

REPORT

# Uruguay at a Crossroads: Continued Decline or a Return to Economic Progress?

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This issue brief examines the key social and economic stakes in Uruguay's November 24 presidential runoff. The election presents voters with a choice between Yamandú Orsi of the Broad Front, who advocates for a return to the progressive policy platform of 2005–2019, and Álvaro Delgado of the National Party, whose platform reflects the austerity-driven approach Uruguay has adopted since 2020.

Under successive Broad Front governments from 2005 to 2019, Uruguay experienced a period of strong, inclusive growth that is regarded by many observers to be a regional success story. Social spending increased from 18.5 percent to 25.8 percent of gross domestic product (GDP), with new and extended cash transfer programs covering more than 30 percent of households, and major health-care reforms guaranteeing equitable, universal access. These measures helped reduce poverty from nearly 40 percent in 2005 to under 9 percent by 2019 and established Uruguay as the South American country with the lowest levels of poverty and inequality.

However, under the National Party–led administration — in office since 2020 — many of these gains have been undermined. This government, led by President Luis Lacalle Pou, faced a significant challenge with the onset of the COVID pandemic just days after the president took office. However, his government's policy decisions contributed to a slower recovery and to stagnation or worsening of social indicators. Uruguay's performance was, as a result, worse than that of most of its regional peers.

The Lacalle Pou administration introduced a constrictive fiscal rule that led to less increased spending and reduced fiscal support at a rate faster than in neighboring countries during the pandemic. Primary spending fell by 2 percentage points of GDP to 28.2 percent of GDP in 2021, and pandemic relief programs were phased out sooner than in neighboring countries. Social spending dropped by over 3 percentage points of GDP from nearly 28 percent in 2020 to 24.5 percent in 2023. Monetary policy was also tightened prematurely, with the policy rate beginning to rise before the end of the pandemic and six months prior to the first interest rate hike by the US Federal Reserve.

The poverty rate, which had risen with the onset of the COVID pandemic, remains elevated above its pre-pandemic level, unlike in most of Uruguay's closest peers. Income inequality also worsened significantly: Between 2019 and 2022, the real average post-tax and transfers income of the richest 10 percent increased by 8 percent while the poorest 50 percent saw their real income fall by 16 percent.

The Broad Front strengthened labor unions with the introduction of wage councils, among other measures, and regularly increased the minimum wage

above inflation amounts, causing it to rise significantly in real terms. By contrast, the Lacalle Pou administration has restricted the right to strike and reduced minimum wage increases to barely above the inflation rate. As a result, real (inflation-adjusted) wages increased by just 3.1 percent and the real minimum wage, 1.7 percent, since the beginning of Lacalle Pou's term — the slowest increases since 2004.

The labor market has been one of the few bright spots in Uruguay's economic performance, with a change in the structure of the labor market as well as the size of businesses, which increased the percentage of the labor market employed in the formal sector. However, this is likely due more to structural changes in the Uruguayan economy rather than the result of policy measures.

Uruguay's November election represents a critical choice for its future. Orsi and the Broad Front propose a return to progressive social policies, including expanded cash transfer programs for poor households and increased social spending to address rising inequality.<sup>1</sup>

Delgado, by contrast, offers continuity with the past four years, when fiscal tightening, including cuts to social spending, was prioritized over economic and social goals. With the election of Javier Milei in neighboring Argentina, there is also the threat that radical right elements within Delgado's coalition, such as the far-right *Cabildo Abierto* party, could be empowered, creating pressure for an even more extreme economic policy.

This election will have significant long-term implications. Uruguay's decision on November 24 will determine whether it seeks to revive a model of inclusive growth or to continue on a path of fiscal restraint that has, in recent years, widened social divides and reduced economic gains.

## Introduction

On November 24, Uruguayans will head to the polls for the second round of presidential elections. Yamandú Orsi from the center-left Broad Front (*Frente Amplio* — FA) coalition will face off against Álvaro Delgado from the incumbent center-right National Party (*Partido Nacional* — PN). The Broad Front held the presidency from 2005 through to the beginning of 2020, overseeing “robust economic growth and socially liberal laws that raised Uruguay's global profile” following a period of economic instability.<sup>2</sup> During this 15-year period Uruguay was frequently described as Latin America's success story.

Luis Lacalle Pou, the son of a former president, was elected in 2019 for a nonrenewable five-year term under the banner of a coalition led by the National Party that also includes the far-right *Cabildo Abierto* party. Under Lacalle Pou, Uruguay experienced a challenging phase marked by the global pandemic and its aftermath as well as an acute water crisis exacerbated by *La Niña* in 2022–23. Lacalle Pou's administration has consistently prioritized fiscal

constraint and conservative labor market and pension reforms over reducing poverty and other social welfare concerns.

Voters will be facing a stark choice in November. Media coverage of the ongoing electoral process has focused on the similarities between the two candidates, but the economic and social developments that Orsi's and Delgado's political movements have presided over paint a different picture.

Delgado's election could threaten Uruguay's steady advancement toward a more prosperous and inclusive society. Today, Uruguay is one of South America's highest income countries on a per capita basis. By the start of 2020 Uruguay had the lowest poverty rate and lowest level of income inequality in South America on a continent plagued by some of the world's highest levels of inequality.<sup>3</sup> These achievements were the result of a sustained series of policy actions, including cash transfers to poor and marginalized groups, higher social spending, and progressive tax reforms. Many of these advances have been eroded or undone in recent years under Lacalle Pou's administration where Delgado served as Secretary to the Presidency, a cabinet-level senior advisory role, until stepping down to begin his presidential campaign. This issue brief looks at Uruguay's recent economic and social developments, contrasting policy measures, and key indicators under the 15 years of Broad Front governance versus the National Party governance since 2020. It reviews government decisions that sparked a virtuous cycle of growth and redistribution and assesses the subsequent efforts to reverse them. Referring to the string of corruption scandals linked to the current government and the crime situation, The Economist recently warned that "Uruguay is losing its reputation as Latin America's success story."<sup>4</sup> As this brief shows, this concern also applies to Uruguay's recent economic performance.

