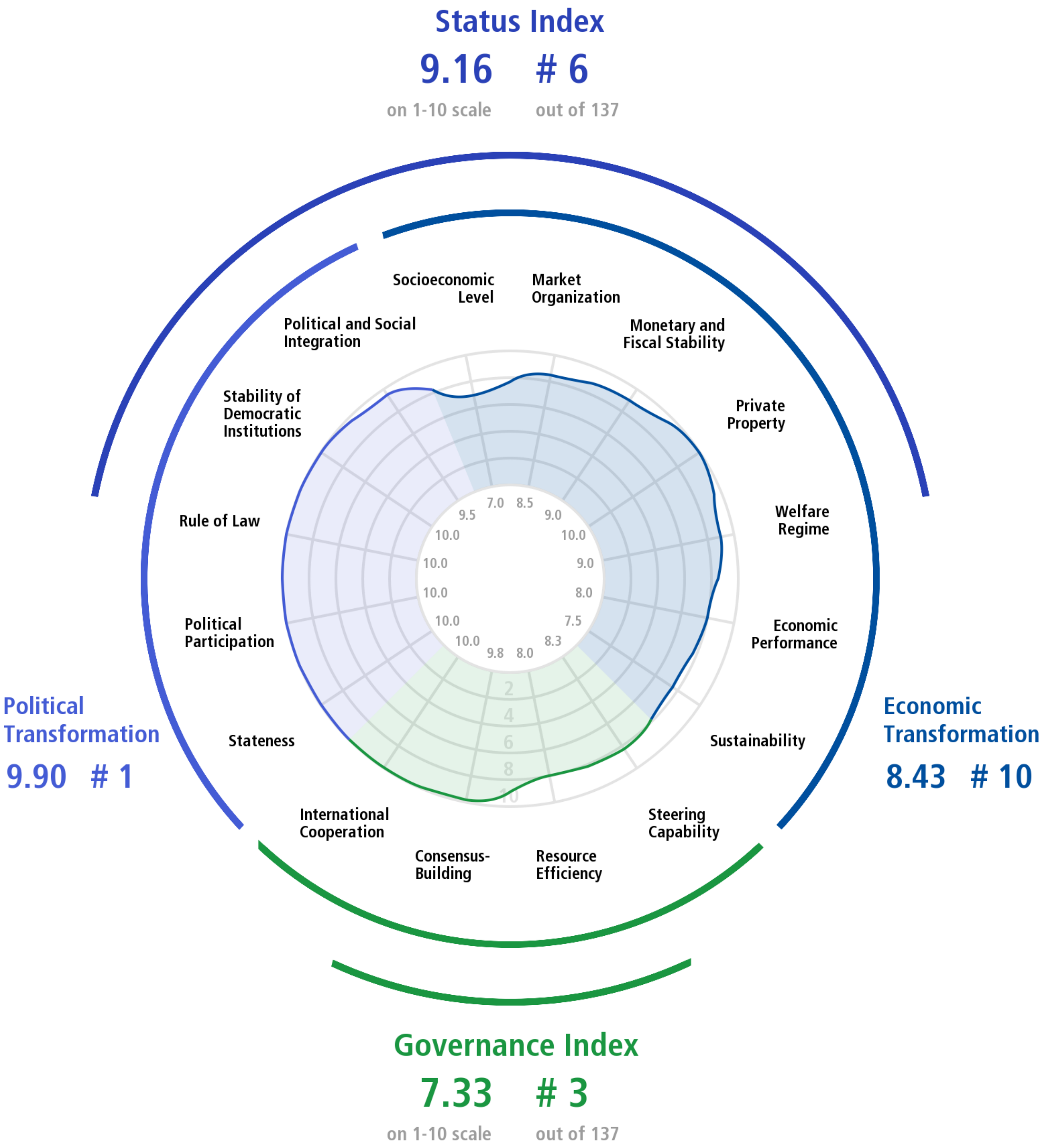
BTI 2020 Country Report

Uruguay



This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. 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.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report — Uruguay. Gütersloh: Bertelsmann Stiftung, 2020.

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Key Indicators

Population	M	3.4	HDI	0.808	GDP p.c., PPP	$	23531
Pop. growth[1]	% p.a.	0.4	HDI rank of 189	57	Gini Index		39.5
Life expectancy	years	77.6	UN Education Index	0.745	Poverty[3]	%	0.4
Urban population	%	95.3	Gender inequality[2]	0.275	Aid per capita	$	11.9

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.20 a day at 2011 international prices.

Executive Summary

The period under review covers the third and fourth years of the second government of President Tabaré Vázquez. The ruling party remains the Frente Amplio (FA), an alliance of relatively autonomous party factions, which nevertheless act with discipline in parliament. At the beginning of the legislature, the FA controlled a majority in both chambers of parliament. The opposition is composed of two traditional, center-right parties: the National Party (PN) and the Colorado Party (PC) and two smaller parties (the centrist Independent Party and the far-left People’s Assembly).

Although the Uruguayan party system is one of the most stable and institutionalized in the world, two important events have developed during the review period that could affect the political future. First, the ruling party lost control of the lower house after one deputy quit the party. Secondly, three legislators of the traditional parties (two deputies and one senator) resigned from their respective parties to form the People’s Party under the leadership of Edgardo Novick, who had competed (without success) for the Montevideo Intendance in 2015 with the support of both traditional parties.

These two events increased uncertainty in the legislative process, because for the first time in 14 years, the lower house was not controlled by a pro-government majority for at least eleven months. Although the dissident deputy resigned the following year and the ruling party returned to control the House, problems of internal discipline prevented the approval of a number of important laws, such as the reform of military pensions or amendments to the law to regulate campaign financing.

From an economic point of view, the second administration of President Vázquez began to implement decisions to cope with the slowdown in the economy caused by an unfavorable external context. In mid-2016, parliament passed a fiscal adjustment program to reduce the fiscal deficit (4% of GDP) without altering the level of public spending. This initiative was well received by independent analysts and international credit rating agencies but was strongly criticized by the opposition. After two years, official reports show that the fiscal austerity measures did not produce encouraging results. While the tax collection increased, budget items for education, security and infrastructure also increased. The Minister of Economy Danilo Astori has acknowledged the shortcomings but added that the country can handle a fiscal deficit of that nature provided that the economy grows.

The government's biggest problem has been its inability to adapt to a constantly changing world scenario. Although President Vázquez tried to stimulate investments and exports from countries such as China, Russia or the European Union, the lack of success has complicated its management. Within its own party, there have been veto points to the commercial opening policy. The Free Trade Agreement with Chile is perhaps the greatest example of these difficulties, since the pro-government legislators delayed the bill for over one year until the National Assembly of the FA took the decision and ordered its legislative approval.

But the government's problems not only derive from internal divisions of the FA. President Vázquez had to face serious problems related to public security. It is true that Uruguay still maintains comparatively healthy security indicators; however, some have increased steadily in recent years. There are more robberies with violence and homicides due to the strengthening of drug-trafficking networks and the emergence of new forms of crime (assassins, account adjustments, etc.). Public opinion polls show that citizens feel insecure and this has influenced the decline in the popularity of the government. The opposition has repeatedly requested the resignation of the minister of the interior, but the president and his legislative majority have kept him in office.

National elections will be held in October-November 2019. The polls show uncertainty regarding the result, since the FA and the PN appear as favorites with very similar percentages of voting intention. The presidential candidates of each party will be selected in the primary elections to be held in June. Regardless of the winner, the future government must undertake important reforms in the areas of education, social security, taxes and, above all, public administration, at the same time as it must introduce changes in international trade and security policies.

History and Characteristics of Transformation

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

Along with early democratization, Uruguay developed a welfare state that implied a joint process of building political and social citizenry. During the first decades of the 20th century, under the leadership of José Batlle y Ordóñez and with the consensus of both traditional parties, a set of political, social and economic reforms was implemented. These included universal and secret suffrage, free and fair elections, separation of church and state, and an eight-hour working day. Under Batlle's ideas of nationalization of the economy and given the weakness of private economic actors, the state acquired a central role in the economy and in the provision of all kinds of public services. By these means, the country forged a rich, integrated and modern society during the first half of the 20th century. Prosperity based on the strong performance of agricultural and cattle exports were associated with an "import substitution development model." This was intended to promote industrial development but fell into crisis at the beginning of the 1950s, as a consequence both of structural weaknesses (small size of the internal market, lack of updated technology) and the decline in prices for traditional exports. A long period of economic stagnation and social turmoil followed.

The solid bipartisan political system began to undergo changes during the 1960s. In a context of strong social and political conflict (e.g., the emergence of a guerrilla movement, the Tupamaros), minor leftist parties joined with other groups and dissident leaders from traditional parties to form the so-called Frente Amplio (FA, Broad Front). Although the traditional parties developed different responses to the structural crisis (they reformed the constitution in 1967 and the PN renewed its electoral offer), democracy ended up falling in June 1973. The coup enabled the establishment of a civil-military government, which lasted more than a decade. The authoritarian regime attempted unsuccessfully to solve the structural problems of the economy (e.g., by promoting foreign trade liberalization) and tried to eliminate its left-wing opponents. The military adventure culminated in 1985 with the restoration of democratic institutions. When the constitution was restored, a double transition process took off.

