URUGUAY

Uruguay’s economic freedom score is 68.6, making its economy the 40th freest in the 2019 Index. Its overall score has decreased by 0.6 point, with a decline in judicial effectiveness exceeding an improvement in labor freedom. Uruguay is ranked 6th among 32 countries in the Americas region, and its overall score is above the regional and world averages.

To achieve its main policy goal of fiscal consolidation to avoid adding to public debt, the government is encouraging infrastructure projects through public-private partnerships. After recovering in 2017, the economy has achieved moderate growth, but structural issues, which include an appreciated real exchange rate, high taxes, an inflexible labor market, and well-organized unions, weigh on future prospects. Uruguay’s economy stands out in the region because of its relative openness supported by a strong commitment to maintaining the rule of law. Uruguay is Latin America’s least corrupt country.

BACKGROUND: Uruguay, Bolivia, and Paraguay were established in the 19th century as buffers between regional powers Brazil and Argentina. Public outrage at Marxist guerrilla violence in the 1960s facilitated a military takeover of the government in 1973. Civilian rule was restored in 1985. The center-left Frente Amplio Coalition’s election victory in 2004 ended 170 years of political dominance by the center-right Colorado and Blanco parties. President Tabaré Vázquez of the FAC will complete his second nonconsecutive five-year term in 2020. Pressures on government revenue have forced cuts in programs popular with his political base. The economy, based on exports of commodities like milk, beef, rice, and wool, suffered in 2018 from economic and political turbulence in Brazil and Argentina.
In general, private property is secure, expropriation is unlikely, and contracts are enforced. The judiciary is transparent and independent, although the courts function slowly and are subject to intimidation. Uruguay is ranked Latin America’s least corrupt country in Transparency International’s 2017 Corruption Perceptions Index. After an investigation, former Vice President Raul Sendic was forced to resign in 2017 amid accusations of corruption.

The top individual income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 27.4 percent of total domestic income. Over the past three years, government spending has amounted to 32.9 percent of the country’s output (GDP), and budget deficits have averaged 3.7 percent of GDP. Public debt is equivalent to 66.2 percent of GDP.

Reforms in recent years have streamlined the regulatory environment, but increased incorporation costs have made starting a business more expensive. Fixed-term contracts have become more flexible in terms of work tasks. Uruguay has eliminated many price controls, but the government continues to fix prices for electricity, fuels, rents, interdepartmental transport, medicines, natural gas, pasteurized milk, taxi fares, tolls, and water.

The combined value of exports and imports is equal to 40.0 percent of GDP. The average applied tariff rate is 5.7 percent. As of June 30, 2018, according to the WTO, Uruguay had 53 nontariff measures in force. The economy is relatively open to foreign investment, but further investment reform measures have stalled since 2011. About 69 percent of adult Uruguayans have access to an account with a formal banking institution.