## **Growth: Economic Policies and External Factors**

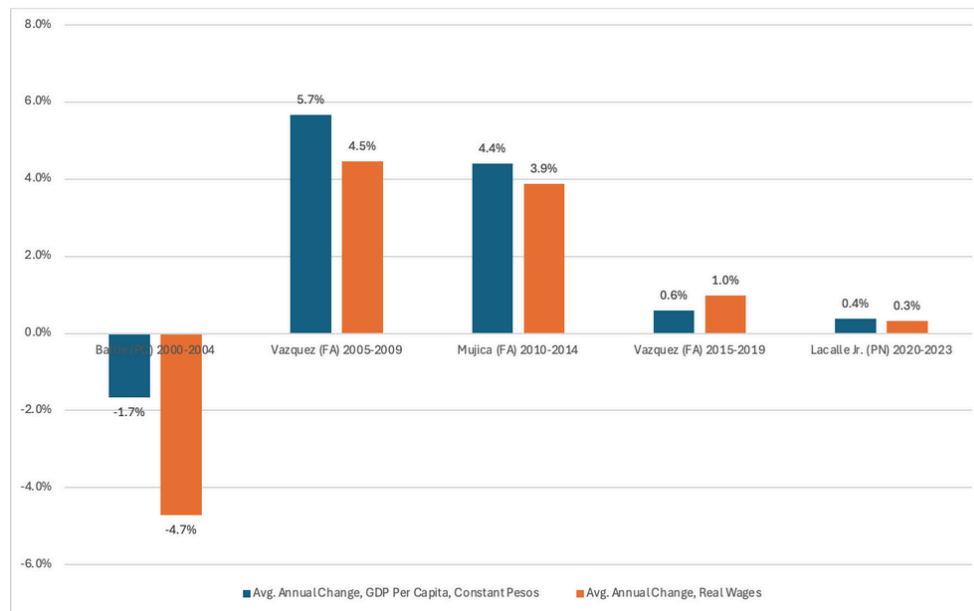
As was the case in much of Latin America, the late twentieth century was a turbulent time in Uruguay, with elevated inflation, high levels of debt, and flagging economic growth. For most of the nineteenth and twentieth centuries, just two parties — the Colorado Party (PC) and the National Party — had governed the country, with Uruguay only recently transitioning from a civic-military dictatorship (1973–1985).

**In 2004, in a historic break with Uruguay's long standing two-party status quo, Tabaré Vázquez and the Broad Front won a large popular mandate to advance a comprehensive progressive agenda of social and economic reforms.** Formed in 1971 as a far-reaching progressive political coalition, the Broad Front won the presidency with a resounding first-round victory. The new direction taken by the Vázquez administration included a complete overhaul of the social welfare system, tax reform, pension reform, financial regulation reform, health-care reform, new competition and bankruptcy laws, a major

increase of the minimum wage, the institution of wage councils, and measures in support of collective bargaining. This progressive agenda was maintained and furthered under Vázquez’s successor José “Pepe” Mujica (2010–2015) as well as during Vázquez’s second administration (2015–2020).

**Under the Broad Front, Uruguay experienced a 10-year period of high growth both for the economy overall and in terms of real wages (Figure 1).** However, growth slowed during Vázquez’s second term, paving the way for the National Party’s return to power in 2020.

**Figure 1: Uruguay’s GDP and Real Wages Growth Has Slowed**



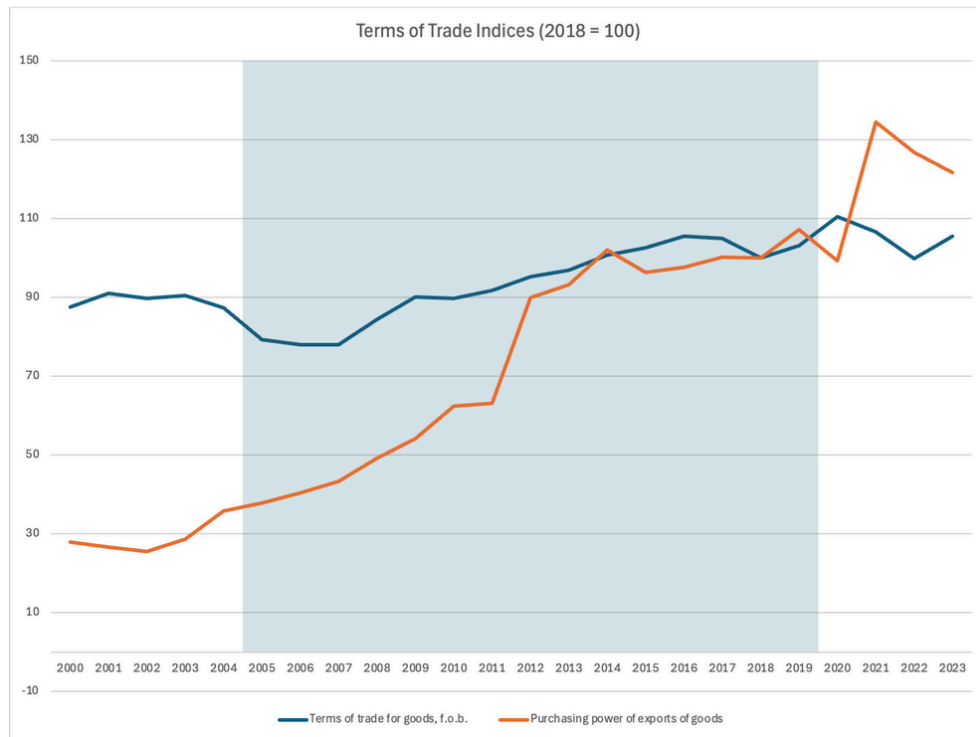
Source: IMF, 2024d; Uruguay Instituto Nacional de Estadística, 2024.

After his election in 2019, Lacalle Pou of the center-right National Party began to undo the reforms implemented under the Broad Front. After taking office in March 2020, his administration was marked by the global COVID pandemic and the resulting recession. However, his conservative policy choices, detailed below, contributed to a slower recovery to the pandemic than Uruguay’s South American peers.

