This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at http://www.bti-project.org.


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Executive Summary

The period under review covers the first two years of the second government of President Tabaré Vázquez. Having left office in 2010, President Tabaré Vázquez retook office on March 1, 2015. The ruling party remains the Frente Amplio (FA), a leftist political party in the Uruguayan sense. FA is an alliance of relatively autonomous party factions which nevertheless act with discipline in parliament. The party’s candidate won the presidency for the third time in 2015. At the beginning of the current parliamentary mandate, the party controls a tight majority in each of the legislative chambers. The opposition is composed of two traditional, center-right parties (the National Party and the Colorado Party) 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 FA lost control of the lower house after one deputy quit the party. Second, three traditional party legislators (two deputies and one senator) quit their respective parties to form the Party of the People under the leadership of an independent candidate, Edgardo Novick. Novick had been supported by the two traditional parties in the electoral race for the Intendance of Montevideo. These two events increased uncertainty in the legislative process and for the first time in 13 years the lower house will not be controlled by a pro-government majority. Opportunities for the opposition will grow as they develop a level of coordination in their legislative activity.

In May 2015, the departmental and municipal elections were held. The National Party, the main opposition party, won 12 out of 19 departmental intendances and 66 out of 112 municipalities. However, the ruling party triumphed in the country’s most populous departments and municipalities, thus replicating the national electoral balance.

From an economic point of view, the new administration of President Vázquez began to implement decisions to cope with the slowdown in the economy (exports have fallen and fiscal revenue has
shrunk) caused by the unfavorable external context. In mid-2016, parliament passed a fiscal adjustment program that aims 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. The forecasts of multilateral organizations suggest that the economy will grow by at least 7% over the next three years. If the forecasts and the expected results of the fiscal adjustment program are met, the ruling party could close its term in office having achieved macroeconomic stability and face the 2019 election with a chance of being re-elected.

Over next three years, the president must face the challenge of keeping his government united around the goals set at the beginning of the current administration. The divisions in the ruling party around some public policies will be decisive (tax policy, trade policy and international politics). In 2016, President Vázquez achieved some political successes when he reinforced the consensual tendencies of the political system. He brought together the country’s four former presidents to discuss the consequences of the anticipated substantial discovery of oil reserves. The president also created a commission to discuss issues related to public security which included opposition leaders. Both initiatives allowed the president to secure crucial parliamentary support from the opposition parties in a year complicated by the need for parliament to approve the government’s fiscal adjustment program. In addition, Vázquez publicly declared the government’s aim to attract further international investment (from Europe, China and the region). Consequently, the Uruguayan public continues to perceive the president favorably. However, the Uruguayan government still has important reforms to implement in the education and health care systems, and public administration, as well as to address the previous administration’s mismanagement of state-owned enterprises.

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 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 decade 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 declined, exports have fallen and the possibility to increase public spending has reached a limit. Under these conditions, the ruling party will have a substantive challenge given the public expectations it has generated.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Uruguayan state has a monopoly on the use of force in its entire territory.

Although insecurity has become a major problem in recent years, Uruguay maintains acceptable levels of security in an increasingly complicated region. Most comparative studies show that homicide and crime rates are among the lowest in the region.

According to official sources, in 2016 the homicide rate reached 7.6 homicides for every 100,000 people (fifth lowest in Latin America). The UNDP Regional Human Development Report 2015 showed that in Uruguay, 19% of the population have been a victim of violent robbery in their lifetime (the second lowest proportion in Latin America).

Likewise, in 2016, the specialized agency InSight Crime reported that the Uruguay has the highest per capita rate of police officers in Latin America, with 809 police officers for every 100,000 inhabitants. Uruguay has roughly 30,000 active police officers.

The population accepts the legitimacy of the nation-state. The access to citizenship include all individuals born in the country, foreigners established in the country, and sons and daughters of Uruguayans born abroad. Nobody loses citizenship by race, gender, language, religion, political or other opinions, national or social origin, etc. Also, Uruguayan citizens do not lose citizenship if they adopt a second nationality.

