

World Rank: **33**

Regional Rank: **4**

Uruguay's economic freedom score is 69.8, making its economy the 33rd freest in the 2010 *Index*. Its score is 0.7 point higher than last year, due to improved scores in four of the 10 economic freedoms. Uruguay is ranked 4th out of 29 countries in the South and Central America/Caribbean region, and its overall score is significantly higher than the world average.

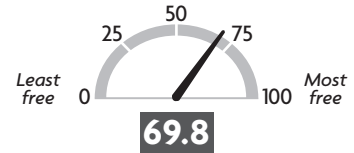
A series of structural reforms have facilitated annual economic growth averaging about 7 percent over the past five years. With its trade regime relatively open and monetary stability restored, Uruguay has managed to improve its entrepreneurial environment and reduce poverty. Recent reforms reduced the corporate tax to 25 percent and introduced an income tax with a top rate of 25 percent. The labor market is relatively flexible.

Uruguay's main structural vulnerabilities have been low levels of investment and productivity and weak public finance management. The state uses monopolies in certain sectors to control much of the economy. Inefficient regulatory and legal frameworks, coupled with an underdeveloped financial sector, undermine dynamic growth and development. The judiciary, while independent and relatively corruption-free, is subject to bureaucratic delays.

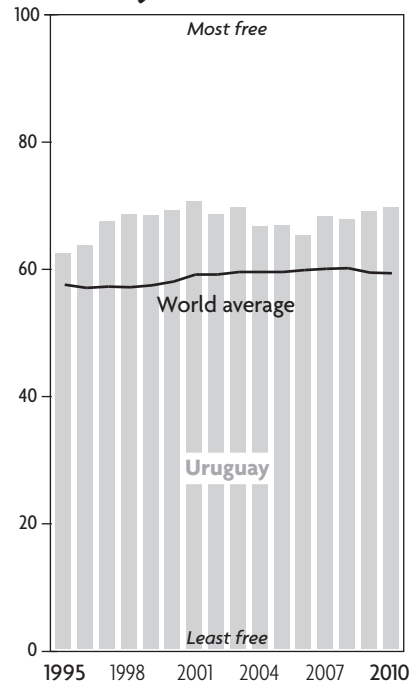
**BACKGROUND:** Uruguay has a large middle class, high GDP growth rates, and low levels of extreme poverty. The leftist Frente Amplio party won a majority in parliamentary elections in October 2009, and a presidential runoff was scheduled for late November. A founding member of MERCOSUR, Uruguay signed a Trade and Investment Framework Agreement with the United States in January 2007, but opposition from other MERCOSUR members and flagging U.S. support make pursuit of a free trade agreement difficult. The economy is based largely on beef and wool exports, but wood and software are gaining export market share. Historically, state involvement in the economy has been substantial. Further privatization is needed in telecommunications, energy, and public utilities.

# URUGUAY

## Economic Freedom Score



## Country's Score Over Time



## Quick Facts

**Population:** 3.3 million  
**GDP (PPP):** \$42.5 billion  
 8.9% growth in 2008  
 7.1% 5-year compound annual growth  
 \$12,734 per capita

**Unemployment:** 7.6%

**Inflation (CPI):** 7.9%

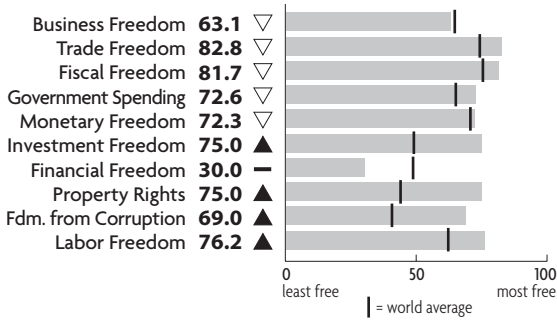
**FDI Inflow:** \$2.2 billion

2008 data unless otherwise noted  
 Data compiled as of September 2009

### How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## URUGUAY'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 63.1

The overall freedom to start, operate, and close a business is limited under Uruguay's regulatory environment. Starting a business takes an average of 65 days, compared to the world average of 35 days. Obtaining a business license requires more than the world average of 18 procedures and 218 days. The process for closing a business is fairly easy and straightforward.

### TRADE FREEDOM — 82.8

Uruguay's weighted average tariff rate was 3.6 percent in 2008. Some import bans and restrictions, import taxes and fees, import registration requirements, import licensing requirements, and customs delays add to the cost of trade. Ten points were deducted from Uruguay's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 81.7

Uruguay's tax rates have been moderate since the implementation of major tax reforms in July 2007. Corporate tax schemes were unified, and the top corporate tax rate is 25 percent. An income tax was implemented with a top rate of 25 percent. Other taxes include a value-added tax (VAT), a capital gains tax, a wealth tax, and a property transfer tax. In the most recent year, overall tax revenue as a percentage of GDP was 24.0 percent.

### GOVERNMENT SPENDING — 72.6

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 30.2 percent of GDP.

### MONETARY FREEDOM — 72.3

Inflation has been relatively high, averaging 7.8 percent between 2006 and 2008. Uruguay has eliminated most price controls, but the executive branch fixes prices of certain staples such as milk, and the government influences prices through regulation and/or ownership of numerous state-owned enterprises and utilities, including energy, petroleum products, and telecommunications. Ten points were deducted from Uruguay's monetary freedom score to account for policies that distort domestic prices.

### INVESTMENT FREEDOM — 75

In general, foreign capital and domestic capital are treated equally under the law. Foreign investors face few restrictions outside of state-monopoly sectors, and foreign investments are not subject to screening or approval requirements. The bureaucracy is generally transparent but can be cumbersome, especially in government tenders. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, transfers, or repatriation of profits. Non-residents may purchase real estate.

### FINANCIAL FREEDOM — 30

Uruguay's small financial system, dominated by the banking sector, remains subject to considerable government influence. Banking accounts for more than 80 percent of the system's assets, and about 40 percent of bank assets are held by government-owned banks. The state-owned Banco de la República Oriental del Uruguay is the largest bank, and the state-owned Banco Hipotecario del Uruguay is the leading mortgage lender. The government-owned Banco de Seguros del Estado dominates the insurance sector, accounting for over half of the market. The economy is highly dollarized. There is limited bank credit available for small and medium enterprises. Capital markets are underdeveloped and concentrated in government debt. The two stock exchanges listed 26 firms in 2007, but trading remains largely inactive.

### PROPERTY RIGHTS — 75

Private property is generally secure, and expropriation is unlikely. Contracts are enforced, although the judiciary tends to be slow. The government has established a Settlement and Arbitration Center to improve investment relations. Regulations protecting copyrights appear to be working, but protection of confidential test data from unfair commercial use as required by the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement remains inadequate. Aggressive anti-piracy campaigns have led to several successful prosecutions.

### FREEDOM FROM CORRUPTION — 69

Corruption is perceived as present. Uruguay ranks 23rd out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Although Uruguay has strong laws to prevent bribery and other corrupt practices, public surveys indicate a widespread perception of public-sector corruption. However, foreign firms have not identified corruption as an obstacle to investment.

### LABOR FREEDOM — 76.2

Uruguay's labor regulations are relatively flexible. The non-salary cost of employing a worker is low, and dismissing an employee is relatively easy. Regulations on the number of work hours are not flexible.