



# **Institutional Investor Presentation**

**República Oriental del Uruguay**

**Ministry of Economy and Finance**

October 2018





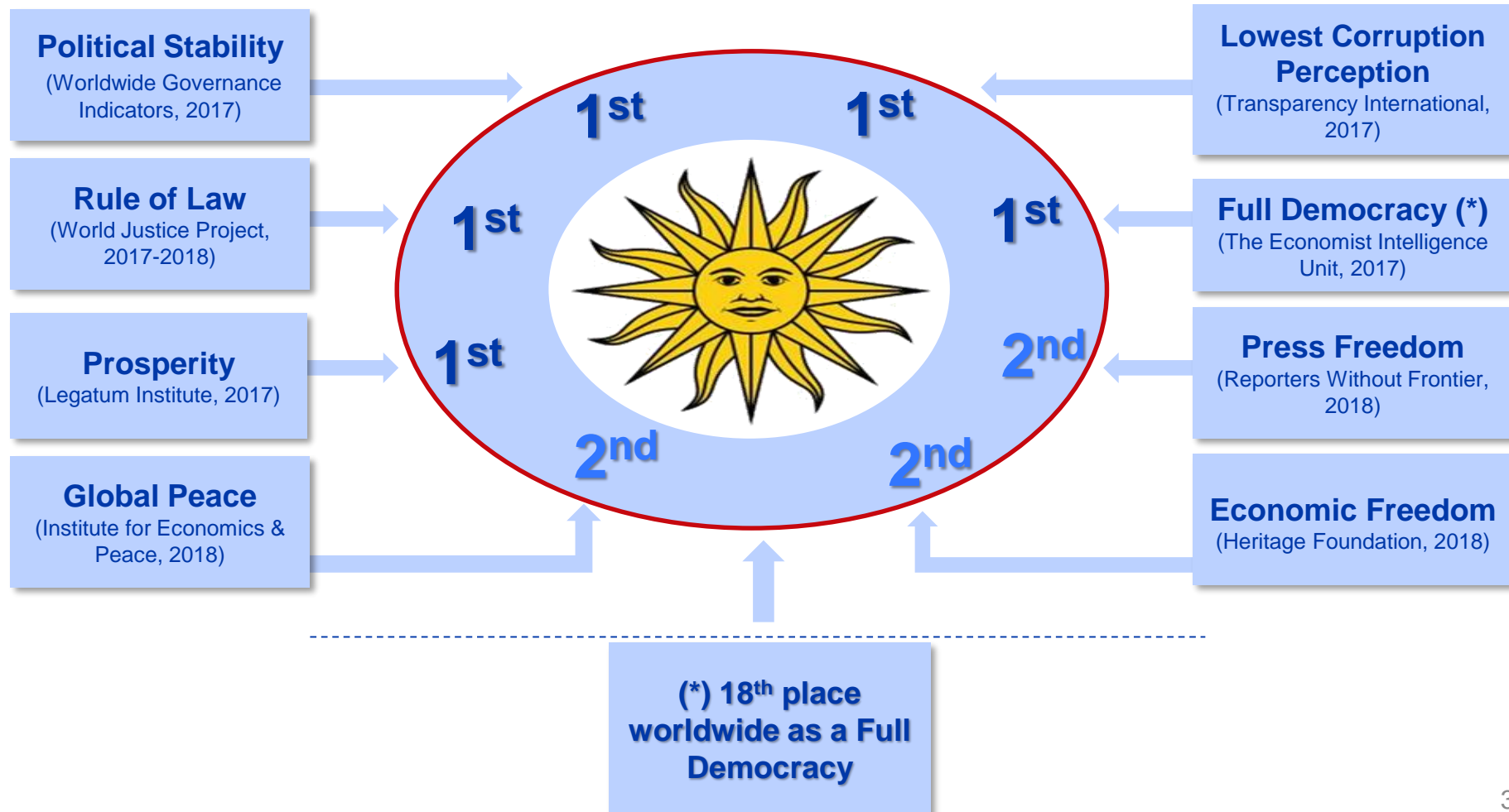
Congress, National Assembly

## **Strong Institutions and Social Cohesion**

# Uruguay remains a bastion