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 decision-making process. The Catholic Church, like other religious communities, tries to exert influence over public opinion, in issues like sexual education or abortion, but it has
not had relevant results. Recently, the Bishop of Montevideo has initiated a new policy that seeks to strengthen Catholic religiosity in the country, but some of its initiatives have been publicly questioned (e.g., the establishment of a monument to the Virgin Mary on a Montevideo main avenue).

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 agencies and institutions specialized in areas such as education, public services, regulation and banks. The boards of banks are appointed by the Senate with the vote of a super-majority of 60% of its members.

Uruguay has a National Office of Civil Service under the Presidency of the Republic that manages the system of recruitment of personnel, regulates the career system of public servants, develops training systems at different levels of public administration, and represents the executive in salary negotiations with public sector trade unions. Although it does not have substantial institutional strength, over recent years it has promoted several important advances in the rationalization of the public service.

2 | Political Participation

Uruguay has held free and fair elections without restrictions. 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%). Political parties have relatively equal access to the media and the election outcome is accepted without complaints.

The results of the 2014 election confirm the stability of the Uruguayan political system (electoral volatility was below 5%). 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 departmental and municipal elections were held in May 2015, and the Partido Nacional obtained 12 out of 19 departmental intendances and 66 out of 112 municipalities. In spite of this, the ruling Frente Amplio maintained control of the most populated departments of the country and most of the municipalities in the country’s capital.
Elected representatives have effective power to govern. There are no nonpartisan actors with capacity to challenge government decisions. After the civil-military dictatorship (1973-1985), the military has been under civilian control accepting all the decisions that the political system has adopted on its future. The national defense budget has been systematically reduced and the armed forces have defined new strategic objectives adjusted to the democratic needs of the country.

Economic groups exert some influence over the political parties but not enough to change government decisions. In general, the political process takes place within the institutional framework established in the constitution.

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 is fully guaranteed for citizens, groups and the media in general, without any kind of censorship. Freedom of expression also extends to the internet. The media are ideologically and politically diverse, so that most relevant opinions are present in the public agenda.

In late 2014, parliament passed a controversial law that regulates the functioning of the media. Opposition parties criticized the initiative because they believed that the new state agency responsible for media regulation could monitor the contents of radio and television programs. The government rejected this interpretation but preferred not to implement the law immediately, because some companies that would have been affected by the decision challenged several articles of the law in the Supreme Court of Justice. Finally, in mid-2016, the Supreme Court accepted some of the objections (e.g., objections relating to competition between companies selling digital television services and the criteria for distributing free publicity to parties in electoral campaigns) and since then the new legal framework has been in force. There is no reason to believe that this law could affect freedom of expression in the country.
3 | Rule of Law

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

The justice system is fully independent from the executive and capable of accomplishing its function. 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 justice system is rather professionalized and differentiated, although its operation is quite slow. The subordinate courts to the Supreme Court of Justice are the courts of appeal, district courts (Juzgados Letrados), peace courts (Juzgados de Paz) and rural courts (Juzgados Rurales). The Supreme Court designates judges at all levels as well as the selection of the new judges. In the last five years there have been no allegations of corruption linked to the activity of judges. The Contentious-Administrative Tribunal is appointed by the same procedure as the Supreme Court of Justice and examines claims against the administrative acts of the government. The 2015 Report of the Latinobarómetro Corporation shows that 51% of citizens trust the justice system and 52% evaluate the work of the judicial branch positively.

The Supreme Court is absolutely independent of government. Since 1985, it has declared articles of 31 laws unconstitutional (6 in the last five years), most initiated by the executive branch.

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) which performs an important role in the fight against corruption.

According to reports from the judiciary, between 1991 and 2015, an average of 80 civil servants are prosecuted annually for crimes against the public administration. Almost one-third of cases involved embezzlement, more than one-fifth involved fraud (22%) and 15% involved petty corruption (illegal levying of money for own benefit). News about crimes against the public administration used to have a great
impact on public opinion. However, given the small proportion of prosecutions, the image of public officials has not been severely affected.

There are no restrictions on civil rights and human rights. 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.

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.

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. The military is subject to civilian control.