Uruguay experienced improving terms of trade under the Broad Front and under Lacalle Pou, indicating that policy choices, not just external conditions, played an important role in determining the sharply different growth patterns under the different administrations. Uruguay’s economy relies heavily on commodity exports, especially in the agricultural sector, and its high growth rates from 2005 to 2014 are generally attributed to the increase in commodity prices over that time frame. However, Uruguay’s terms of trade<sup>5</sup> have steadily increased during the twenty-first century, and while peaking in 2020, they have remained above their average level throughout Lacalle Pou’s administration (Figure 2) over the past 20 years or so. The country’s purchasing power of exports<sup>6</sup> has also reached historic highs in recent years as demand for the

country's agricultural products has significantly increased due to global events such as the war in Ukraine. Notably, this has remained the case in spite of the serious drought caused by the La Niña climate phenomenon, aggravated by global climate change, which affected Uruguay's agricultural output in 2022 and 2023.<sup>1</sup> Between the last quarter of 2022 and the second quarter of 2023, agricultural output was about 25 percent lower on a year-on-year basis (IMF, 2024c, 37).<sup>[/footnote]</sup>

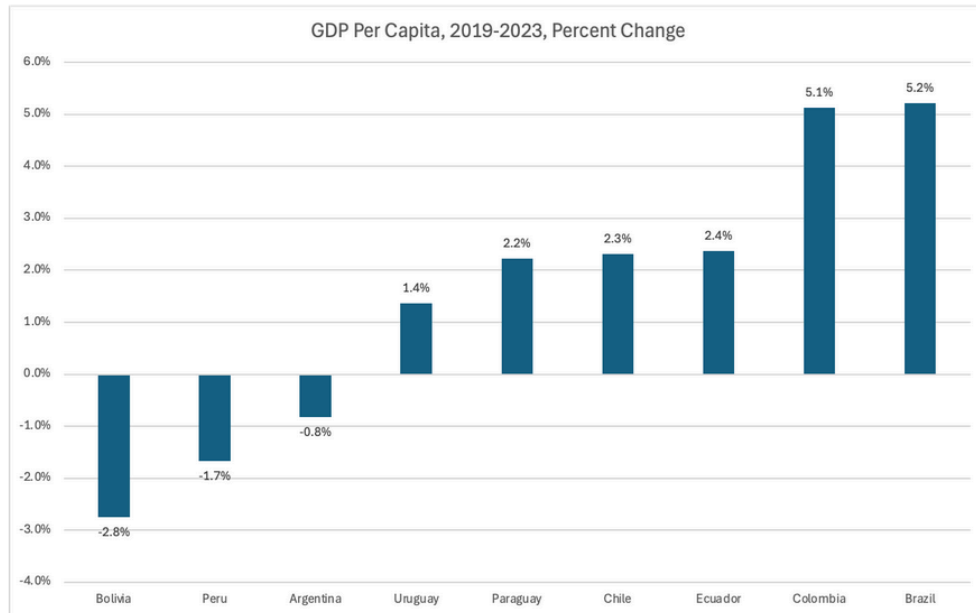
**Figure 2: Uruguay Has Benefited from Stable Terms of Trade in the Last Couple of Decades**



Source: ECLAC, n.d. Note: Shaded area indicates period of Broad Front governance.

Of course, the economy's performance under Lacalle Pou was greatly affected by the COVID pandemic, with -7.7 percent growth in per capita GDP in 2020. Nevertheless, compared with other countries in the region, Uruguay's recovery from the pandemic has been lower than the regional average (**Figure 3**). As Figure 1 illustrates, the recovery from the pandemic has also seen very low growth regarding real wages, which will be discussed in greater detail below.

**Figure 3: During and Following the Pandemic, Uruguay Has Performed Worse than Most of South America**

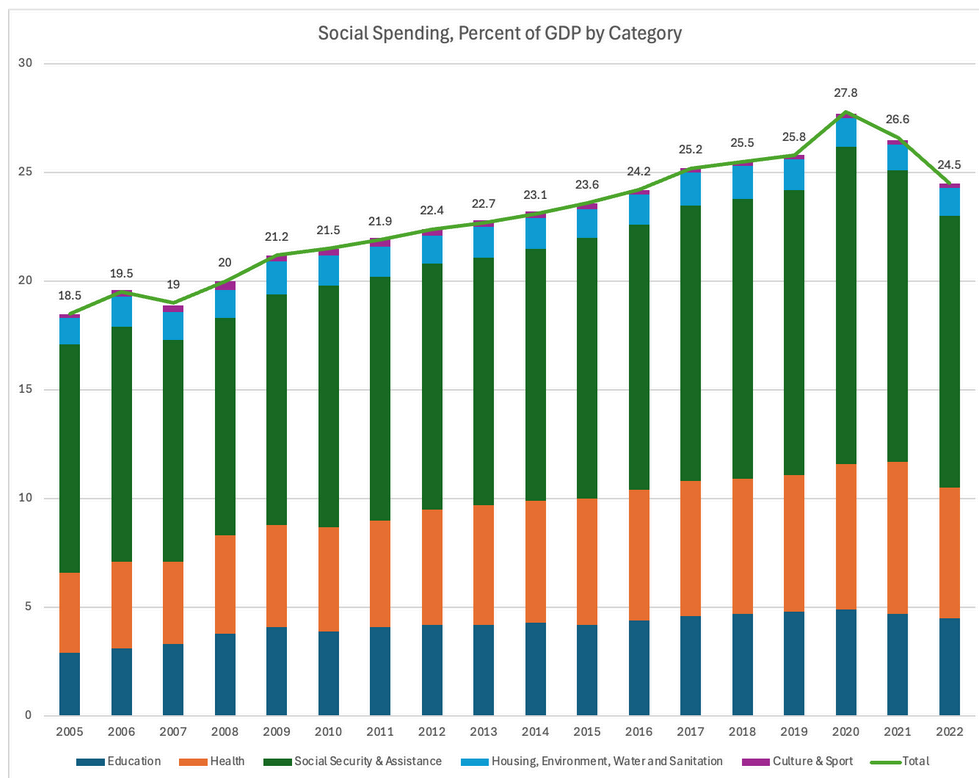


Source: IMF, 2024d. Note: Venezuela is excluded as the IMF WEO does not have data for these years.

## **Social Spending and Macroeconomic Policy**

**One of the most significant developments during the 15 years of Broad Front leadership was the steady increase in social spending (Figure 4).**

From 2005 to 2019, social spending as a percent of GDP increased from 18.5 percent to 25.8 percent.



Source: Uruguay Ministerio de Desarrollo Social, 2024.

**The Broad Front successfully instituted new cash programs and reformed existing social assistance to address long-standing poverty.** When the Broad Front won the presidency in 2004, nearly 40 percent of Uruguayans were living below the poverty line.<sup>7</sup> Addressing this situation was the top priority for the incoming administration. The new government created various cash transfer programs targeting different segments of the population, including the Tarjeta Uruguay Social (from 2006), the PANES emergency assistance program (2005–2007), and the Plan de Equidad (from 2008). Earlier social assistance programs such as the Asignaciones Familiares (Family Allowances, created in 1943) and the Pensión a la Vejez (noncontributory old age pensions, created in 1919) were reformed as part of the Plan de Equidad to extend coverage to families and individuals in the informal sector.