of institutional stability in a volatile region



## Ranking position in LATAM







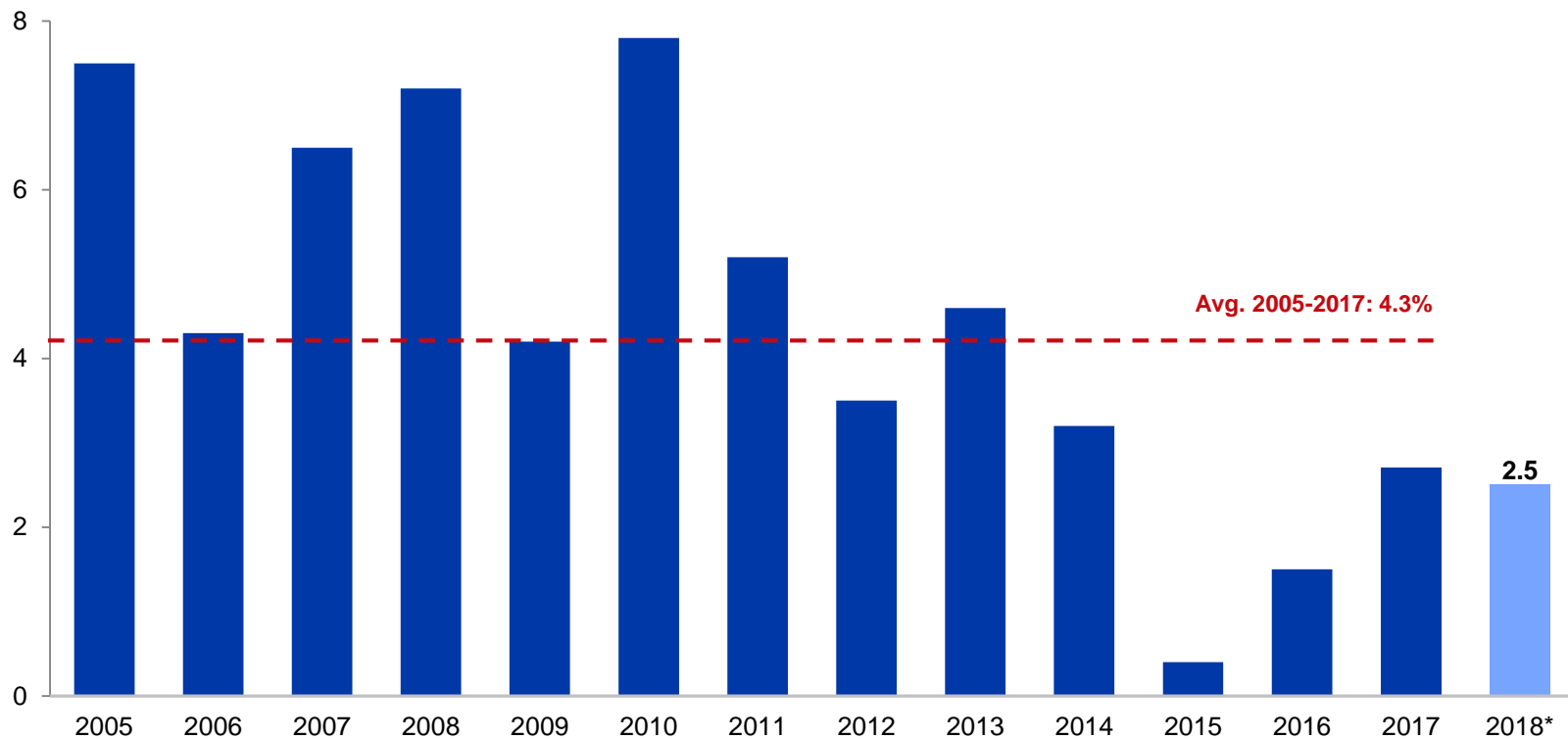
# Macroeconomic Stability

# Uruguay has experienced over a decade and a half of uninterrupted economic growth



## Real GDP Growth

(Annual change, in %)