The country's re-democratization was rapid and the rule of law was restored – with the exception of the prosecution of human rights violations during the dictatorship – along with the previous political and party system and all its complexities. In addition, a process of economic and state reform was gradually implemented by successive governments of the traditional parties. However, while the democratic transition was rapidly concluded, various privatization and state reform attempts were blocked by a coalition between the leftist opposition and social organizations – mainly labor unions, frequently resorting to mechanisms of direct democracy. In that context, the traditional parties were increasingly grouped together at the center-right of the ideological spectrum, since they jointly advocated and conducted pro-market reforms (such as de-monopolizing the assurance market, privatizing the state-owned airline, contracting private companies for port services and creating a mixed, public-private, social security system), and the FA increasingly assumed the role of defender of state-owned enterprises, along with the rights of the workers and the poor. Even though during most of the 1990s economic growth rates were important, and inflation and unemployment rates were kept under control, the process ended in 2002 with a deep recession and a financial crisis.

The shifts in the party system that started in 1971 gained strength during the 1990s, as the FA moved toward more moderate ideological positions and adopted state-oriented proposals that were being abandoned by the traditional parties. The electoral reform of 1996, which adopted the majority runoff presidential election system, provided the country with the institutional framework to consolidate a system of political competition between two blocks that were ideologically opposed: the FA on the center-left and both traditional parties on the center-right. The process of change of the country's party system culminated in the formation of an FA-controlled national government in 2005.

The political and economic performance of Uruguay over the last fifteen years has been one of the most successful in the country's history. This period coincides with the arrival of an FA government, but also with a favorable export scenario for goods produced in Uruguay. The democratic institutions worked efficiently, and the country received international recognition. Most economic indicators show superlative improvements (e.g., economic growth, employment, real wages and poverty reduction), and the re-election of the ruling party in 2009 and 2014 is proof of this economic success. However, in recent years, economic conditions have changed. Economic growth has decreased, exports have been stalled and the possibility of increasing public spending has reached a limit. In the next election in 2019, the government party must be held accountable for the promises of the last campaign that could not be fulfilled. The opposition, led by the traditional parties, has an important chance to generate a democratic alternation, although the result is still uncertain.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question Score

Monopoly on the use of force

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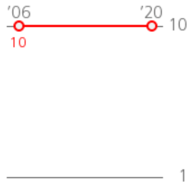

The Uruguayan state exerts the control and monopoly of the use of force across its entire territory. Until 2018, crime rates have increased due to the development of criminal networks linked to drug-trafficking (59% in homicides and 31% in violent robberies compared to 2013). In response, the government increased the number of police officers and improved their equipment. Even so, the problem of security remains the main problem for citizens in public opinion surveys.

State identity

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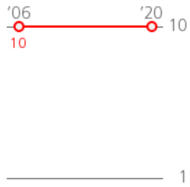

The population accepts the legitimacy of the nation-state. Access to citizenship includes all individuals born in the country, foreigners established in the country, and sons and daughters of Uruguayans born abroad. Nobody loses the citizenship by race, gender, language, religion, political or other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

No interference of religious dogmas

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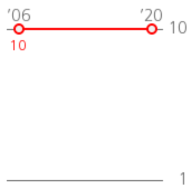

Religious dogmas do not have a relevant role in the functioning of Uruguayan institutions. The Catholic Church was separated from the state more than a century ago. The state is secular and religious dogmas have no influence on the legal order. The Catholic Church, like others religious communities,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

Basic administration

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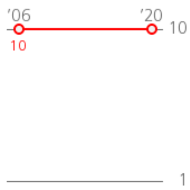

All basic functions of the state are performed by the different levels of government. Since 1830, Uruguay has been a republic with a classic division of powers. The country has 19 subnational (departmental) governments, 112 municipalities, and a variety of autonomous public institutions specialized in areas such as education, public services and regulatory agencies, whose directories are appointed by parliament.

2 | Political Participation

Free and fair elections

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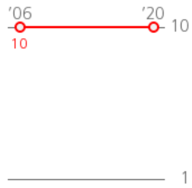

Elections in Uruguay are free and fair without restrictions, as was demonstrated in the 2014 presidential and parliamentary elections. The ruling party secured its third consecutive victory, maintaining an absolute majority in both legislative chambers. The opposition parties obtained almost the same number of seats as in the previous period. Former President Tabaré Vázquez was re-elected president following a second-round vote held in November 2014, by defeating the emergent leader of the Partido Nacional, Luis Lacalle Pou. The election of all government posts is performed by secret ballot and with universal suffrage. The Electoral Court, appointed by parliament with a two-thirds majority, has a long tradition of impartiality and effectiveness. Voting is mandatory for resident citizens and the turnout rates are usually high (over 90%; 90.5% in 2014). Political parties have relatively equal access to the media and the election outcome is accepted without complaints.

Effective power to govern

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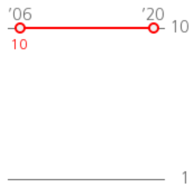

Elected representatives have effective power to govern. There are no nondemocratic actors with capacity to challenge government decisions. The military is under civilian control and the national defense budget has been systematically reduced since the restoration of democracy. Economic groups exert some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

Association / assembly rights

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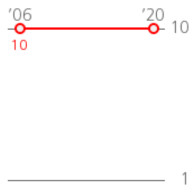

Association and assembly rights are guaranteed by the constitution. Governments fully respect these rights regardless of the interests of associated citizens or the type of social sectors involved.

Freedom of expression

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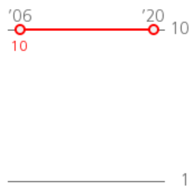

Freedom of expression is fully guaranteed for citizens, groups and the press, without any kind of censorship, including internet. The media are ideologically and politically diverse, so that all relevant opinions are present in the public agenda. In 2014, parliament approved a law that regulates the functioning of the media. Opposition parties criticized this decision because they believed it would affect freedom of expression. The government has been slow to regulate the most controversial aspects of this law. For now, it is too early to assess whether this law will have an impact on freedom of expression in Uruguay.

3 | Rule of Law

Separation of powers

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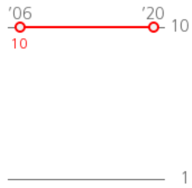

There is a clear division of functions among the judiciary, the executive and the legislative branches in Uruguay, with mutual checks and balances. Inter-branch conflict is unusual and resolved according to the constitution. There are no significant informal institutions that could undermine the separation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

Independent judiciary

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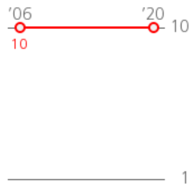

The judiciary is fully independent from the executive and capable of accomplishing its function. The justice system is professionalized and differentiated, although it operates quite slowly. The Supreme Court of Justice has five members whose terms last 10 years and who are elected by a two-thirds majority of the General Assembly (the joint assembly of both chambers). Where a two-thirds majority cannot be secured, the vacancy is automatically filled by the most senior member of the courts of appeal. The subordinate courts are the appeals courts, district courts (Juzgados Letrados), peace courts (Juzgados de Paz) and rural courts (Juzgados Rurales). The 2017 Latinobarómetro report shows that citizens' trust in the justice system fell from 51% to 41%. In order to improve its effectiveness, parliament approved an important reform of the Code of Criminal Procedure in 2017 that grants the General Prosecutor's Office the power of direct investigations and establishes an accusatory criminal procedure in public hearings in charge of the judge. The reform established changes in the organic laws of the courts, the police and the statute of the prosecutors.

Prosecution of office abuse

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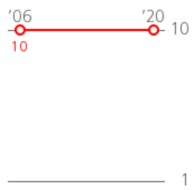

Officeholders who break the law and engage in corruption are prosecuted rigorously under established laws. In general terms, Uruguay has low levels of corruption, even though some scandals occur. Since 1999, Uruguay has had an anti-corruption agency (the Transparency and Public Ethics Board) that performs an important role in the fight against corruption. For example, in 2016, journalists discovered that Vice President Raúl Sendic, in his previous position as director of the state oil company, had used a corporate card for personal expenses. The anti-corruption agency analyzed the information and published a harsh report on the vice president's behavior, causing a crisis in the governing party leading to his resignation in 2017. Sendic also had to stand other trial for other offenses.

Civil rights are guaranteed by the constitution and generally respected by the state. Citizens have equal access to justice and due process. There is no significant discrimination based on gender, sexual orientation, religion, ethnicity or political preferences. The last governments have made efforts to redress victims of crimes committed under the last dictatorship (1973-1985). These crimes had gone entirely unpunished due to an amnesty approved in 1986, but now many of those responsible are being prosecuted by the courts.