5 | Political and Social Integration

The Uruguayan party system is one of the most stable and institutionalized in the world. Since 1971, three political parties have captured about 95% of votes. The 2014 election resulted in the lowest rate of volatility in recent decades. The party system has reached a balance with two main political blocks involved in an intense competition. The center-leftist block consists of the Frente Amplio (ruling party) and the center-right block is composed of the so-called traditional parties (Partido Colorado and Partido Nacional). In the current legislature, there are also three smaller parties. One centrist, one far-left and one right-wing party.
Political parties have a factional internal structure characterized by high public visibility and autonomy in their decision-making processes. These factions are ideologically coherent and disciplined in parliament. Each traditional party has a faction with center-right and center positions. In the ruling party the opposite happens, albeit with a greater factionalism. Several factions, including the one led by the former President Mújica, are located on the left of the ideological spectrum, while other factions are closer to the center, including the faction of the current economy minister Danilo Astori. This situation requires political parties to negotiate internally in order to reach common positions on public policy. The leaders of the factions have some institutional power – the design of electoral lists, the distribution of positions in the structure of parliament – to encourage the cohesive behavior of the factions and to punish dissent.

Uruguayan society has a long tradition of organized social groups. The most salient and influential groups are labor unions and business associations. 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 Boards) with government mediation, and most of them have reached long-term agreements. Along with union and business associations, there are other important social organizations for pensioners, students and a variety of professions (e.g., lawyers and physicians). In recent years, a significant number of specific organizations have developed, including organizations representing women, people of African descent, LGBT people and environmental protection. These new associations have acquired greater public visibility lately. In general terms, social groups are inclusive, tend to balance one another, and have pragmatic and cooperative attitudes.

Citizens’ support for democracy is one of the highest in Latin America. The 2015 Report of the Latinobarómetro Corporation indicates that the percentage of respondents that support democracy (democracy preferable to any other system of government) has increased from 2004 (2005: 77%, 2009: 82%, 2013: 71%), with a slight decline recently from 76% in 2015 to 68% in 2016. Consequently, Uruguay ranked third in the region behind such problematic countries like Venezuela (77%) and Argentina (71%). The (usually higher) percentages of the Churchillian question (democracy may have problems, but is the best form of government) oscillated less and only dropped from 89% in 2015 to 86% in 2016. Satisfaction with democracy (as it works) with 70% (1995-2015) has continually been the highest in Latin America (average 37%). The “authoritarian potential” (standard question) in 2016 was at 41% (Latin American average 47%). The percentage of interpersonal trust dropped from 29% in 2009 to 17% in 2016. The Latinobarómetro Report also shows that 49% of citizens trust parliament, 59% trust government and 61% trust the state.
Uruguay has a long tradition of autonomous, self-organized groups, devoted to diverse goals. In addition to interest groups, there are numerous associations related to schools or to neighborhoods, based on voluntary work and oriented to help the community. The level of interpersonal trust is not very high, as reported by Latinobarómetro Corporation. While 22% of respondents agreed with the sentence “we can trust most people” in 2015, by 2016 this proportion had fallen to 17%. In spite of this, the report notes that Uruguay ranked highest with Argentina and Panama on this question in Latin America.

II. Economic Transformation

6 | Level of Socioeconomic Development

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 2015 HDI Report ranked Uruguay 52 out of 188 countries, fourth in Latin America, with a score of 0.793 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 4.4% poverty rate for 2014, the lowest rate in the region. A recent report by the National Statistical Institute (2016) stated that by the end of 2015, 6.4% of households lived below the poverty line and 0.2% were indigent.

In terms of income distribution, Gini coefficient for Uruguay is 0.379, the lowest rate in the region. 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 of the Human Development Report 2015 shows that Uruguay’s relative performance has improved by 18 places since the previous measurement in 2013, with a score of 0.313 (second
in Latin America after Chile). The situation of people of African descent is also a challenge for Uruguay. People of African descent comprise 9% of the population. However, among this minority group, the poverty rate among is relatively high and education attainment is low. In 2013, parliament passed a law to boost labor inclusion and access to higher education of this minority group, but for the moment there are no studies that evaluate its impact.