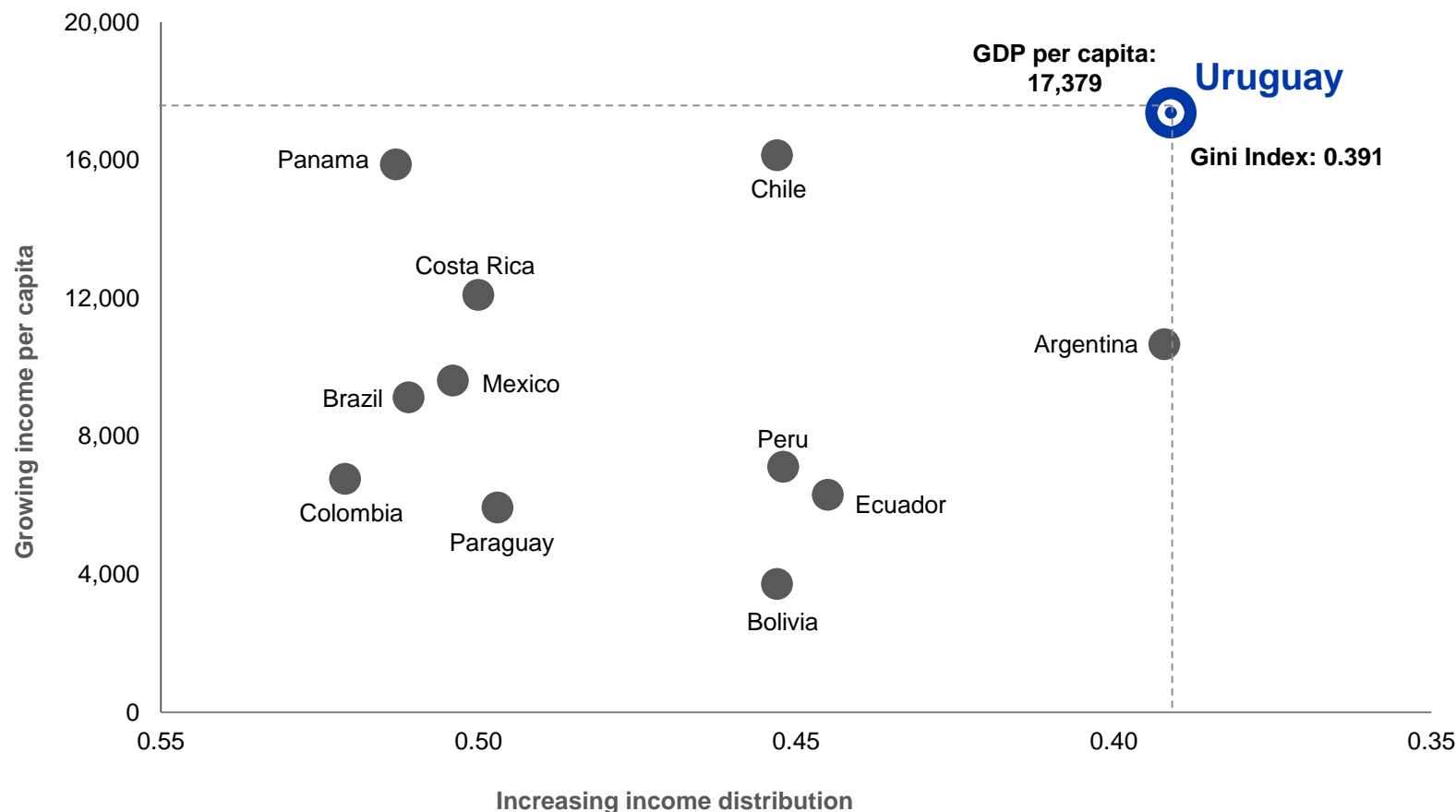
(\*) Projected

Source: Central Bank of Uruguay

# Growth with equality: the best distributed income and highest GDP per capita in the region



## GDP per capita and Gini Index



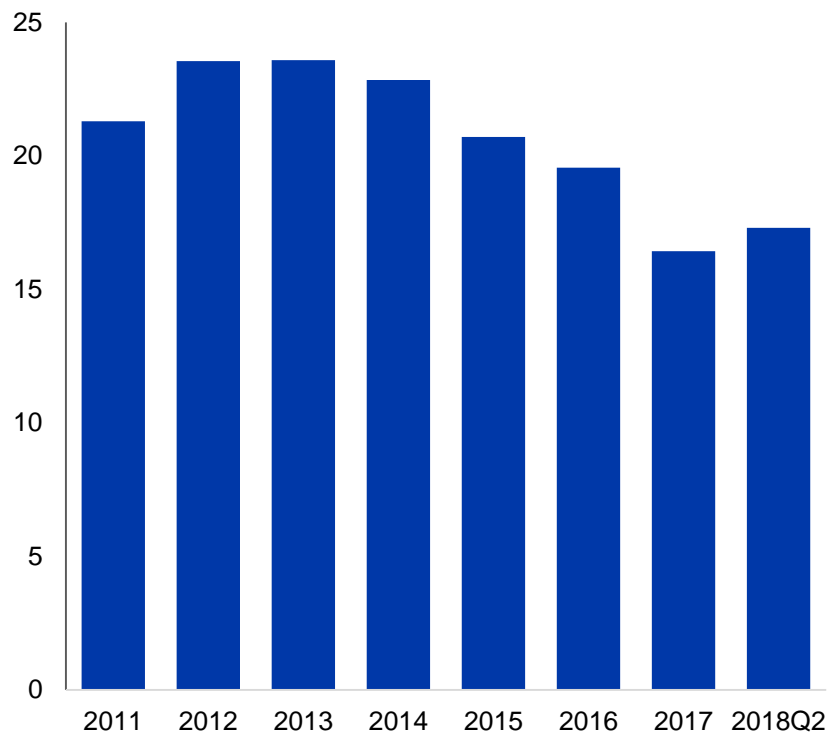
Source: International Monetary Fund, World Economic Outlook Database, October 2018 for GDP per capita in nominal USD; Social Outlook of Latin America 2017 for Gini Index data

# Investment has been falling and employment lags the cyclical recovery



## Gross Fixed Capital Investment

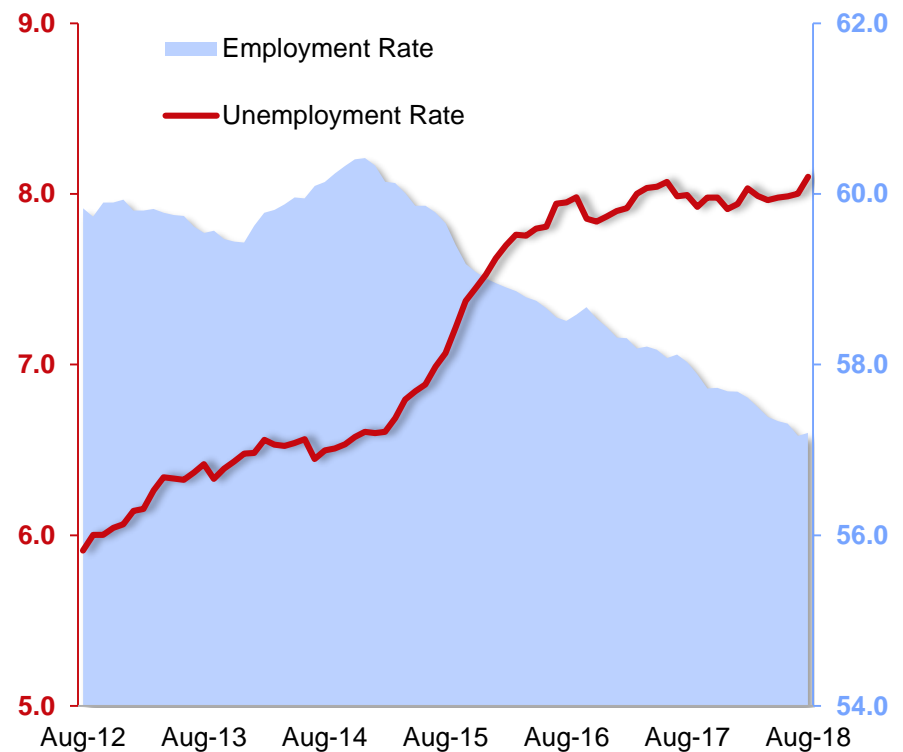
(Last 12 months, in % of real GDP)



Source: Central Bank of Uruguay

## Labour market indicators

(Average of last 12 months, in %)



Source: National Bureau of Statistics

# The government has launched a set of policies to boost investment and employment...



## Promote investment and employment

## Support small businesses

## Facilitate tax compliance

- Changes to the Investment Promotion Regime to boost investments with positive externalities
- Additional tax benefits for promoted investment projects executed in 2018
- Benefits for domestic farm equipment production
- Extension of automatic tax credits for SME investments
- Simplified Net Worth Tax for SMEs
- Simplified procedures for corporate restructuring
- Improvements for tax-payers:
  - ✓ Reduced tax debt payments costs
  - ✓ More payment channels
  - ✓ Reinforcement of Tax Administration rights