Civil rights

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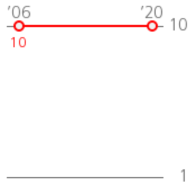

4 | Stability of Democratic Institutions

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

Performance of democratic institutions

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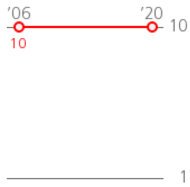

Democratic institutions in Uruguay are accepted as legitimate by all relevant political actors. There are no significant veto power actors outside of the constitutional framework. Some military officers have been imprisoned or are on trial due to crimes committed during the dictatorship. The military as an institution has allowed and accepted searches to find missing human remains from those years. The military is subject to civil control.

Commitment to democratic institutions

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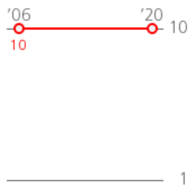

5 | Political and Social Integration

The Uruguayan party system is one of the most stable and institutionalized in the world. Since 1971, three political parties receive about 95% of the votes. Political parties have a fractionalized structure with high public visibility and autonomy in their decision-making process. These fractions are ideologically coherent and disciplined in parliament. Last elections, held in 2014, showed the lowest rates of volatility in decades. The partisan system has reached a multi-partisan balance with two main blocks involved in an intense competition. The center-left block has the Broad Front (FA, the ruling party) as its main actor and the center-right block is composed of the so-called historical parties (Colorado Party and National Party). Despite this dynamic, the policy-making process shows that the different parts can reach long time duration agreements.

Party system

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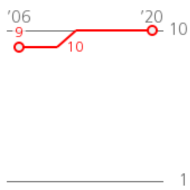

Uruguayan society has a long tradition of organized social groups. The most salient and influential groups are labor unions and business associations, including those of agriculture like the influential Asociación Rural. Unions are organized in a single national association, PIT-CNT, created in the mid-1960s. Business associations do not have a national organization but there are a few very influential groups based on the most relevant economic activities of the country (agriculture, industry, banking and the export sector). From 2005 onwards, unions and employers have negotiated wages and work conditions inside an institutional framework (Consejo de Salarios, Wage Board) with government mediation, and most of them have reached long-term agreements. Along with union and business associations, there are other important social organizations such as (very influential) pensioners, students, and a variety of professional associations (lawyers, physicians, etc.). In recent years, a significant number of specific organizations have developed, such as those for women, people of African descent, LGBT, victims of dictatorship and environmental organizations. These new types of associations have acquired growing public visibility lately. In general terms, social groups are inclusive, tend to balance one another, and have pragmatic and cooperative attitudes.

Interest groups

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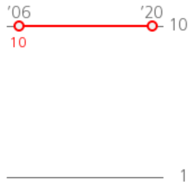

Citizens' support for democracy continues to be the highest in Latin America. Comparative public opinion surveys, such as Latinobarómetro or the Americas Barometer, place Uruguay in the top positions in regional rankings. However, the 2018 Latinobarómetro report indicates that support for democracy decreased nine points (from 70% to 61%) between 2017 and 2018, and satisfaction with democracy ten points (57% to 47%). This phenomenon, which dramatically affects most Latin American countries, has generated intense concern in the Uruguayan political system. One possible explanation is that a small proportion of citizens affected by the consequences of the economic slowdown (2015-2017) are expressing their anger and annoyance without making distinctions between government and political regime. The 2018 Latinobarómetro report also shows that the agreement with the "Churchillian" estimation of democracy (democracy has problems, but it is the best political system) fell by a smaller proportion than the previous indicators (84% to 78%).

Approval of democracy

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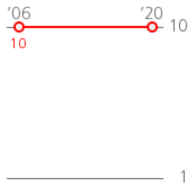

Trust in specific institutions is not overwhelming, though in most cases clearly situated above the average of Latin American countries surveyed: government 39% (LAC: 22%); election authority 47% (LAC: 28%); parliament 33% (LAC: 21%); judiciary 39% (LAC: 24%); and political parties 21% (LAC: 13%). The most-trusted institutions are the military with 65% (LAC 63%), the police (59%) and the media (49%).

Social capital
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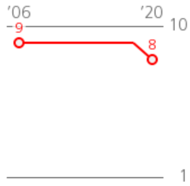


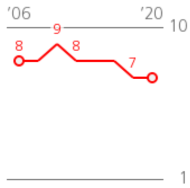
Uruguay has a long tradition of autonomous, self-organized groups, devoted to diverse goals. In addition to interest groups, there are numerous associations related to schools, neighborhoods, or other contexts, based on voluntary work and oriented toward helping the community. The level of interpersonal trust is not very high, as reported by Latinobarómetro in 2018 (20% agree with the sentence "we can trust in most people"). While in this regard, Uruguay continues to share the first rank with Colombia and Guatemala in Latin America, recent developments mentioned previously (security problems, decline in democracy approval) have put Uruguay's "self-confidence" and social capital severely under strain.

II. Economic Transformation

Question
Score

6 | Level of Socioeconomic Development

Socioeconomic barriers
7



Uruguay is the most socially integrated country in Latin America. During the first half of the 20th century, it ranked among the most developed countries in the world. However, the second half of the century was marked by economic stagnation and social conflict. After the return of democracy in 1985, the country's social indicators began to improve. At present, Uruguay has maintained a privileged position in the region. The 2017 HDI Report ranked Uruguay 55 out of 188 countries, third in Latin America, with a score of 0.804 and defined it as a country with high human development. The Social Panorama of Latin America published by the Economic Commission for Latin America and the Caribbean reported a 9.4% poverty rate for 2017, the lowest rate in the region. A recent report by the National Statistical Institute (2017) stated that by the end of 2017, 5.5% of households lived below the poverty line and 0.2% were indigent.

In terms of income distribution, Gini coefficient for Uruguay is 0.391, the lowest rate in the region (2016). Economic growth over the last decade as well as proactive policies to increase real wages and develop transfer programs were key factors in these achievements. An official report of the Ministry of Economy shows that real wages had increased for 13 consecutive years by 2016, accumulating a 60% increase over the period.

However, the good performance in poverty reduction and income distribution should not hide significant challenges that the country still faces. Gender inequality is still present and seems a difficult problem to solve, even though the country has undergone some improvements over the last years. In the legislative election of 2014, a gender quota was applied with relative success. In the Senate, the proportion of women increased from 14% to 29%. The Gender Inequality Index 2017 shows that Uruguay's relative performance has considerably improved, with a score of 0.270

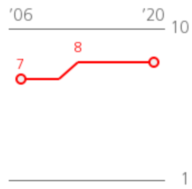
being the uncontested leader at least in Latin America. The situation of people of African descent is also a challenge for Uruguay. People of African descent comprise 9% of the population, but their poverty rate is relatively high and level of educational attainment is very low. In 2013, parliament passed a law to boost labor inclusion and access to higher education for this minority group, but for the moment, the effective results are very modest.

Economic indicators		2015	2016	2017	**2018**
GDP	$ M	53274.3	52687.6	56489.0	**59596.9**
GDP growth	%	0.4	1.7	2.6	**1.6**
Inflation (CPI)	%	8.7	9.6	6.2	**7.6**
Unemployment	%	7.5	7.8	7.9	**8.0**
Foreign direct investment	% of GDP	4.5	-0.9	4.7	**4.5**
Export growth	%	-0.6	-0.2	6.9	**-4.8**
Import growth	%	-7.3	-6.2	0.5	**-2.0**
Current account balance	$ M	-491.1	324.5	464.7	**-347.5**
Public debt	% of GDP	62.9	61.4	60.7	**63.5**
External debt	$ M	-	-	-	**-**
Total debt service	$ M	-	-	-	**-**
Net lending/borrowing	% of GDP	-2.8	-3.7	-3.0	**-**
Tax revenue	% of GDP	18.5	23.7	19.7	**-**
Government consumption	% of GDP	13.8	14.5	14.5	**14.6**
Public education spending	% of GDP	-	4.8	4.9	**-**
Public health spending	% of GDP	6.2	6.5	-	**-**
R&D expenditure	% of GDP	0.4	0.4	-	**-**
Military expenditure	% of GDP	1.8	1.9	2.0	**2.0**

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market organization
8

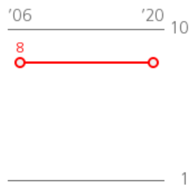


The Uruguayan model of development and welfare, traditionally oriented toward a market economy, is based on a crucial role of the state, either by direct participation in economic activities or by its regulatory role. Several strategic economic activities have been monopolized by state-owned enterprises (fuel, electricity and communications). The liberalizing trend that began under the last dictatorship and slowly advanced under the subsequent democratic governments implied the incorporation of the private sector into a number of previously monopolized sectors by the state. The insurance market, the pension system and the mobile telephone network, for instance, work as competitive markets with participation of state enterprises. The three leftist governments did not reverse this liberalizing trend, and rather continued it. In general terms, the Uruguayan economic order rests on tripartite consultations approximating the classic German model, providing for a high degree of consensus on a market economy with social safeguards and the role of the state as a guarantor. Except from the few state-monopolized or strongly regulated activities, there are no significant barriers to entry in markets. Uruguay ranks 65 in Starting a Business (Doing Business 2019), taking five procedures, 6.5 days and 22.6% of income per capita.