<table>
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<tr>
<th>Economic Indicators</th>
<th>2013</th>
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<th>2016</th>
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Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.
7 | Organization of the Market and Competition

The Uruguayan model of development and welfare, traditionally oriented toward a market economy, had been based on a crucial role of the state, either by direct participation in economic activities or by its regulatory role. Several strategic economic activities have been monopolized by state-owned enterprises (fuel, electricity and communications). The liberalizing trend that began under the last dictatorship and slowly advanced under the subsequent democratic governments implied the incorporation of the private sector into a number of activities previously monopolized by the state. The insurance market, the pension system and the mobile telephone network, for instance, work as competitive markets with participation 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 and private, domestic and foreign investments have been stimulated for several years. Foreign direct investment increased in Uruguay from an average of 2.2% of GDP for the 2001-2004 period to 5.2% for the 2005-2015 period (second in the region after Chile). 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 government party and the labor unions promote greater state participation in the economy, but Uruguay’s two recent presidents have resisted this pressure. President Vázquez has appointed Danilo Astori as minister of economy and the economic guidelines have remained unchanged.

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. The main advance on this point is the development of an electricity generation market from renewable sources, which allows private investment and the selling of energy to the public electricity enterprise. However, some activities, such as fuel or fixed line telephone networks, are still state monopolies, and the opening of markets in certain activities (data transmission, cable television) was slower than expected.

More recently, Uruguay volunteered for a peer review of competition law and policy with UNCTAD which issued its report in 2016. Concerning its recommendations, the head of the Antitrust Commission, Adriana Riccardi, acknowledged that several improvements are necessary, including “enhancing legal certainty, clarity and predictability and enforcing the law more effectively,” and “strengthening the Commission by endowing it with sufficient resources and increasing its autonomy.”

Uruguay took a big step in the liberalization of foreign trade with entry into the Mercosur bloc 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 have 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, and improvements have been effected 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 investment agreements with countries outside Mercosur, such as Mexico, the United States and Finland. However, progress in this area has been modest because Argentina and Brazil, major Mercosur partners, have vetoed successive bilateral agreement initiatives of Uruguay with China or the European Union. In other words, Uruguay’s political leadership has promoted new free trade agreements with other countries, but major Mercosur partners have prevented it by virtue of Decision 62 adopted in 2000.

In 2015, exports of goods amounted to $8,967 million, which implied a reduction of 11.6% compared to 2014. Exports had previously not fallen since 2009, when the international financial crisis affected world trade. The result was expected given the adverse external and regional context, which was characterized by falling commodity prices, China’s slowdown, stagnation in Argentina and recession in Brazil. The government agency Uruguay XXI reported that in 2016 the country exported goods to 160 countries for a total of $8,301 million, a decrease of 7.3% compared to the
previous year. Despite this, there were year-on-year increases in the last two months (approximately 5%). China remains Uruguay’s main trading partner (22%) followed by Brazil (16%), Netherlands (7%), the United States (6%), Argentina (5%) and Germany (4%). Almost 60% of goods imported to Uruguay are production inputs, 15% are capital goods and 25% are consumer goods.

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. 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.

Notwithstanding, the worsening of economic conditions has led to a rise in asset risk, with the ratio of non-performing loans rising to 3.1% in mid-2016 (followed by Moody’s lowering of banking system outlook from stable to negative).

8 | Currency and Price Stability

The central bank has made inflation the main target of its monetary policy. The country began the fight against inflation at the beginning of the 1990s, in the light of the Washington Consensus policies. 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.

During the past five years, inflation has moved between 7.5% (2012) and 9.4% (2015). At the end of 2016, the index had reached 8.1%. However, in February 2017, annual inflation fell to 7.09% the lowest since 2010 and very close to the central bank goal range of 7%. Between 2010 and 2017, successive governments tried different measures to contain inflation. In 2011 and 2012, the central bank raised interest rates and established a policy of restricting the stock of money. From 2013, the government promoted tax exemptions for consumers of electricity and telephony, and secured agreements with supermarkets to freeze the prices of 1,000 products for three months. Since 2015, the government has boosted the “bankization” of market transactions through electronic payment, with the purpose of increasing market formalization and reducing the amount of money in circulation (financial inclusion law). Finally, in 2016, the government increased bank capitalization requirements with the aim 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.