These cash transfer programs achieved one of the highest coverage rates in Latin America. By 2017–2018, 30.5 percent of people were living in households that were recipients of at least one cash transfer program.<sup>8</sup> This was higher than Argentina (26.7 percent), Brazil (26.9 percent), and Paraguay (12.4 percent) and was only surpassed in Latin America by Bolivia (59.9 percent) and the Dominican Republic (32.5 percent).<sup>2</sup> Cejudo, Michel, and de los Cobos, 2020. Figures includes recipients of noncontributory pensions. Cash transfer programs sometimes fail to reach the poorest households; however, by 2019, Uruguay had achieved 94 percent coverage of those below the extreme poverty line — the highest rate among Latin American countries with comparable programs, where the regional average was 48 percent coverage.<sup>3</sup> The Latin American average is unweighted by population size and is

the mean of 17 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guyana, Honduras, Mexico, Panama, Peru, Paraguay, El Salvador, Suriname, and Uruguay (Stampini et al., 2021).  
[/footnote]

In 2007, the Broad Front government also established the National Integrated Health System (SNIS), paid for by the newly created National Health Insurance (SNS), representing a major expansion of public health care and integrated public and private providers into a network to ensure equitable, universal access to health care.<sup>9</sup> Collectively, the Broad Front's reforms constituted a major expansion of the welfare state and caused poverty rates to fall dramatically, to 9.7 percent by 2015 and 8.8 percent in 2019, their last year in government.

**In contrast, while social spending rose in 2020 as part of the government's initial pandemic response, it was cut back sharply in both 2021 and 2022 as the new administration of Lacalle Pou implemented fiscal austerity, cemented by the adoption of a new fiscal rule, welcomed by the IMF.<sup>10</sup>** The new government also introduced a series of conservative reforms to social policy, the most important of which was a 2023 reform of social security that will gradually raise the retirement age from 60 to 65.<sup>11</sup>

The policy response to the pandemic and the ensuing recession was also more limited than was the case with many of Uruguay's peers, with smaller spending increases due to the constraints imposed by the new fiscal rule. Pandemic support programs were withdrawn sooner in Uruguay than in neighboring countries. The government created one new cash transfer program (the Canasta de Emergencia) and increased the size of the social benefits paid in two existing programs (the Plan de Equidad Social and Tarjeta Uruguay Social). But the increases to coverage and benefit size were modest compared with other Latin American countries, according to an analysis by the UN Development Programme.<sup>12</sup> All three of the modified or new cash transfer programs were available to 6 percent or less of the population and provided additional benefits of less than 10 percent of monthly per capita GDP.<sup>4</sup> Cejudo, Michel, and de los Cobos, 2020, Graph 3. [/footnote] Apart from Trinidad and Tobago, all other countries that introduced or modified cash transfer programs either had higher additional payments or made the program available to a broader segment of society.<sup>5</sup> Cejudo, Michel, and de los Cobos, 2020. [/footnote]

Other policies included extending unemployment benefits, sectoral subsidies, and tax deferrals for heavily affected industries. Overall, the primary deficit widened by 1.6 percentage points to -2.1 percent of GDP from 2019 to 2020 (**Table 1**). This was driven by increased primary spending (excluding interest payments) of 1.8 percent of GDP. This spending increase was more modest than in the other countries of the Southern Cone and was smaller than the Latin American average. From 2019 to 2020, spending in Chile increased by 2.4

percent of GDP, in Argentina by about 6 percent of GDP, and in Brazil by 3.8 percentage points.

**Table 1: Relative to Much of the Rest of the Region, Uruguay Spent Less and for Less Time During the COVID Pandemic (% of GDP)**

		2019	2020	2021	2022	2023	2024
Uruguay	Revenue	27.9	28.1	27.6	27.6	27.7	28.5
	Primary Expenditure	28.4	30.2	28.2	28.2	28.6	29.2
	Primary Balance	-0.5	-2.1	-0.6	-0.5	-0.9	-0.7
Argentina	Revenue	33.7	33.8	33.6	33.9	32.5	31.9
	Primary Expenditure	34.1	40.0	36.1	35.6	35.3	30.2
	Primary Balance	-0.4	-6.2	-2.5	-1.7	-2.8	1.8
Brazil	Revenue	38.2	34.5	37.7	39.5	37.8	39.3
	Primary Expenditure	38.3	42.1	35.8	38.2	39.8	39.8
	Primary Balance	-0.1	-7.5	2.0	1.3	-2.0	-0.5
Chile	Revenue	23.8	22.0	26.1	28.0	25.1	24.7
	Primary Expenditure	26.1	28.6	33.0	26.2	27.0	26.4
	Primary Balance	-2.4	-6.6	-6.9	1.8	-1.9	-1.7
Latin America	Revenue	29.4	27.4	28.9	30.3	29.5	29.6
	Primary Expenditure	29.6	32.4	29.5	30.0	30.3	30.0
	Primary Balance	-0.2	-5.0	-0.6	0.3	-0.8	-0.4

Source: IMF, 2024a. Figures are for general government except for Uruguay which is nonfinancial public sector (NFPS). Note: Paraguay, not shown here, saw primary spending increase by 2.4 percent of GDP from 2019 to 2020 at the central government level (IMF, 2024a, 5 [Table 1]).

**Lacalle Pou’s COVID fiscal support — already modest in scale — was rapidly withdrawn, even before the end of the pandemic.** Overall primary spending fell by 2 percentage points to 28.2 percent of GDP in 2021; it then rose slightly to 28.6 percent of GDP in 2023 and is set to rise to 29.2 percent in 2024. Social spending, on the other hand, fell by over 3 percentage points of GDP from almost 28 percent in 2020 to 24.5 percent in 2023, beneath the pre-pandemic rate of almost 26 percent.

This tightening was deemed necessary to comply with a new fiscal rule introduced by Lacalle Pou’s administration and approved by Uruguay’s right-wing dominated legislature.<sup>13</sup> The new fiscal rule consists of limits to the size of the deficit, to primary expenditure growth, and to the net debt ceiling.<sup>6</sup> Uruguay Ministerio de Economía y Finanzas, 2023. [footnote] This severe fiscal framework rapidly reduced the net debt ratio, from 57.3 percent of GDP in 2020 to 51.6 percent of GDP in 2022 — about the same level it had been in 2019.<sup>7</sup> IMF,

2024c, 32, nonfinancial public sector; IMF 2022.[/footnote] With interest payments at about 2 percent of GDP, an argument can be made that the prioritization of this goal over other key vital needs was excessive.<sup>8</sup> Notably, the external debt burden was also not a major constraint as interest payments on the external debt averaged only about 1.5 percent of exports from 2020 to 2024 (IMF 2024c). [/footnote] This new fiscal rule had negative ramifications in other areas, including in economic growth and in the slow progress of reducing poverty, which remains above pre-pandemic levels (see below).