Private, domestic and foreign investments have been stimulated for several years. Foreign direct investment (FDI) increased in Uruguay from an average of 2.2% of GDP for the 2001 to 2004 period to 5.2% for the 2005 to 2015 period (second in the region after Chile). In 2017 to 2018, FDI decreased along with the entire region, but the forecasts of independent experts maintain that it will grow again in the next years.

Due to public services being a state monopoly, there are some administered prices, representing about 25% of the goods and services basket. These include prices for electricity, fuel, drinking water, communications and health services. According to the National Institute of Statistics, the informal economy decreased from 41% in 2004 to 21% in 2014. The improvement was achieved through labor market reforms and management reform of the Revenue Department, resulting in improved monitoring of labor regulations, the expansion of health insurance and unemployment insurance coverage, the strengthening of the family allowances program, and improved conditions of retirement. Leftist factions of the government party and the labor unions have promoted greater state participation in the economy, but Uruguay's presidents have resisted this pressure.

Competition policy
8



Competition laws to prevent monopolistic structures and conduct are in place, though there are some flaws concerning legal coherence and enforcement. Uruguay did not have any regulations against monopolies or in favor of competition until 2000. As various economic activities have become competitive in the context of the market-oriented reforms conducted in the 1990s, successive governments passed laws to guarantee competence. The first leftist government approved the "Antitrust Act" (Trade Freedom and Free Competition Preservation Act), which entered into force in August 2007. This new institutional framework introduced pre-merger control approval in cases of economic concentration. Although there have been advances – such as the development of a market for the generation of electricity from renewable sources, which allows for private investment and the sale of energy to the public utility, there are still many services (fuel or telephony line) that are state monopolies.

The "Commission for the Promotion and Defense of Competition" is the main agency in charge of regulating sectoral markets. There are also three other important regulatory agencies: the central bank (banks and financial services), the Communication Services Regulatory Unit (URSEC) and the Energy and Water Services Regulatory Unit (URSEA). With the exception of the central bank, the other agencies have shown political and institutional weakness in the regulation of markets where public companies are relevant competitors. The head of the Commission for the Promotion and Defense of Competition, Javier Gomensoro, acknowledged in 2018 that Uruguay should develop changes in its institutional framework in order to strengthen the agency's competence and autonomy. In order to improve the efficiency of competition policy, in September 2018, Uruguay's government submitted a new competition law to the country's legislature that proposes a new merger control system and the introduction of per se antitrust infringements.

Liberalization of foreign trade
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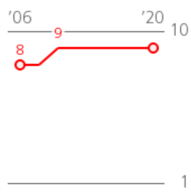

Uruguay took a big step in the liberalization of foreign trade with entry into the Mercosur in the early 1990s. As Mercosur became a free trade zone, most Uruguayan exports went to Argentina and Brazil. As a consequence of the regional crisis of 2001 to 2002, Uruguay's trade policy began to diversify its range of export markets. Favorable commodity prices allowed for a steady increase in exports since 2004. Non-tariff barriers and other measures that hamper trade are few. All inbound goods coming from non-Mercosur countries are subject to a common external tariff (CET), which varies between 0% and 20% according to the type of good. The average most-favored-nation tariff has been reduced (the simple average MFN applied tariff was 10.3% in 2017). Improvements have also been affected in areas such as import procedures, customs valuation and intellectual property protection (WTO Trade Policy Review).

The crisis within Mercosur during the last decade and the limitations that membership implies, pushed the government to promote trade and/or investment agreements with countries outside Mercosur, such as Mexico, the United States and Finland (Bilateral Investment Treaty in force since 2004). However, progress in this area has been modest because Argentina and Brazil, major Mercosur partners, vetoed successive bilateral agreement initiatives of Uruguay with China or the European Union. In other words, Uruguay's political leadership has promoted new free trade agreements with other countries, but major Mercosur partners have prevented it by virtue of Decision 62 adopted in 2000. Although Uruguay has evaluated the establishment of non-tariff barriers to the major Mercosur partners, such measures have never been implemented.

The government agency Uruguay XXI reported that in 2018 exports of goods amounted to $9.158 million, which implied an increase of 0.8% compared to 2017. The poor soybean crop due to the drought largely explains the stagnation of exports in 2018. In fact, if soybeans are excluded, the exports would have grown close to 9%. Uruguay exported goods to 160 countries; China remains the main trading partner (26%), followed by the European Union (16%), Brazil (12%), the United States (7%), Argentina (5%) and Mexico (4%). The main products exported are cellulose, beef, dairy products, wood, rice and wool.

Likewise, Uruguay imported products for $8.865 million (oil and derivatives, vehicles, clothing and footwear, plastic and cell phones). Its main partners were China, Brazil, the United States, Argentina and the European Union. Almost 60% of imported goods are production inputs, 15% capital goods and 25% consumer goods.

Banking system

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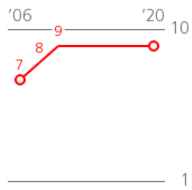

Traditionally, the Uruguayan banking system acted as a regional financial center due to its liberalized regulations and reliability. However, as a consequence of the 2002 financial crisis, the system almost collapsed following a run on the banks by Argentine depositors and a severe lack of supervision.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

The banking system is composed of two public banks, ten private banks and a wide variety of non-banking institutions that have been established in the country, such as brokerage cooperatives, finance houses, offshore banks, consumer loan companies and currency exchange houses. The state banking institutes are the Banco de la República Oriental del Uruguay (BROU) and Banco Hipotecario del Uruguay (BHU, Mortgage Bank of Uruguay). The first institution operates as the state's commercial bank, contributing to the country's productive, economic and social development. The latter is exclusively dedicated to mortgage loans. The system is well-capitalized, with high levels of international reserves and liquidity, and low non-performing loan ratios (2.3% in 2016 and 2.4% in 2017). The global crisis has had a limited impact on the country's financial sector, government debt ratios are declining and risks and vulnerability are low.

After the difficult period of 2015 to 2016, when worsening economic conditions caused an increase in asset risk, different rating agencies have assessed the soundness of the Uruguayan banking system. In the end of 2018, Uruguay had assets equivalent to 1.4 times next year's maturities, and with lines already consistent with contingent loans with international organizations at a similar level. The bank capital to assets ratios have been around 10% since 2010, with 9.2% in 2016 and 10.1% in 2017.

8 | Monetary and fiscal stability

Monetary stability
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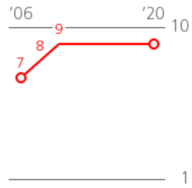


The Uruguay's central bank is in charge of price stability, the regulation of the payment system and the financial system. It has technical, administrative and financial autonomy and its president and two directors are appointed by the vote of 3/5 members of the Senate. One of the directors is usually nominated by the largest opposition party.

The central bank has made inflation the main target of its monetary policy. The country began the fight against inflation at the beginning of the 1990s, in the light of the Washington Consensus policies. The country reached low inflation rates at the end of the decade, but the main instrument to fight inflation was the exchange rate. This approach led to the increased overvaluation of the national currency, lowered external competitiveness and increased government debt. The process ended with the financial crisis of 2002, which involved a drastic devaluation of the national currency by more than 100% and an increase in the inflation rate to 26%.

Following the crisis, the central bank enhanced the flexibility of the exchange rate policy, leaving the value of foreign currency to be determined by supply and demand. However, as a consequence of the 2008 global financial crisis, the national currency began to increase its value again, and the government applied different measures to avoid a significant drop. In trying to balance both targets, the value of foreign currency has been stabilized, but the fight against inflation has remained high on the government's agenda. Uruguay's Real Effective Exchange Rate grew steadily in the current decade and was 127.6 in 2017 (2010=100).

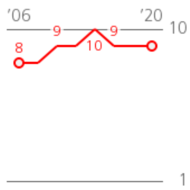
The target inflation range established by the central bank is from 3% to 7%. In 2015, inflation was 9.4%, but in 2017, it decreased to 6.6%. According to the last official data, the year-on-year inflation of Uruguay in February 2019 was 7.9%, almost one point above the ceiling of the band.

Since 2010, governments tried different measures to contain inflation. The central bank raised interest rates and established a policy of restricting the stock of money (2011-2012). Tax exemptions were given for consumers of electricity and telephone services, and agreements with supermarkets froze prices of 1,000 products (for six months in 2013). The government promoted electronic transactions with the purpose of increasing the formalization of the market and reducing the amount of money in circulation (2015) and increased bank capitalization requirements to freeze part of the short-term deposits.

While the government has argued that these different measures have been effective in containing inflation, opposition parties have pointed out that the origin of the inflation is linked to the high level of public spending. The modest successes of the last few years were considered by the central bank a sign that the battle against inflation will likely to be won.

Fiscal stability

9



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

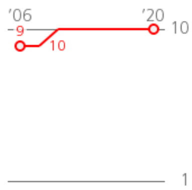
At the end of 2018, the deficit remained at that level. To address this situation, in 2016 the government promoted an adjustment program that included an increase in income from higher wages and an increase in public rates, but the results have not been very encouraging. There is an intense political debate about the origin of the fiscal deficit. Opposition parties think the government lacked fiscal discipline during the last years of President Mújica´s administration. The sustained increase in public spending and the financial losses of some public companies (mainly, the oil enterprise ANCAP) led the government to miss its fiscal targets. On the other hand, government has suggested that the fiscal deficits are manageable, assuming that the economy continues to grow even at lower rates. Most independent analysts believe that the fiscal deficit is one of the main problems facing the Uruguayan economy.