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 took advantage of the favorable external situation and the economy began a cycle of economic growth rarely seen in the history of the country. 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. At the end of 2016, the fiscal deficit increased to 4% of GDP, which is the worst fiscal deficit since 2002. The government had projected this situation in the budget law of 2016 due to its commitments to an increase in spending on health care, housing and the administrative agency of the pension system (BPS). To face with this situation, the government included in that budget law a fiscal adjustment program that included an increase in the income tax rate for the highest salaries which could help to reduce the deficit by slightly more than half a percentage point over the next two years.
There is intense political debate about the origin of the fiscal deficit. Opposition parties say the government lacked fiscal discipline during the last two years of the Mujica 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. The 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 three governments developed a complex strategy 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 2015 (23% net debt). In 2012, the economic growth led several international credit rating agencies to award the investment grade rating (BBB/Baa3) to long-term sovereign securities.

Macroeconomic stability has been strong during the last decade. The problems associated with the fiscal deficit and exacerbated by the economic slowdown require a much more disciplined management of fiscal policy. The tax adjustment included in the budget law of 2016 is a signal that the government is seriously committed to addressing the problem.

9 | Private Property

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

During the first decades of the 20th century, Uruguay became a state-centered capitalist economy. In the 1990s, governments promoted liberalizing reforms in the context of the Washington Consensus policies. However, the process was gradual and some privatizations were blocked by opposition parties and social movements, using direct democracy mechanisms. The last three leftist governments have not followed a strategy of privatizing state-owned enterprises, although they have promoted the
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 here. In recent years, the government has shown interest in attracting additional investments to develop the country port facilities in order to exploit its comparative advantages and become a regional logistics center.

However, in recent years, the government has failed to consolidate some relevant projects that included private partners. President Mújica tried unsuccessfully to build an ocean port, which would provide a hub for the exportation of Uruguay’s mining production. However, the mega project was never completed. The fall of iron prices, the resistance of environmental organizations and the lack of interest in investing in the port led to the failure of the project. Another failed project involved the prospecting of oil reverses along the Uruguayan coast. While private companies confirmed the existence of oil reserves off the coast of Uruguay, limited public investment and the disappointing output from the few exploratory perforations made prevented significant progress in this policy. Despite this, private companies continue to be considered the primary engines of economic production and development by Uruguayan governments.

10 | Welfare Regime

Throughout the 20th century, Uruguay had 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.

The pension system in Uruguay was already universal by the middle of the past century, but the purchasing power of pensions systematically decreased during the 1960s and above all under the dictatorship. In addition, in the post-war decades, the performance of the pension system was fragmented due to the particularistic policy promoted by the political parties. 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. The situation was complicated further because the social structure of the country changed dramatically over those decades. In 1990, Uruguay had an age pyramid with a relationship of 1.3 workers for every pensioner. In an effort to solve the chronic system deficit, a structural reform of the pension system was passed by parliament in 1995. The reform created a mixed public-private system that preserved the pay-as-you-go pillar for low wages and introduced a personal account savings pillar for higher wages.

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 from more than 30% in 2004 to around 5% in 2014. An official report of the National Institute of Statistics (2016) shows that while 53% of the population under age 12 lived in poverty in 2006, only 20% of this segment lived in similar circumstances in 2013. These changes indicate that social policies have succeeded in reversing the historical bias that disadvantaged younger people and favored older people.

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 (98.6%), 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 54%). In 2016, the female unemployment rate was 9.7%, while the male unemployment rate was 6.8%. 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 follow legislative and subnational elections. Although that law was effective only for the 2014 and 2015 elections, it is very likely that parliament will vote on a new quota law for another term.
Moreover, in 2013, a new law legalized marriage between persons of the same sex, and another law created mechanisms designed to improve Afro-descendants’ access to the labor market and to provide them access to higher education scholarships. Parliament also passed a law legalizing abortion in recognition of women’s rights over their own bodies.

11 | Economic Performance

The unfavorable international context 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 1% in 2015 and 1.5% in 2016 according to official estimates. This result was a little smaller than that projected by the government in the budget law of 2015 (2.5% in the first two years of the second Vázquez administration). The slowdown in the economy is linked to a decline in international commodity prices and a fall in the country’s exports (15% in 2015 and 7% in 2016). This opened a strong 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). To this is added the discussion about the fiscal deficit, which in 2016 amounted to 4% of GDP. On the one hand, the government maintains that the growth in the fiscal deficit was predicted (due to the government’s commitment to increase pensions and to include new sectors in the national health care fund) and that the deficit will be reduced by almost 1% over the next year following the government’s fiscal adjustment applied in January 2017. On the other hand, opposition parties have highlighted examples of wasteful public spending and the mismanagement of state-owned enterprises during the Mújica administration.