**After the first confirmed cases of COVID in 2020, monetary policy shifted to an expansionary stance,** with the rate of growth of the monetary base increasing by 11 percent in the second quarter of 2020, double what it had been in the first quarter.<sup>14</sup> There were also reductions in reserve requirements, and the government extended an existing public credit guarantee scheme to facilitate credit to small- and mid-sized enterprises.<sup>9</sup> Bucacos et al., 2023. [/footnote] These expansionary policies mitigated the impact of the pandemic recession. One modeling analysis estimated that the output gap would have been about 1.4 percentage points wider without this expansionary policy.<sup>10</sup> Output by the end of 2020 would have been -5.5 percent from the trend as opposed to -3.9 percent from the trend (Bucacos et al., 2023).[/footnote]

**Monetary policy started tightening early.** In September 2020 the Central Bank (*Banco Central del Uruguay*) shifted to using the interest rate as the main instrument of policy, with an initial reference rate of 4.5 percent.<sup>15</sup> Starting in October 2021 — almost six months ahead of the US Federal Reserve and well before the end of the pandemic — Uruguayan authorities began raising rates, with the policy rate peaking at 11.3 percent in 2022. The Central Bank then began reducing rates, to 9 percent in 2023 and 8.5 percent currently, though as inflation has come down, the real rate has actually increased.<sup>11</sup> IMF, 2024c, 31 [Table 1]; BCU, n.d.[/footnote] This policy has contributed to the trimming of headline inflation rates, which fell from a peak of 8.3 percent in 2022 to a projected 5.5 percent in 2024.<sup>12</sup> IMF, 2024c.[/footnote] This negative monetary shock was likely one of the most important determinants of Uruguay's lackluster growth of just 0.4 percent in 2023 (output is forecast to expand at a faster clip of 3.2 percent in 2024).<sup>13</sup> IMF, 2024e.[/footnote]

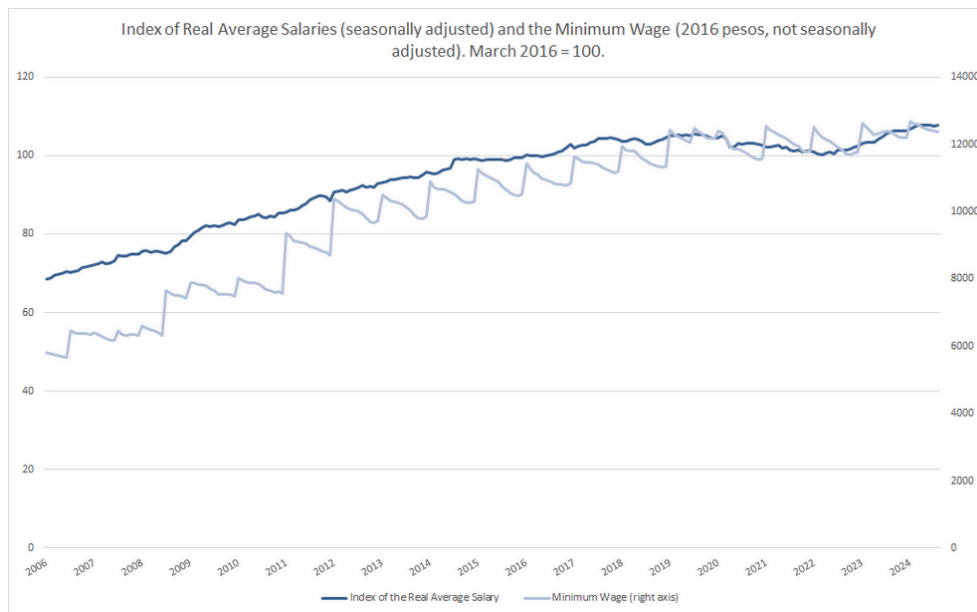
## Wages

**A major institutional change under the Broad Front was the reintroduction of sectoral wage councils.** In 2005, the administration reinstated tripartite collective bargaining — comprising of government, employer, and union representatives — and over the next years, union density went from about 10 percent to almost 40 percent.<sup>16</sup> Uruguay's sectoral wage councils, through these tripartite negotiations that set sector-specific minimum wages with inflation adjustments, have contributed significantly to wage growth, a

reduction in income inequality, and protections for low-wage workers. Successive Broad Front administrations also regularly increased the national minimum wage with above-inflation increases, causing it to rise sharply in real terms over their time in office. The Lacalle Pou administration, however, has weakened worker rights, including limiting the right to picket during strikes.<sup>14</sup> El Observador, 2021.[/footnote] Through the implementation of the fiscal rule, his administration has also limited public sector wage growth.

**Figure 5** shows indices for the real average salary and the real minimum wage since 2006. The minimum wage grew markedly by about 30 percent in real terms over Vázquez’s first term and Mujica’s term (2005–2015); it then grew another 10 percent during the second Vázquez administration (2015–2020). It stagnated in real terms, however, under Lacalle Pou, with the value of the minimum wage ending up at about the same level it had been at the beginning of his mandate.

**Figure 5: Real Wages and the Real Minimum Wage Have Stagnated in Recent Years**



Source: Uruguay Instituto Nacional de Estadística, n.d.b, n.d.c.