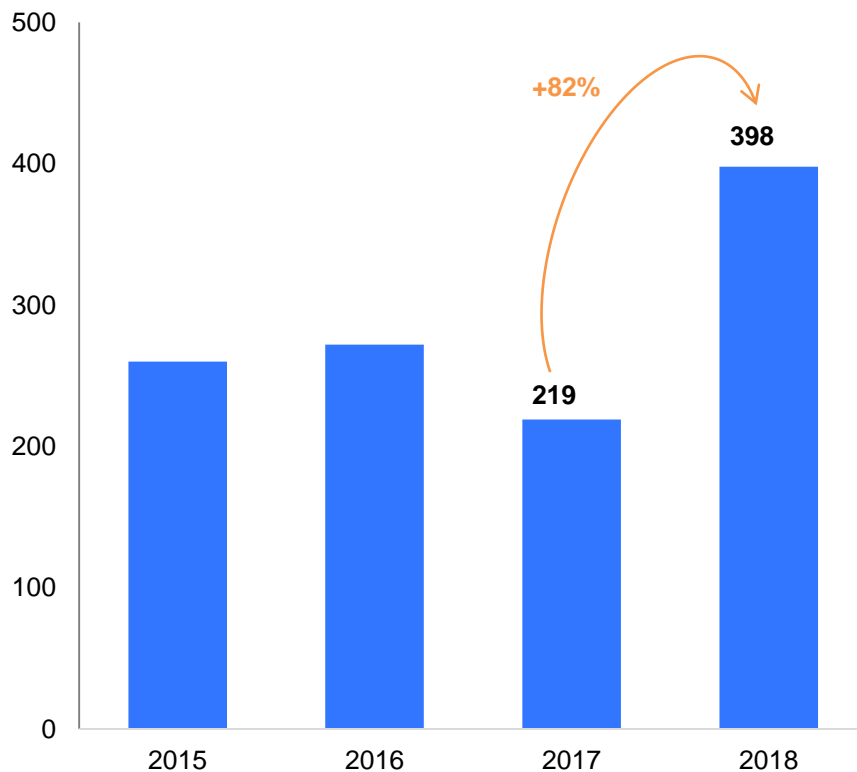




# ...and private investment is reacting to the stimulus

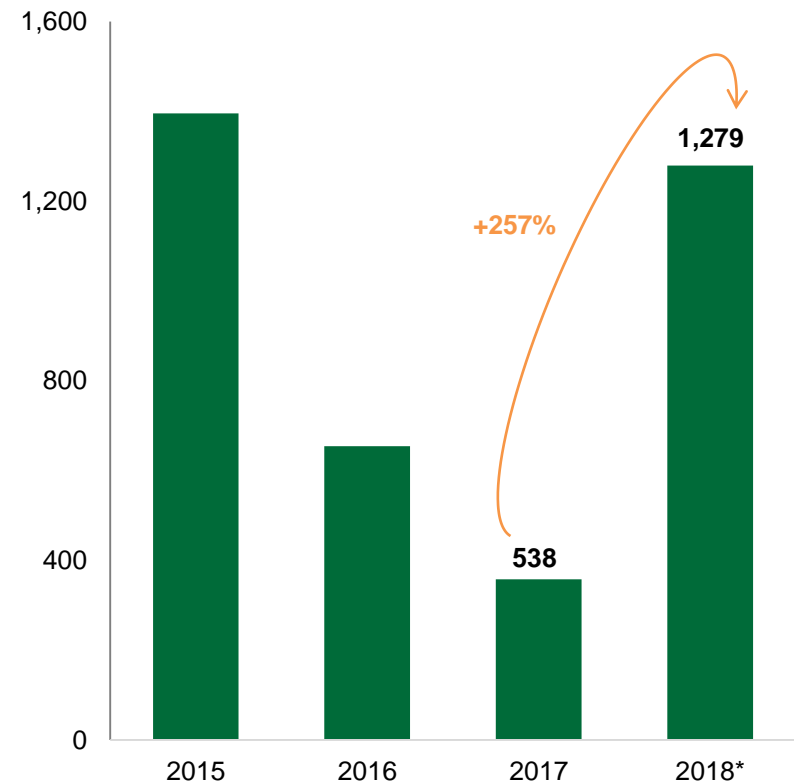
## Number of projects presented

(Total for Jan-Aug each year)