The last governments developed strategies to reshape external debt, which involved postponing due dates, lowering interest rates and replacing debt in foreign currency with debt in national currency. In that sense, debt management policy came to be one of the strongest areas of economic policy. In 2003, overall public debt represented the 107% of GDP (68% net debt), in comparison to 64% in 2018 (33% net debt). Since 2012, several international rating agencies have granted Uruguay an investment grade rating (BBB / BAA3) to long-term sovereign values.

Macroeconomic stability has been one of the greatest achievements during the last fifteen years. The problems associated with the fiscal deficit, and exacerbated by the economic slowdown observed since 2015, require much more disciplined management of fiscal policy. The implemented policies did not solve the problem but showed that the government is aware of the difficulty it faces.

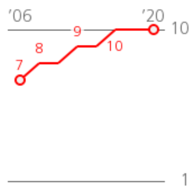
9 | Private Property

Property rights
10



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

Private enterprise
10



During the first decades of the 20th century, Uruguay became a state-centered capitalist economy. In the 1990s, governments promoted liberalizing reforms in the context of the Washington Consensus policies. However, the process was gradual and some privatizations were blocked by opposition parties and social movements, using direct democracy mechanisms. The last three leftist governments have not followed a strategy of privatizing state-owned enterprises, although they have promoted private investments and public-private joint ventures in infrastructure developments. The Investment Promotion Law 16.906 (1998) and the Decree 455/007 (2007) have played a crucial role in the increase of foreign direct investment until 2015. In the last decade, governments have tried to attract private investment to develop different strategic projects. In some cases, the results have not been good (ocean port, prospection of oil investments in the Uruguayan coast, regasification plant, etc.), and in others, the investments were made possible thanks to the president's proactive approach (plants of cellulose processing). Despite the unequal results, private companies continue to be considered as the main engines of production and economic development.

10 | Welfare Regime

Social safety nets
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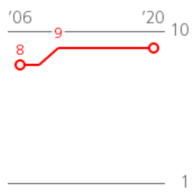

Uruguay has long been a traditional welfare state with social democratic characteristics, but it suffered severe deterioration due to neoliberal policies and recurrent economic crises. Nevertheless, social spending in Uruguay has continued to be the highest in Latin America.

In 1989, an organization of pensioners successfully called for a plebiscite to introduce the indexation of pensions in the constitution. As a consequence, the purchasing power of pensions rose considerably, so the government of the time had to create new taxes to meet its increased obligations. In an effort to solve the chronic system deficit, in 1997 parliament passed a structural reform that created a mixed public-private system with a pay-as-you-go pillar for low wages and a personal account savings pillar for higher wages.

Since 2005, the successive leftist governments have made important reforms in safety networks, especially increasing money transfers and expanding health care coverage for the poorest. The "Equity Plan" (Plan de Equidad) covers all children whose household incomes are under the poverty line with a "family allowance" (Asignaciones Familiares) of about $50 per child.

The traditional health care system in Uruguay had low coverage that only included formal workers of private enterprises through private providers. Public employees had specific health care protections negotiated by the unions in each government institution, which created large inequalities in health care coverage and health outcomes. People in informal employment or without a regular income could only access services provided by low-budget public hospitals. In 2008, the leftist administration passed a reform that created an "integrated national health system" (SNIS) that expanded coverage to the public servants, spouses and children of workers (2008), and pensioners with low incomes (2012). The SNIS put public and private providers on the same level, in order to supply health care in a competitive manner.

The SNIS and the "Equity Plan," together with the improvement and expansion of wages, contributed to a significant reduction in poverty, which dropped, according to the National Institute of Statistics (2018), from 30% of households in 2004 to 5.5% in 2017. The same report shows that the consolidated middle class is at 38% of the population, and people under age 12 living in poverty are only 15%. These changes indicate that social policies have succeeded in reversing the historical bias that disadvantaged younger people and favored older people.

Equal opportunity

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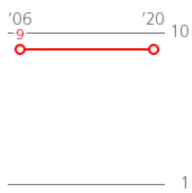


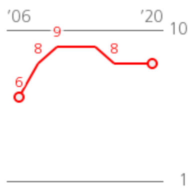
Uruguay has no significant ethnic or religious minorities. The country adopted a law in 2004 aimed at combating racism, xenophobia and discrimination. The main differences in opportunities for people are those derived from income and gender. In a country with an almost universal literacy level (99%), the differences between men and women can be seen as one of the main factors of inequality. The gender parity index (GPI) for gross enrollment ratio shows a balance between sexes at the level of primary and secondary education, and a significant imbalance at the tertiary level in favor of women (+1.7). Despite this, unemployment is higher than average among women (52% of the population) and citizens of African descent (8% of the population). Although women have increased their participation in the labor market in recent decades, the activity rate for women is still lower than for men (71% compared to 56%). In 2018, the female unemployment rate was 8.2%, while the male unemployment rate was 6.7%. This gap is greater among the poorest sections of society.

The presence of women in public office is low. Nevertheless, some improvements have been made. A law was passed in 2009 that demands one-third gender quota for the election of party authorities and the same quota for the following legislative and subnational elections. In 2017, parliament approved a new law on women's quotas for the 2019 elections.

In addition, in 2013, a new law legalized same-sex marriage and another law created mechanisms designed to improve people of African descent's access to the labor market and provide them access to higher education scholarships. Parliament also passed a law that legalizes abortion in recognition of women's rights over their own bodies. Finally, in 2018, parliament approved a law that guarantees the economic, social and cultural rights of the LGBTQ population and compensates people born before 1975 who were victims of institutional violence because of their gender identity.

11 | Economic Performance

Output strength
8



The unfavorable international context since 2015 led to a sharp slowdown in the Uruguayan economy, which showed lower rates of growth and a significant increase in the fiscal deficit. During the review period, GDP grew by 2.7% in 2017 and 1.9% in 2018 according to official estimates. World Bank figures show a usually moderately positive GDP per capita growth during the last decade, with 2.3% for 2017. GDP per capita (PPP) reached $22,562 in 2017, the third-highest in the region. The slowdown in the economy is linked to a decline in international commodity prices and a stagnation in the country's exports (increase of 0.4% in 2018). This data opened a strong domestic debate on whether the Uruguayan economy was in recession. While government ensures that the economy continues to grow and the worst of the situation has passed, opposition parties have criticized the government's handling of certain policies (currency, monetary, public spending).

A discussion about the fiscal deficit adds to this, which since 2016 amounts to 4% of GDP. The government had promised to reduce the deficit by approximately 1% due to the fiscal adjustment applied in January 2017 (after tax revenues had already slightly gone up to 23.7% of GDP in 2016 according to World Bank data), but the results were insufficient because spending continued to increase (education, security and infrastructure) at the same level as the revenues. According to the U.N. Economic Commission for Latin America and the Caribbean (CEPAL), the deficit reached 2.6% of GDP in 2018, after 3.0% in 2017 and 3.7% in 2016.

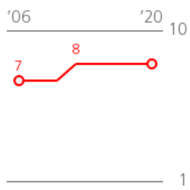
Gross capital formation has gone down continuously since 2014, to 15.7% of GDP in 2017, as FDI, from 2015 on, has gone into disinvestment (-1.6% of GDP in 2017); net borrowing has increased to 3.7% of GDP in 2016 (WDI 2018). The unemployment rate remained at the level of previous years (7.5%) and the inflation rate, one of the main concerns of the government since 2015, exceeded the government's target range (7.9% in 2018), but it seems to have been controlled after a couple of complicated years (9.4% in 2015 and 8.1% in 2016).

A central bank report notes that the balance of the current account in September 2018 showed a deficit of -0.7% of GDP, unlike what happened a year earlier when the balance had been in the surplus (1%). The net debt of the Uruguayan state stood at 24.7% of GDP (gross debt 66%). The international currency reserves remain high (USD 17 billion) and are generally used by the central bank to avoid volatility in the value of the dollar in the local market.

12 | Sustainability

Environmental policy

8



Environmental concerns have been increasingly taken into account by Uruguayan policies. The country has had an environmental protection law since 2000 and a governmental agency (DINAMA, a department inside the Ministry for Housing, Territorial Order and the Environment: MVOTMA) to enforce the law and promote the care of the environment and sustainable growth. The government has sought alternatives for oil, promoting the production of biofuels and wind-generated electricity through investment public and private. This policy has been one of the most successful in recent years. The first projects became operational in 2008, and Uruguay stopped importing and started exporting electric power in 2013. In 2016, 98% of the electricity consumed in the country came from renewable sources, with hydroelectric dams contributing 50%, wind and solar energy 40% and biomass-based sources 8%. In Uruguay, renewable energy now accounts for the second highest percentage of a country's total energy mix in the world, only surpassed by Denmark.

Another significant improvement in this field was the implementation of a National System of Protected Areas (SNAP), which has incorporated twelve areas since 2008.