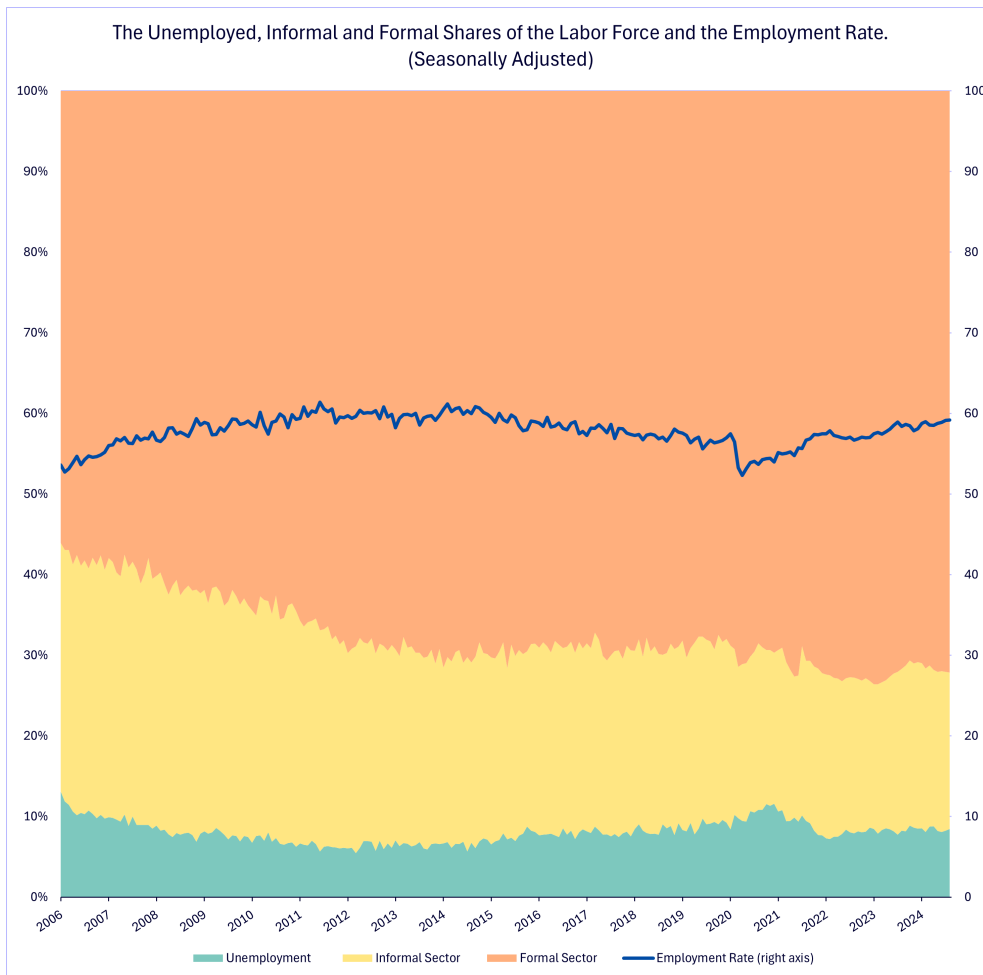
**There were dramatic increases in real wages under the Broad Front, especially until 2015; the picture since has been more mixed.** Since 2015, average wages went through two growth cycles, growing solidly in real terms from 2016 to late 2017 and from mid-2022 to the beginning of 2024. Real wages at the end of the Vázquez administration were on average 4.4 percent higher than they had been at its beginning, with the minimum wage over 9 percent higher. While higher than GDP growth, these increases were markedly slower than the rate of growth under the first Vázquez government and the government of Mujica. However, real wages fell sharply in the early years of the Lacalle Pou presidency, wiping out much of these gains. Uruguay’s post-pandemic rebound since 2022 led to real average wages and the real minimum

wage ending at, respectively, 3.1 and 1.7 percent higher than they were at the beginning of Lacalle Pou's term; these are the smallest increases of real wages since 2004.

## **Employment and the Informal Economy**

**Unemployment and the percentage of the labor force working in the informal sector fell sharply until 2013 (Figure 6).** From the middle of the 2010s, while the informal sector remained steady, unemployment began to gradually tick upward until the pandemic. The pandemic caused not only a sharp fall in the employment rate and in the rate of informality but also a further, sharper rise in unemployment. This pandemic-related fall in the rate of informality can be explained by a disproportionate number of informal workers leaving the workforce during the period. As a member of the Ministry of Labor's technical team put it, "the pandemic shock destroyed more informal than formal jobs"; the fall in informality was not due to more inscriptions into the social security registry.<sup>17</sup> This followed a similar pattern to other countries in the region. However, unlike in the rest of Latin America, informality did not rise to its pre-pandemic level after the end of the pandemic. Rather, in Uruguay the reduction seems to have been sustained primarily through structural changes in the economy. In particular, the pandemic shock led to a shift away from micro-enterprises toward larger firms and a shift away from sectors that tend to be more informal like domestic services and construction toward sectors that tend to be more formal such as public administration. Other factors, like policy, played a role but were less important.<sup>15</sup> Matías Brum (2022, 4) estimates that public policies that offered public employment to vulnerable workers would have had a maximum possible effect of reducing informality by 1.1 percentage points (out of a fall of informality of about 3 percentage points), but the real impact was undoubtedly lower.[/footnote]

**Figure 6: Informality Fell Until 2015 and Has Fallen Further Since the Pandemic**



Source: Uruguay Instituto Nacional de Estadística, n.d.e. Notes: Seasonally adjusted by author using the US Census Bureau SEATS program. The rate of informality is the sum of the two series “Subempleo no registro” and “No registro (no subempleados).” The employment rate is the share of the working age population. Workers who are not registered are those who are not enrolled in social security; this is measured by asking survey respondents whether they have the right to retire in their workplace and is used as a proxy of informality.

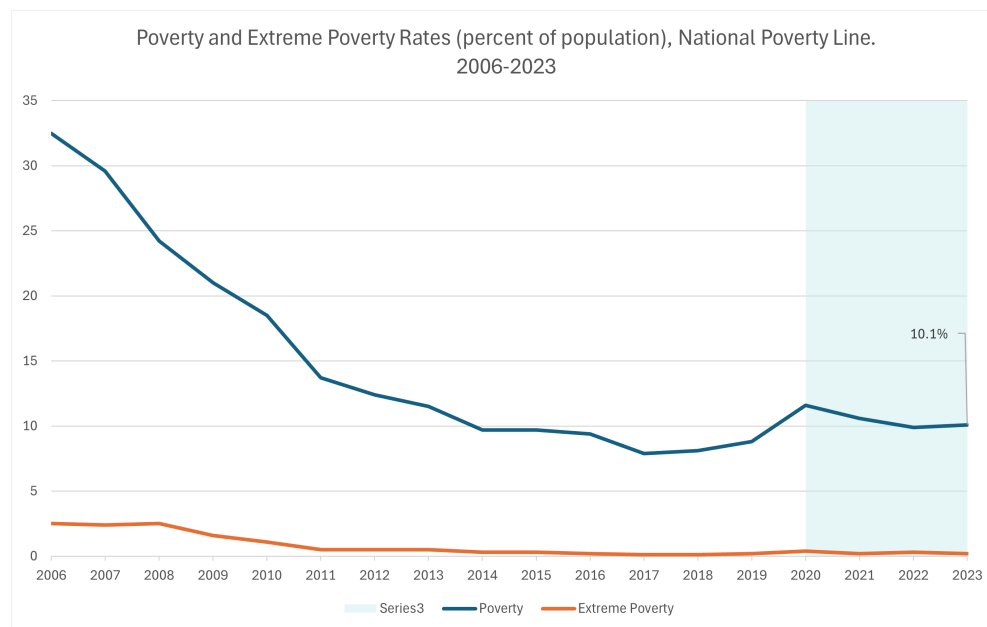
Across 2021 there was a sustained recovery of employment. Following the end of most pandemic restrictions in the middle of that year, there was also an increase in the percentage of workers in the informal sector, albeit not to the level that it had been prior to the pandemic. The rate of informality has not evolved significantly in the latest month for which there are data (August 2024), showing that the gains made in this area during the pandemic have not fully receded.