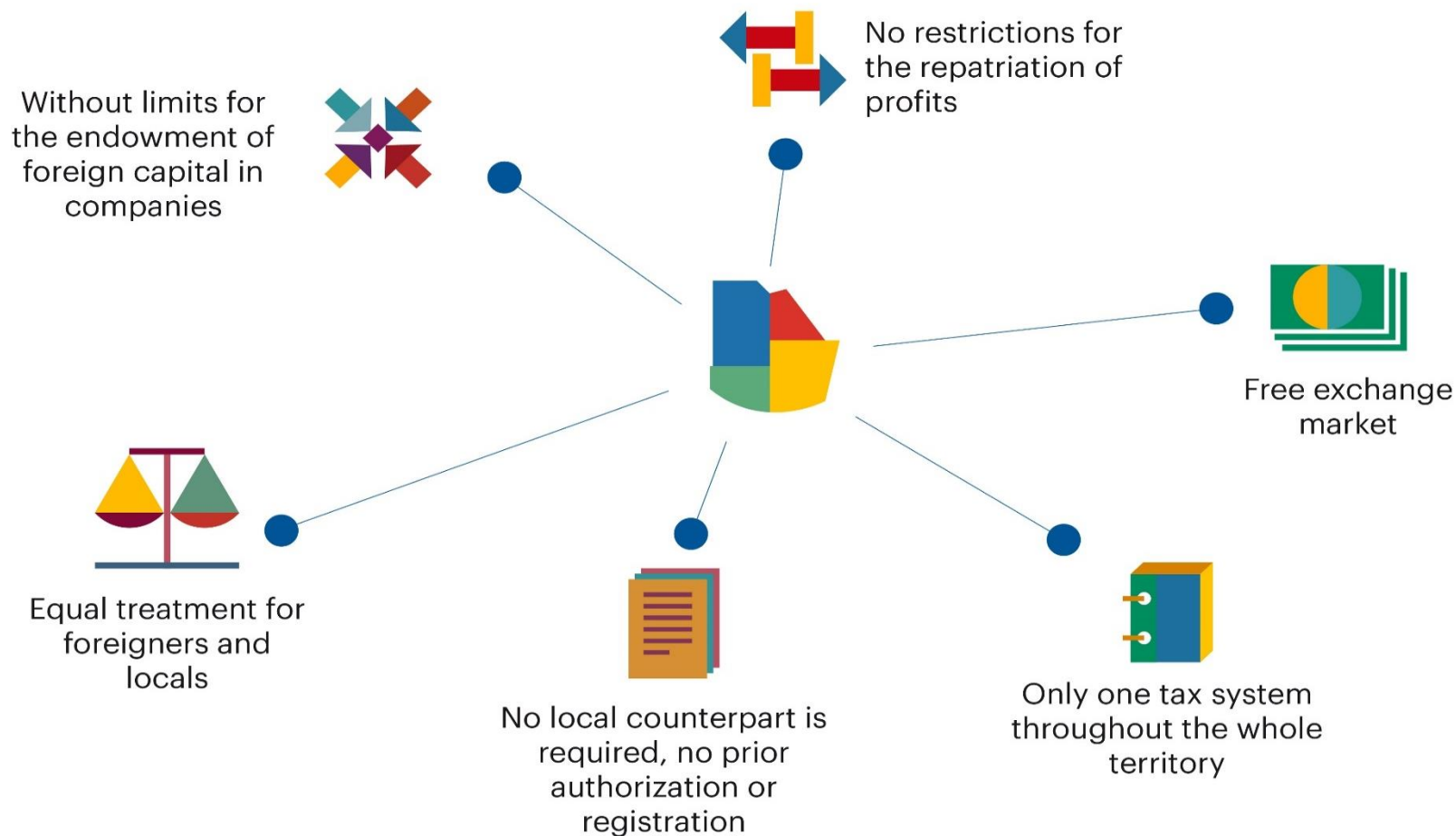
## Total investment presented

(Total for Jan-Aug each year, in USD million)



(\*) Includes USD 412 million corresponding to three projects submitted by UPM.