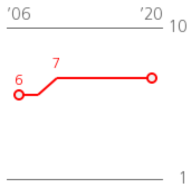
Environmental awareness has made some progress within the population, and the issue is increasingly present in public debate. When the government tried to boost the Aratirí mining project (an open iron mine pit), a broad social movement opposed the initiative, resulting in a slower legislative process and the subsequent suspension of the project. As a result of this social mobilization, a Green Party (PERI) was founded before the elections held in 2014. This party promoted an agenda focused on the care of the environment, and its performance in the election almost gained it a seat in parliament (0.8% of the electorate).

In the current administration, the government has promoted the creation of a new pulp industrial plant that will represent a record investment by Finnish capital. This mega investment, involving substantial changes in the environment, has generated resistance among environmental organizations concerned about river and soil preservation.

Notwithstanding overall progress, some other problems remain, such as wastewater treatment and extensive use of pesticides and fertilizers in agribusiness. The 2018 Environmental Performance Index of Yale and Columbia universities ranked Uruguay 47 out of 180 countries.

Education policy / R&D

7



The left-wing governments increased public spending on education (5% of GDP) and (less so) on R&D, which has been constantly around 0.3% of GDP in permanent growth. In 2005, an independent government agency was created to promote scientific research and innovation (ANII) and a National System of Investigators (SNI) composed of 1,200 members who receive a monthly payment for carrying out their work. In order to improve investment in R&D, in November 2018, the government sent a bill to parliament that establishes tax incentives for companies that develop this kind of projects. At the end of December, the bill was approved by the House of Representatives and is currently being analyzed by the Senate.

The country has a strong nationwide education system and almost 100% enrollment rates in primary and secondary schools. In 2009, the Tabaré Vázquez administration launched a plan promoting the availability of one laptop per child, which was implemented for all children in primary school. This plan was expanded by the Mújica administration to cover all children in secondary schools. However, according to the Program for International Student Assessment (PISA), performance in education showed significant stagnation between 2006 and 2015. The traditional weakness of the tertiary system of education has been addressed to a certain degree by significant curriculum reforms and the institutionalization of programs of postgraduate studies at the University of the Republic. In the 2017 U.N. Education Index, Uruguay ranks 34 out of 133 BTI countries considered, and fifth in the region with a score of 0.731, stagnating since 2013.

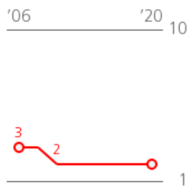
Education policy was one of the central issues of the 2014 election campaign. In debates, politicians and experts of all parties showed significant agreement on the type of reforms that should be implemented. The government had identified education as the country's biggest challenge, not only due to the worrying situation but also because of the campaign compromises. However, the government has made little progress due to a series of difficulties that it has not been able to solve. In 2016, two reformist directors of the Ministry of Education and Culture were dismissed, and the reform agenda stagnated. Despite the continuing criticism of opposition parties, education authorities seem to be absorbed in the management of a slow and unresponsive system. Unions have vetoed any initiative that impacts on their interests. To all this is added the government's inability to increase investment in education (currently 5% of GDP) due to the strong slowdown of the economy. This may have been the biggest failure of the leftist governments over the last 15 years.

Governance

I. Level of Difficulty

Structural constraints

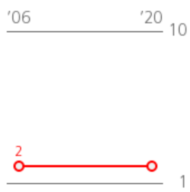
2



In Uruguay, there are no structural restrictions, such as natural disasters or pandemic diseases. The country enjoys a privileged geographic location (although it depends to a large extent on the large neighboring countries) and has an educated and relatively rich population (in the Latin American context). Given the current conditions of development, the country must strengthen its education system and develop its infrastructure. The change in the international context between 2015 and 2016, and the resulting economic slowdown, showed the vulnerabilities that the country presents if it abandons the reform process.

Civil society traditions

2

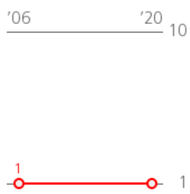


As stated previously (Q5.4), Uruguayan civil society has a long tradition of civic engagement and a rich participatory civic culture. There are numerous and active civic associations and there is still a significant and relatively high level of social trust. According to a report prepared by the Institute of Communication and Development (ICD), an independent government organization, Uruguay had 3,330 civil society organizations in 2019. The fourth part are institutions of social inclusion (26%), followed by organizations of “ideas, culture and free time (13%), work and production (13%), children and adolescents (11%), participation and rights (8%), education (8%), environment (5%), diversity and gender (4%),” etc.

Although interpersonal trust is still low (according to the Latinobarómetro 2018, 20% agree with the phrase “we can trust most people”), Uruguay continues to show the highest level on the continent.

Conflict intensity

1



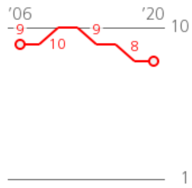
Uruguay has no relevant ethnic or religious conflicts. The main social conflict is over income distribution, conducted by labor unions in a legal and peaceful way (with demonstrations or strikes). This conflict is translated into politics as an ideological cleavage between left and right, which is solved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

II. Governance Performance

14 | Steering Capability

Question
Score

Prioritization
8



All post-dictatorship Uruguayan governments have been committed to democracy and the rule of law, as well as to a market economy, showing a broad consensus among political elites. Beyond that, since the 1990s, governments have shown an increasing tendency to establish strategic priorities in order to develop democracy as well as a market economy with social safeguards. With respect to the latter, the governments first focused on the control of inflation, followed by the setting of conditions to promote FDI. The leftist governments (since 2005) have continued these strategic goals, adding as priorities the fight against poverty, reduction of the informal sector, reforms of the labor market and investment in education and health. These policies have now been conducted for 14 years and have been largely accompanied by intensive consultations as well as organizing expertise, impact assessments, monitoring and evaluation. In contrast, the initially well-publicized substantial reform of public administration ("reforma del estado") did not make much progress. because it met too much resistance. Although the governments built their cabinets assigning positions to different partisan factions to balance interests, government leadership has managed to maintain legislative support for the main policy goals. During the Mújica administration (2010-2015), it became clear that political coordination no longer worked as well, or at least as orderly, as it had in the first administration. The internal fights between factions became more visible and this caused imbalances on the goals of government and a certain lack of control in the spending of some public companies (for example, the oil company ANCAP lost almost 800 million). The return of Tabaré Vázquez as president and the designation of Astori as minister of economy represented a reformulation of the government's fiscal goals. For this purpose, parliament approved a tax adjustment to increase tax revenues, as well as a re-capitalization of the state oil company.

The second Vázquez government has faced other challenges that may have affected the sustainability of its political orientation. On the one hand, the ruling party has a parliamentary majority due to the considerable number of members that belong to the faction of former President Mújica (MPP), who are ideologically more leftist than the current president. Consequently, the president was obliged to negotiate with Mújica to secure the approval of the government's legislative initiatives. On the other hand, in the 2015 election, the ruling party won an adjusted majority in parliament. This legislative majority has been in question since the end of 2016. In 2017, one of the deputies of the ruling party left the party, which led to a deadlock in the pace of passing the government's legislation. After the dissident deputy resigned his seat and the ruling party regained the majority, a series of internal disagreements arose in the ruling party in 2018, which also prevented the approval of military pension reform and a change in the regulation of election campaigns. Although they are not insurmountable, both circumstances – negotiations with the left wing of the ruling party and the possible dissidence of some of the pro-government MPs – pose important political challenges to the president's political agenda.

Implementation

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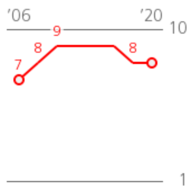

The leftist governments have implemented many reforms effectively. Outstanding reforms (such as of tax, health and financial reforms, among others) were set in motion during the Vázquez government and were continued by the Mújica administration, without relevant obstacles from opposition groups. In 2013, the government supported the legalization of abortion, same-sex marriages, and the production, sale and consumption of marijuana. However, the implementation of some new policies has been hampered by a bureaucracy still relatively large and holding particular interests. Successive governments have encountered significant obstacles with the implementation of administrative and civil service reforms (Reforma del Estado). The privileges public servants enjoy and the mobilization of their powerful unions have prevented any major advances. The few successful reforms of the bureaucracy have focused on strategic agencies that could facilitate more efficient operations in some areas of the economy (revenue department, customs offices, public enterprises). Education is another public policy area where reforms have been systematically blocked. Despite the strong campaign commitments of successive leftist presidents, the status quo in the education system has not changed due to the ruling party's difficulties in agreeing on policy and the permanent veto of trade unions. All successful reforms in Uruguay have been implemented in a gradual to maintain a broad consensus. In both cases mentioned (civil service and education), the government has not succeeded in generating these conditions. The financial inclusion law is a good example implementation, which favor electronic transactions in the market and includes a sector of the population lacking links with the banking system. One example of implementation difficulties was the reform of the criminal procedure code, which faced planning problems, resource allocation and new procedural adjustments.