Despite these difficulties, the unemployment rate remained under control, reaching 7.7% by the end of 2016. The inflation rate, one of the government’s main concerns, exceeded the government’s target range (between 3% and 7%), but appears to have decreased after a complicated period (9.4% in 2015 falling to 8.1% in 2016). The current account balance closed 2016 with positive figures at 2.8% of GDP and a report by the government agency Uruguay XXI stated that foreign direct investment represented 3.1% of GDP in 2015. There was a slight increase in domestic demand and an improvement in net external demand compared to 2015. Final consumption expenditure increased by 0.8%, while gross capital formation grew by 0.7% due to the growth in the accumulation of durable goods (0.9%). International currency reserves remain high ($13.4 billion) and usually are used by the central bank to avoid volatility in the value of the dollar in the local market. Public debt remains high (foreign and domestic), but has declined considerably in recent years, reaching about 60% of GDP by the end of 2015.
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 alternative sources to 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 electricity consumed in the country came from renewable sources, with hydroelectric dams contributing to 50%, wind and solar energy to 40% and biomass-based sources to 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 Aratiri mining project (an open iron mining pit), a broad social movement opposed the initiative, resulting in a slower legislative process. Although parliament adopted the initiative as well as a mega-mining act in 2013, the implementation of the project was suspended. As a result of this social mobilization, a Green Party (PERI) was founded in the elections held in 2014. This party promoted an agenda focused on the care of the environment, and its performance in the elections almost gained it a seat in parliament (0.8% of the electorate). Notwithstanding overall progress, some other problems remain, such as wastewater treatment and extensive use of pesticides and fertilizers in agribusiness. The 2016 Environmental Performance Index ranked Uruguay 65 out of 180 countries.

The leftist governments increased public spending in education (4.5% of GDP) and in R&D (still far below 1% of GDP) and created an independent governmental agency to promote scientific research and innovation (ANII). 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 for postgraduate studies at the University of the Republic.

However, progress has been limited by an overall scarcity of resources affecting teaching as well as research. The previous legislature approved the creation of a technical university, which was oriented to the interior departments of the country. 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 made by the elected president. However, during the review period, the government has made little progress. 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. Meanwhile agreements between the political parties on what the state should do seem to be insufficient in driving reform of the system. To all this is added the government’s inability to increase investment in education (currently 6% of GDP) due to the strong slowdown of the economy. This is arguably the biggest failure of the leftist governments over the last 12 years.
Governance

I. Level of Difficulty

In Uruguay there are no structural constraints, such as natural disasters or pandemic diseases. The country enjoys a privileged geographic location (even though it is strongly dependent on large neighboring countries) and has an educated and relatively wealthy population (in the Latin American context). Given the current conditions of development, the country has to strengthen its education system and develop its infrastructure. The change in the international context between 2015 and 2016, and the resulting economic imbalance shows the extent of country’s vulnerability if the reform process were to be abandoned.

Uruguayan civil society has a long tradition of civic engagement and a participatory civic culture. There are numerous and active civic associations and a significant level of social trust (among the highest in the Americas, according to Latinobarómetro Corporation 2015).

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

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 12 years, and have been largely accompanied by intensive consultations as well as organizing expertise, impact assessments, monitoring and evaluation.

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. However, during the Mújica administration, it was clear that political coordination (particularly by chief of staff Cánepa) no longer functioned as smoothly, or at least as orderly, as it usually did in the first Vázquez administration. Infighting between factions became more visible and the synergies between the teams of the president and of Vice President Danilo Astori (who was in charge of economic policy) were not realized. These conflicts influenced, to a certain extent, the increase in the fiscal deficit and the lack of control over the performance of the state oil company (ANCAP), which lost $800 million over the last five years. 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 in order to increase tax revenues, as well as a re-capitalization of the state oil company.

In addition, the government designated new members of the ANCAP board of directors, including its president, in February 2016.