## Poverty: A Reversal After 15 Years of Progress

**Poverty rates rose during the pandemic after 15 years of major reductions; the share of the population in poverty is still higher than before 2020.**

**Figure 7** shows the poverty and extreme poverty headcount rates for Uruguay using the national poverty line since 2006. It shows a rapid decline from 2006, when poverty was 32.5 percent (or about a third of the population), to 9.7 percent in 2014. From 2014 to 2017 there were smaller falls, with a slight uptick in the last few years of the 2010s to 8.8 percent by 2019. The pandemic recession pushed poverty up to 11.6 percent, a level it had not been at since 2013. After falling a percentage point to 10.6 percent in 2021, it has stayed at about that level since, ending at 10.1 percent in 2023, the last year that we have data for. This is a poor rate of improvement since 2020, especially regarding the rapid advances made in the preceding two decades and the improved external position of the Uruguayan economy as seen in Figure 2 above.

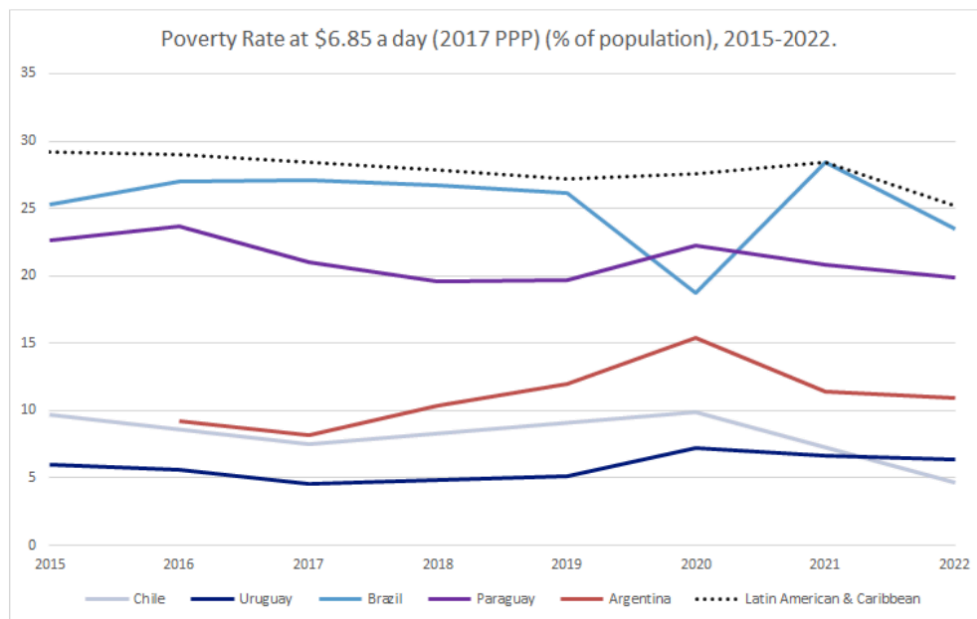
**Figure 7: Poverty Rates Have Not Fully Declined to Where They Were Prior to 2020**



Source: Uruguay Ministerio de Desarrollo Social, n.d.a, n.d.b. Note: Shaded area indicates the Lacalle Pou administration.

**Under Lacalle Pou, Uruguay is no longer the South American country with the lowest poverty rates and has lost the top spot to Chile. Figure 8** shows the poverty rate at the \$6.85 level (considered to be the threshold for upper middle-income countries) for a selection of South American upper middle-income and high-income countries, the latter category being comprised solely of Uruguay and Chile.<sup>18</sup>

**Figure 8: Since the Pandemic, Uruguay Has Shown Slower Progress in Reducing Poverty than Its Neighbors**



Source: The World Bank Group, 2024.

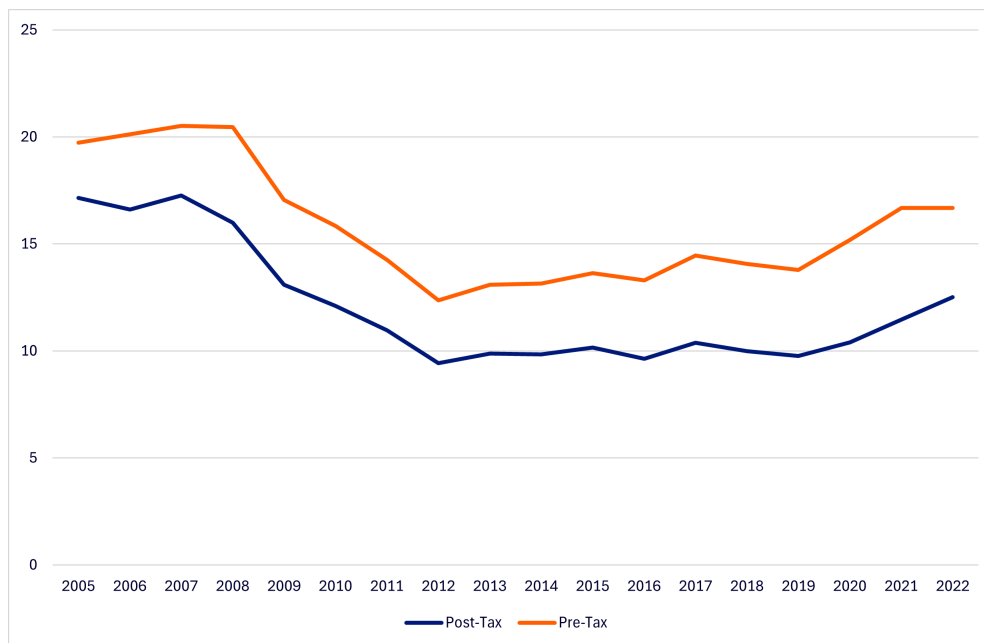
The period from 2015 to the beginning of 2020 was a difficult five years in South America and was marked by worsening terms of trade, with some countries experiencing economic and political crises. As seen in Figures 1 and 2, per capita GDP growth in Uruguay rose at an annual rate of just 0.8 percent as growth in the purchasing power of exports stagnated. Despite these difficult conditions, poverty fell slightly over this period, reaching 5.1 percent in 2019, 0.9 percentage points less than it had been in 2015. As a result, Uruguay joined Paraguay as the only country in the Southern Cone to see falls in poverty over the 2015 to 2019 period, with Argentina and Brazil seeing poverty rise — and in Argentina’s case, substantially.<sup>19</sup>