Policy learning

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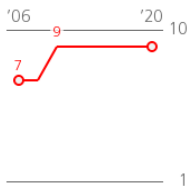

The leftist governments have demonstrated considerable ability to learn and act in a flexible manner. Building on previous governments' experiences, their continuity in power since 2005 increased the institutionalization of policy learning with significant continuity over time. In particular, the Directorate of Management and Evaluation (AGEV) of the Office of Planning and Budget (OPP) has increasingly adopted a transversal approach to developing monitoring and evaluation activities jointly with sectoral bodies within the framework of the National Plan for Capacity Development in Monitoring and Evaluation.

Apart from this routinized policy learning, the leftist governments also learned to adapt their more basic political views to changing circumstances. The traditional leftist conception of economic policies (state-centered and with a weak commitment to a balanced budget) was modified by President Vázquez in his first administration (2005-2010), who assumed a more pragmatic position than many analysts expected. The government showed an important predisposition for innovation, setting in motion original reforms (e.g., the integrated national health system) and programs (e.g., wind energy). Most of the reforms implemented in that period were publicly debated and designed with the relevant participation of experts and the organizations implicated.

The government led by President Mújica (2010-2014) followed the same criteria and, in some issues, appeared to be even more flexible, also in its relationship to the opposition parties. For example, the Mújica administration achieved agreements with the opposition to renew the composition of the Electoral Court, and with departmental mayors to unify municipal fees for vehicles, issues that could not be solved by the previous governments.

During the current administration (2015-2019), there were also examples of innovation and flexibility. The financial inclusion law promoted by the government provoked a radical change in market transactions, reducing tax evasion and incorporating thousands of formal workers into the banking system who benefited from a 4% discount of the value-added tax. According to the presidency, in just two years, 530,000 new bank accounts were opened and around 800,000 electronic means of payment were generated. Resistance from some sectors of the economy was resolved through negotiation and modification of some procedures. Another example of flexibility in this period of government can be observed in health policy when parliament publicized its investigation on irregular management in hospitals of the country’s interior. In February 2018, the government removed the authorities of the public institution of the Integrated Health System (SIS) and the new directors began to select heads of public hospitals through public competition based on merit.

15 | Resource Efficiency

Efficient use of assets

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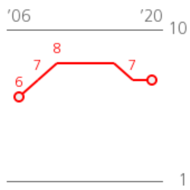

Traditionally Uruguay has had a clientelistic system of appointment in public administration, conducted by the traditional parties. Since the 1990s reforms, governments have strived to tackle this problem by reducing the number of state employees or privatizing state-owned enterprises. The leftist governments, first at the level of the Montevideo government and then at the national level, have made significant changes, incorporating more competitive recruiting procedures without completely removing political influence. So far, however, the government has been unable to reform the civil service in a modern and efficient way. In these years, despite the development of a broad debate about the advisability of creating a system of open competition with transparent rules and criteria for the various echelons of the civil service, the government has met strong resistance from officials and it lacked a clear strategy to face this problem.

In general terms, the government makes efficient use of most of its available human, financial and organizational resources. However, the state bureaucracy is still oversized, and many agencies are inefficient. The opposition parties have criticized the increase in the number of officials during the last fifteen years (70,000). The Office of Planning and Budget (OPP) and the Civil Service Office (ONSC) have responded that this number is lower than the indicated (53,000) and that the increase has been generated in strategic policies such as health, education and security. Anyway, this situation has become more problematic since the fiscal deficit increased to 4%. Public debt is considered at a manageable level, having declined since the early 2000s to about 60%. Since 2012, several international rating agencies have granted Uruguay an investment grade rating (BBB / BAA3) to long-term sovereign values.

Moreover, the leftist governments have assigned priority to decentralization. In 2009, parliament passed a law that created a third level of government (municipalities), elected by citizens since 2010. Likewise, since 2005 Uruguay’s presidents have strengthened the Congress of Intendants (meeting of the country’s 19 intendants established by the constitution) making the institution the main node of the government’s decentralization policy.

Although there is no independent agency in Uruguay to control the execution of the budget, the Office of Planning and Budget (OPP), which reports to the executive branch, is in charge of preparing and evaluating the fulfillment of budget objectives. The active policy developed by the Agency for Electronic Government and the Information and Knowledge Society (AGESIC), also dependent on the government, has contributed to a better evaluation of the use of available public resources.

Policy coordination

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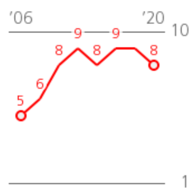

Since 2005, governments have sought to coordinate conflicting objectives and acted in a mostly coherent manner. Successive governments have tried different forms of horizontal coordination through specialized ad hoc cabinets (research and innovation cabinet, social cabinet) in which different ministries coordinate their policies to avoid overlap and reach more efficient outcomes. Some of the main reforms launched by previous governments needed considerable effort in coordination, such as the tax and health reforms, both of which affected the rights of workers and wages. The same perspective was used to solve accusatory problems. For example, in 2016, the government created an interministerial commission to oversee the restructuring of the ANCAP oil company. The same modality has been used to address climate disasters (droughts, floods) where a national crisis committee coordinates the activity of ministries and local governments.

Likewise, some horizontal coordination agencies were also created, including the Agency for Electronic Government and the Information Society (AGESIC) that successfully expanded the use of information and communication technologies throughout the country over recent years. Sometimes, coordination problems were replicated when government ministries’ initiatives competed or overlapped with local governments' initiatives. Another factor that often hampered coordination was the distribution of positions within ministries. Unlike the governments of the traditional parties, which distributed ministerial portfolios among party factions and the entire hierarchical line of a ministry was given to a particular faction (vertical integration), leftist governments designated teams composed by members of different factions (horizontal integration), which often generated disagreements and mutual blockages within ministries.

Anti-corruption policy

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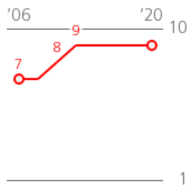

Uruguay has been making progress in the fight against corruption since the mid-1990s and at present is seen as the least corrupt country in the region. The country has had an anti-corruption law since 1998 (with subsequent modifications), which established that acts of corruption are a criminal offense and created a specialized independent agency to fight corruption (Junta de Transparencia y Ética Pública, JUTEP). Under this law, sworn financial statements are required from high-ranking public servants, including the president, while public officials are subject to financial disclosure rules.

In 2009, special courts for and prosecutors of organized crime were created. In recent years, the media has uncovered some corruption scandals and the judiciary has acted accordingly, showing that anti-corruption institutions actually work. The best-known case may be that of the former vice president, Raúl Sendic, who used a corporate credit card to finance personal expenses. Before the disclosure of the complaint in the media, the JUTEP prepared a public report that caused a crisis in the ruling party causing his resignation.

Complementary to this, there has been a law in force since 2008 guaranteeing access to public information and there is a special unit, the Unit for the Access to Public Information, which is part of AGESIC, and monitors and promotes compliance with the law.

In addition, a law on political party financing was approved in 2009, which established clear rules for transparency and accountability, and a limit on private donations. Political parties also receive public funding to finance election campaigns and their regular activities. However, the institution in charge of guaranteeing the compliance with these rules (the Electoral Court) lacks the required human and material resources to efficiently check the financial statements of political parties.

In the current legislature, a bill that modified the campaign financing law failed. Political parties could not agree on a ban on private companies as donors, free television advertising and the establishment of maximum limits for donations.

In 2012, an institution specializing in the defense of human rights was created. The institution depends on the budget approved by the legislature, but it functions autonomously and acts as an ombudsman and parliamentary adviser on human rights issues.

16 | Consensus-Building

Consensus on goals

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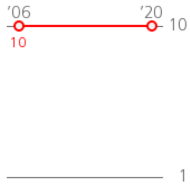

The consensus on democracy is unanimous in Uruguay. In addition, democracy works in a very consensual manner, with broad agreement on important issues. This consensus is evident in the way in which the political system has addressed several policy issues. For example, at the beginning of 2016, President Vázquez created a commission composed of the leaders of the six political parties represented in parliament to examine the issue of public security. It also created a second commission composed of former presidents (Sanguinetti, Batlle, Lacalle and Mújica) to discuss policies on the possible positive results of oil prospecting. Although in the last year the political debate has been polarized due to the proximity of the national election (to be held in 2019), the programs of the parties continue to show a high degree of convergence.

No Uruguayan political party proposes the abolition of a market economy. The 2014 elections showed a wide range of programmatic agreements between the main parties in different areas of economic policies. Even so, there is a public debate rooted in different ideological views on the degree of state intervention in the economy, the type of fiscal and monetary policy and exchange policy. While there are leftist factions within the ruling party that question capitalism, their weak political base prevents them from significantly influencing government policy. The polls for the upcoming elections do not indicate a growth of the extremist parties nor significant changes in the internal composition of the parties.

Anti-democratic actors

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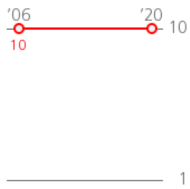

There are no significant anti-democratic actors in Uruguay, whether on the extreme left or right, and when such an actor publicly appears, they are immediately condemned and isolated. For example, in 2012, the Uruguayan Party was founded, whose principles defended the coup of 1973. The Electoral Court did not accept its registration and all political actors rejected its emergence. Thereafter, the media showed that this party just represented a few tens of fanatic activists.