The second Vázquez government faces other key challenges linked to 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, who are ideologically more leftist than the current president. Consequently, the president is obliged to negotiate with Mújica to secure the approval of the government’s legislative initiatives. On the other hand, in the 2014
election, the ruling party won an adjusted majority in parliament. However, at the end of 2016, one of the ruling party’s deputies left the party, which has meant that the legislative support for the president’s bills is no longer guaranteed in advance. Though not insurmountable, both developments represent significant political challenges for the president’s political agenda.

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, implementation of these reforms has been somewhat hampered by a still relatively oversized bureaucracy – despite successive institutional reforms since the 1990s – and many agencies lack an adequate efficiency. Specifically, 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 and mixed way to maintain a broad consensus. In both cases mentioned, the government has not succeeded in generating these conditions.

The leftist governments have demonstrated a great ability to learn and act in a flexible manner. The traditional leftist conception of economic policies (state-centered and with a weak commitment to a balanced budget) was radically modified by President Vázquez in his first administration, 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 this period were publicly debated and designed with the relevant participation of experts and the organizations implicated. The government led by former President Mújica 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. Another example of innovation in the Mújica administration was the policy of legalizing marijuana as a way of combating drug trafficking. This government initiative
combined innovation and political leadership, although public opinion did not support the policy. The greater flexibility shown by Mújica coexisted with inconsistencies in fulfilling the government’s fiscal goals and inefficient management of state-owned enterprises, which contributed to some of the problems that affect the current government of President Vázquez.

15 | Resource Efficiency

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 by reducing the number of state employees or privatizing state-owned enterprises. The leftist governments, first at the level of the Montevideo government (Intendencia Municipal de Montevideo) 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 has not had a clear strategy to address 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. This situation has become more problematic as the fiscal deficit has increased (4% of GDP in late 2016).

Moreover, the leftist governments have assigned priority to decentralization of the country. In 2009, parliament passed a law that created a third level of government (municipalities), which have been 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.

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 inter-ministerial commission to oversee the restructuring of the ANCAP oil company. 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.

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. 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. At present, there is a special Senate committee working on a bill that will likely change some features of the financing law. In 2012, an institution was created to deal with human rights defense. The institution depends on a budget approved by the legislative branch but functions autonomously, and acts as an ombudsman and advisor of the parliament in human rights matters.
Consensus on democracy is unanimous in Uruguay. Furthermore, democracy works in a highly consensual manner, with broad agreement on major 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 comprised of the leaders of the six political parties represented in parliament with the aim of examining the issue of public security. The commission worked for three months and promoted the drafting of eight bills, of which three were, as of the end of the review period, approved by parliament. At the same time, the president created a second commission comprised of the former presidents (Sanguinetti, Batlle, Lacalle and Mújica) to discuss policies regarding the possible positive outcomes from oil prospecting. The commission presented a draft report to the government in which it recommended how the government should respond if substantial exploitable oil reserves were found.

No Uruguayan political party proposes the abolition of a market economy. The 2014 election showed a broad 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 visions about the degree of state intervention in the economy, the type of fiscal and monetary policy, and exchange rate policy. While there are left-wing factions within the ruling party that question capitalism, their weak political base prevents them from significantly influencing government policy. For example, the small radical party (Popular Assembly) positioned to the left of the ruling Frente Amplio party has only one deputy in the house.

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.
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.

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 in 2009 a law that created a third level of government (municipal councils and a mayor in towns with a population over 5,000). During the second half of President Mújica’s administration, opposition parties and some civil society organizations collected the signatures of 10% of the population to promote a constitutional amendment to lower the age of criminal responsibility for minors. The constitutional referendum was held along with the election of 2014 but the reform initiative was rejected. Nevertheless, citizen participation has been as intense as in every instance of direct democracy that Uruguay has had since 1985.

With the return of Tabaré Vázquez to the presidency, President Vázquez re-established the Open Council of Ministers. These events consist of a meeting of the cabinet in towns in the interior of the country, where ministers explain their policies (accountability), and social organizations and citizens present their demands.
Between 2005 and 2016, there have been 16 meetings of the Open Council of Ministers, which were normally broadcasted by public television.

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.