Most countries (except Brazil) saw a substantial rise in poverty in 2020, an undoubted effect of the sharp pandemic recession. However, the recovery from the pandemic until 2022 has been uneven across the region. Chile and Argentina — the two countries most similar to Uruguay in terms of per capita income — both made considerable progress in reducing poverty. Alberto Fernández’s Argentina made progress despite the difficult macroeconomic situation. In Chile the poverty rate fell below the level it had been prior to the pandemic and became the country in the region with the lowest rate of poverty, overtaking Uruguay. Uruguay has mostly stagnated in terms of its progress in reducing poverty, with a rate of 6.4 percent in 2022, markedly higher than the rate of 5.1 percent in 2019.

## Income Inequality on the Rise

**On income inequality, Lacalle Pou's administration also reversed earlier progress. Figure 9** shows the ratio of pre- and post-tax and transfers average per capita income of the top 10 percent to the bottom 50 percent. Both series show rapid improvements in achieving greater income equality starting in 2007. The average pre-tax income of an individual in the top 10 percent of the population went from 21 times the average income of an individual in the bottom 50 percent to about 13 to 14 times between 2012 to 2019. Post-tax and transfers, the same ratio went from 17 in 2007 to about 10 from 2012 to 2020.

**Figure 9: Ratio of Average Per Capita Income of the Top 10 Percent to the Bottom 50 Percent**



Source: WID.WORLD, n.d. Note: Both the pre-tax and post-tax indicators are average income, equal split in constant (2023) Uruguayan pesos.

**However, this positive egalitarian progress was reversed from 2020, with a widening gap between rich and poor.** From 2019 to 2022 the average real post-tax income of the richest 10 percent increased by 8 percent while for the poorest 50 percent average real income fell by 16 percent.

This was slightly greater than the change in pre-tax income where the average real per capita income increased by 6 percent for the richest 10 percent and fell by 12 percent for the poorest 50 percent.

There is no disaggregated income data available after 2022, but the Uruguayan National Statistical Institute (Instituto Nacional de Estadística) has released the Gini index, another measure of income inequality, for 2023. This index increased slightly from 0.389 in 2022 to 0.394 in 2023, which indicates that the income distribution became slightly more unequal.<sup>20</sup>

In terms of the regional picture, using data from the World Inequality Database (which combines household survey data with data from the national accounts and tax returns), most Latin American countries saw increases in income inequality over the period 2019–2022. However, sources that just use household survey data such as ECLAC and SEDLAC, show declines in income inequality for most countries, with Uruguay’s performance as an outlier. This indicates that Uruguay’s rise in income inequality over the period is robust even when data from other income inequality databases are used.

## Conclusion

Despite Uruguay’s reputation as a Latin American success story, recent years have seen notable shifts in its economic and social landscape. Under the leadership of successive Broad Front administrations (2005–2020), Uruguay saw progressive reforms that contributed to growth, poverty reduction, and falls in inequality. These gains, however, have been undercut since 2020, as conservative fiscal and social policies were enacted under the National Party’s Lacalle Pou administration. While global crises, including the COVID pandemic, posed significant challenges, Uruguay’s conservative policy responses exacerbated economic difficulties, leading to a slower recovery, stagnating real wages, and rising inequality.

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## Footnotes



- 1** M24, 2024.
- 2** The Associated Press, 2024.
- 3** The percentage of the population living on under \$6.85 per day was just 5.1 percent in 2019, the lowest on the continent. Post-taxes and transfers, the highest income decile received 10 times the income of the poorest 50 percent in 2019, which was somewhat lower than the ratio of 13 in Argentina and much lower than other neighbors where it was north of 20 (WID.WORLD, n.d.; The World Bank Group, 2024).
- 4** The Economist, 2023.
- 5** This indicator tracks the relative price movements of exports and imports of a country and is defined as the unit value of exports of goods divided by the unit value of imports.
- 6** The purchasing power of exports index measures how much a country's exports can buy in terms of imports, adjusting for price changes over time.
- 7** Using the 2006 poverty line applied retrospectively (which is the same line as used in Figure 7), see Uruguay Instituto Nacional de Estadística, n.d.d, 79 (Graph 10).
- 8** Cejudo, Michel, and de los Cobos, 2020, 9.
- 9** Arbulo et al., 2015.
- 10** IMF, 2022.
- 11** On October 27, a reform to the pension system proposed by Uruguay's main labor-union confederation was rejected in a referendum. The proposed reform would have reduced Uruguay's pension age back to 60 and would also have made other major changes to the pension system. Neither Orsi nor Delgado supported the proposed reform.
- 12** Cejudo, Michel, and de los Cobos, 2020.
- 13** It, along with other measures in the Ley de Urgente Consideración, was subject to a referendum in March 2022 in which it was narrowly upheld.
- 14** BCU, 2020a, 12.
- 15** BCU, 2020b.
- 16** Oyhantçabal, 2019.
- 17** Brum, 2022, 2, author's translation.
- 18** One issue with national poverty lines is that they are not directly comparable with data from other countries. For this we can turn to the poverty headcount rates calculated by the World Bank in purchasing power parity terms.

**19** Chile does not have a data point after 2017 until 2020.

**20** The Gini index describes the ratio of the area between a country's income distribution curve and a line of perfect equality over the total area below the line of perfect equality. And so, as it approaches one it indicates increasing inequality while if it approaches zero it indicates increasing equality of income (Uruguay Instituto Nacional de Estadística, n.d.a).