Cleavage / conflict management

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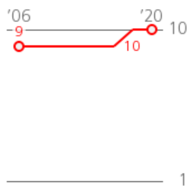

Uruguay has no relevant regional, ethnic or religious conflicts. Class or distributive conflict is the only cleavage that is active and reflected in the political system. The political leadership manages to maintain the conflict inside the rule of law, avoids excessive or violent demonstrations, and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

Civil society participation

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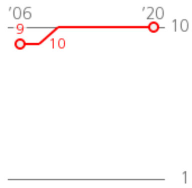

The leftist governments have given high priority to social participation in policy formulation and implementation. Some relevant public policies were subject to public debate through the creation of specific discussion environments, such as the National Dialogue for Social Security (2006-2008) or the National Congress of Education (2007-2008), which counted on the broadest participation of social and political actors. Likewise, Uruguay also has a long tradition of social participation in the discussion of some social policies. For example, the 1966 constitution established that the BPS, the agency in charge of social benefits (pensions, unemployment insurance, occupational health insurance), has social representatives in its directory (one representative each of employees, employers and retirees). Since 2006, the election of these representatives has held at the national level and under the regulation of the Electoral Court. This model was applied in other areas of public policy. The education law passed in 2008 established the presence of representatives of teachers in the directive councils that govern the education system.

Moreover, Uruguay has an institutional framework that requires investors in projects that potentially alter the environment to evaluate the initiative’s environmental impact and establish public forums to consult with the affected groups. In general, these events are attended by well-organized groups concerned about the environmental impact of the enterprises. To further promote participation, parliament approved a law in 2009 that created a third level of government (municipal councils and a mayor in towns with a population over 5,000). During the current administration, some opposition parties collected the signatures of 10% of the population to promote a constitutional amendment to increase the power of the army in the state’s security policies. The constitutional referendum will be held along with the election of 2019. Also, different party and social organizations collected signatures to promote referendums against the irrigation law voted by parliament in 2016 and the law of recognition of LGBTQ rights voted in 2018. In the first case, the signatures achieved did not reach the minimum required; In the second case, the collection of signatures is taking place.

Finally, the presidency re-established open councils of ministers in small towns in the interior of the country, where ministers explain their policies (responsibility), and social organizations and citizens present their demands. Between 2015 and 2018, 28 meetings of the Council of Ministers were held, 4,331 hearings and 963 management commitments.

Reconciliation

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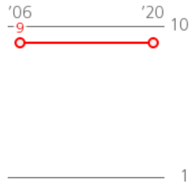

The reconciliation between victims and perpetrators of past crimes has been one of the most challenging issues for the Uruguayan political system. The amnesty law passed shortly after the end of the dictatorship failed to solve this problem, as it never achieved consensus. Thus, the issue has reemerged repeatedly over the last 25 years. In 2000, President Batlle created the Commission for Peace, intended to obtain information about kidnapped children and the remains of missing people. The leftist governments changed the executive criteria to apply the amnesty law, allowing the judiciary to prosecute some crimes, with the result that a number of civil and military criminals were jailed. After the Supreme Court declared the amnesty law unconstitutional, the legislature passed a new law in 2011 that established that those crimes were non-lapsable crimes against humanity. However, in turn, this law was declared unconstitutional by the Supreme Court, because parliament cannot override a law (thus nullifying its consequences), it can only repeal it. Today, the victims of the dictatorship present their claims before the courts and the result is subjected to the criteria applied by judges regarding these events, or are not considered crimes against humanity. Some claims progress but others remain stalled. President Mújica tried to convince the public that the real solution to the problem will come with time and the death of all actors from that period. This view is not satisfactory to the families of the victims who demand that the ruling party act with greater determination on the issue. President Vázquez has taken up the issue, forming a new Peace Commission, composed of individuals committed to human rights, but there have not been major advances.

17 | International Cooperation

Effective use of support

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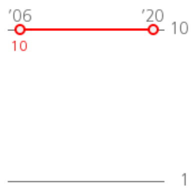

Due to its small size, Uruguay is a relatively dependent country that prefers to cooperate, although international cooperation is not a sine qua non factor for Uruguay's development. In the context of the economic crisis, as a medium-income country, Uruguay became non-eligible for a number of funding sources. Dozens of countries and multilateral agencies provide aid, but the most relevant are the Inter-American Development Bank (IDB), the World Bank, the European Union, Spain and Japan. In 2010, the Uruguayan Agency for International Cooperation (AUCI) was created. A report by AUCI, released in 2017, states that in Uruguay there were 491 international cooperation initiatives with an amount of $134 million.

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

Credibility

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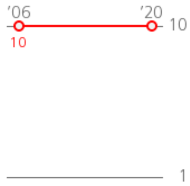

The Uruguayan government is considered a credible and reliable partner by the international community. The country has built a reputation for respecting commitments, contracts and the rule of law, which was reflected in the solutions to the financial crisis of 2002 and the dispute with Argentina over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

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

Regional cooperation

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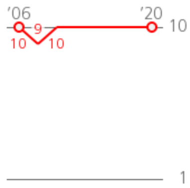

The Uruguayan political leadership has always shown a strong predisposition to cooperate with neighboring countries, reflected in the country's participation in most international or regional initiatives. Uruguay was a founding member of the United Nations, the Organization of American States (OAS) and Mercosur. In particular, the country strongly promotes regional and international integration, not only supporting Mercosur but also looking for trade agreements outside the region. In the last decade, the country's cooperation policy has demonstrated an interest in new forms of cooperation, such as triangular and south-south cooperation and creating the Uruguayan Fund for International Cooperation. The Uruguayan Agency of International Cooperation was designated as the head office of the Ibero-American Program for the Strengthening of South-South Cooperation (PIFCSS) in 2012 to 2014. According to the AUCI, in 2016, 57 South-South initiatives were carried out with 12 countries in the region and 12 initiatives in the triangular modality.

Regarding the relationship with neighboring countries, Uruguay has tried to develop solid cooperative relations independent from ideological tendencies of respective governments. When Mauricio Macri became president of Argentina, President Vázquez had no trouble maintaining a friendly relationship with that country. Similarly, when Jair Bolsonaro won the presidential elections in Brazil, the president of Uruguay was able to establish a friendly relationship, despite the notable ideological differences between both leaders.

In addition, Uruguay made progress in its commercial links with Chile through the approval of a free trade agreement, it participates as an observer of the Pacific Alliance, and it has assumed a proactive role in finding solutions for the political crisis in Venezuela.

Strategic Outlook

From 2005 through 2015, Uruguay's economic and political transformation made considerable gains. Today, sustaining its economic development is the country's main challenge. Several key structural reforms undertaken in the years from 2005 to 2015 and the country's outstanding economic performance over the same period have secured institutional and economic stability. The country's investment grade status awarded by leading international credit rating agencies in 2012 confirmed that the country's economic performance was on track. However, over the last four years, the economy has suffered a slowdown as a result of an unfavorable international context. The decline in the price of exportable products and a decrease in external demand led to a drop in exports in 2015 and 2016 and a slow recovery in 2017 to 2018. As the government has maintained high public spending in order to fund social policies (e.g., social security, health care), the fiscal deficit has grown worryingly to 4% of GDP. The economic slowdown shows Uruguay's vulnerability to changes in the external context.

Given the complexity of the situation, the government needed to carefully manage its debt, maintain strict supervision of the financial system and balance the budget in order to guarantee the sustainability of private investment, economic growth and social welfare. To a large extent, these goals have been met during the period under review. Although the political debate has shown deep divisions on how to face the effects of the slowdown, in general, the government has worked to consolidate the reforms implemented in the last decade.

For example, the tax system was improved by reducing the value-added tax rate by two percentage points and by raising the income tax rate for the highest wages. The financial inclusion program has favored the formal economy by avoiding tax evasion of companies, while also incorporating thousands of people into the banking system. Health care coverage expanded, although the financial viability of the health care system has not been fully resolved.

It seems clear that the government that will be elected in 2019 will have to address additional policy reforms. Education reform continues to be a major challenge for the Uruguayan political system. Evaluations of high school students in international exams (PISA) show disappointing results. Investment in R&D is also much too low and could be increased without affecting other areas of public spending. The next government will also have to solve problems related to the financing of social security that explains part of the fiscal deficit that the country has today. Regarding public administration reform, almost nothing of substance has been achieved as the unions and other bureaucracies continue to function as powerful veto players. Finally, the country needs more investment in physical infrastructure (roads, railways and bridges) to sustain economic growth.

Public opinion polls show that the outcome of the next elections is still uncertain and could be close. The leading presidential contenders in February 2019 appeared to be Martínez for the FA, Lacalle Pou, Larrañaga (PN) and Sanguinetti (PC) for the traditional parties. But this might change; primaries are scheduled for June 30. But all observers agree that no party will have a parliamentary majority. Therefore, the typical problems of executive/legislative coordination will be the order of the day for the next government. This scenario will test the capacity of the political system to reach pragmatic agreements and implement consensus politics and policies.