President Batlle created in 2000 the Commission for Peace, intended to obtain information about kidnapped children and the remains of missing people. The FA governments changed the executive criteria to apply the amnesty law, allowing the judiciary to prosecute some crimes, with the result that a number of civil and military criminals were jailed. 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 to date.

17 | International Cooperation

Due to its small size, Uruguay is a relatively dependent country that prefers to cooperate, although international cooperation is not a sine qua non factor for 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 2015, states that in Uruguay there were 483 international cooperation initiatives with an amount of $142 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 and efficiency in the use of resources gained by international cooperation.
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 has been growing significantly and Uruguay has obtained many benefits, including the maintenance of the investment grade status since 2012.

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.

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 recent times, the country’s cooperation policy has demonstrated an interest in new forms of cooperation, such as triangular and south-south cooperation, and created the Uruguayan Fund for International Cooperation. The Uruguayan Agency of International Cooperation was designated as the head office of the Ibero-American Program for the Strengthening of South-South Cooperation (PIFCSS) in 2012 to 2014. As regards the relationship with neighboring countries, Uruguay has tried to develop strong cooperative relationships, independent of the ideological tendencies of the respective governments. Although Presidents Mújica and Vázquez preferred to negotiate with Brazilian President Dilma Rousseff, and supported her during her impeachment, President Vázquez has not been any less certain in negotiating with the new Brazilian president, Michel Temer. Uruguay’s government quickly put all its effort into developing a friendly relationship with the government of President Temer.
Strategic Outlook

Between 2005 and 2015, Uruguay’s economic and political transformation progressed successfully. Today, the country’s main challenge remains the sustainability of its economic development. The economy’s outstanding performance over the last decade and several important structural reforms secured institutional and economic stability. The country’s investment grade status awarded by leading international credit rating agencies from 2008 confirmed that the country’s economic performance was on track. However, over the last two years, the economy has suffered a sharp 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 (15% in 2015 and 7% in 2016). As the government has maintained high public spending in order to fund social policies, the fiscal deficit has grown worryingly to 4% of GDP. For this reason, parliament has approved a fiscal adjustment program that includes an increase in income tax on the highest incomes and an increase in utility rates (telephones, water, electricity).

The economic slowdown shows Uruguay’s vulnerability to changes in the external context. It seems clear that faced with this type of dependence, the government will need to carefully manage its debt, maintain a strict supervision of the financial system and balance the government budget to ensure the sustainability of private investment, economic growth and social welfare support. Yet, at this last point, opinions are divided in the country. While the government has favored sustaining public social spending and making modest cuts to spending on public administration, the opposition has called for more orthodox policies to tackling the crisis.

The current government has worked to consolidate the reforms implemented over the last decade. For example, the tax system has been improved by reducing the value-added tax rate and raising the income tax rate. Health care coverage has been expanded, though the financial viability of the health care system has not been completely resolved.

The government will have to accelerate reforms in other policy areas. Education reform remains the largest challenge for left-wing governments. Evaluations of secondary school students in international tests (PISA) are disappointing. Investment in R&D is also low and could be increased without affecting other areas of public spending. The government should also address civil service reforms that have been consistently postponed and where trade unions function as a powerful veto player. Finally, the country needs to develop a process of strong investment in physical infrastructure (roads, railways and bridges) to sustain economic growth.

Beyond the need to adequately manage public policies and find solutions to fiscal policies, the government will need to manage its own internal differences. This is not an exclusive problem of the ruling party, the Frente Amplio (FA), but rather a structural problem caused by the factional nature of Uruguayan political parties. As factions are well-institutionalized groups and have decision-making autonomy, building party discipline is a complex process that tests the ability of presidential leadership. Some presidents have successfully resolved this challenge but others have
failed. President Vázquez did it well during his first administration (2005-2010). However, during his second administration (2015-present), he has experienced problems linked with the wide ideological differences within his own party. Whether due to the number of legislators belonging to former President Mújica’s faction or because of the influence Mújica’s faction has on the FA, President Vázquez cannot govern without taking former President Mújica into account. It is likely that when the next election campaign will begin, this situation will deepen because Vázquez has no re-election option (and will be a lame duck) and Mújica will become strong during the selection process of the party’s presidential candidate. So, much will depend on how Vázquez responds to this institutional and political dilemma.