# No restrictions on foreign investor activity in Uruguay





Carrasco Montevideo Airport

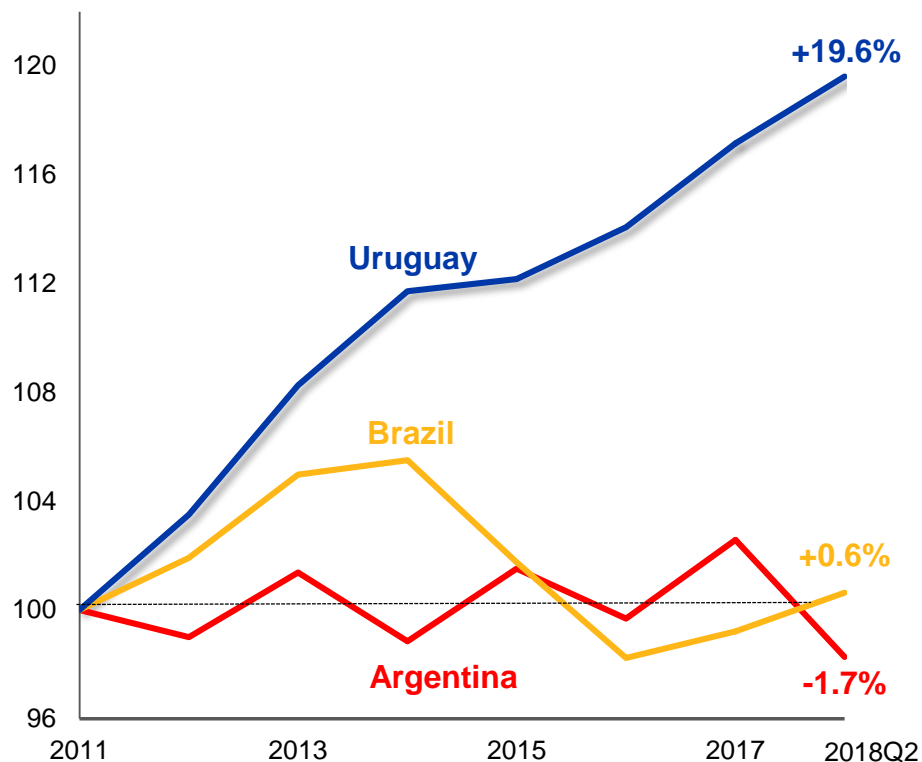
## Reduced linkages with the Region

# Decoupling in the midst of a regional downturn



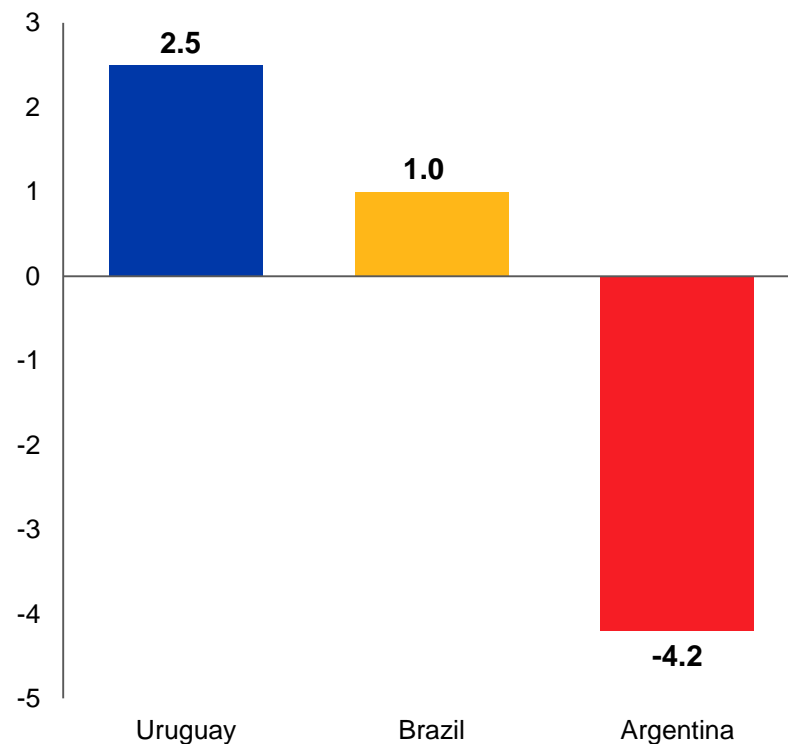
## Cumulative Real GDP Growth

(Index base 100=2011)



## 2018Q2 Real GDP Growth

(YoY change, in %)



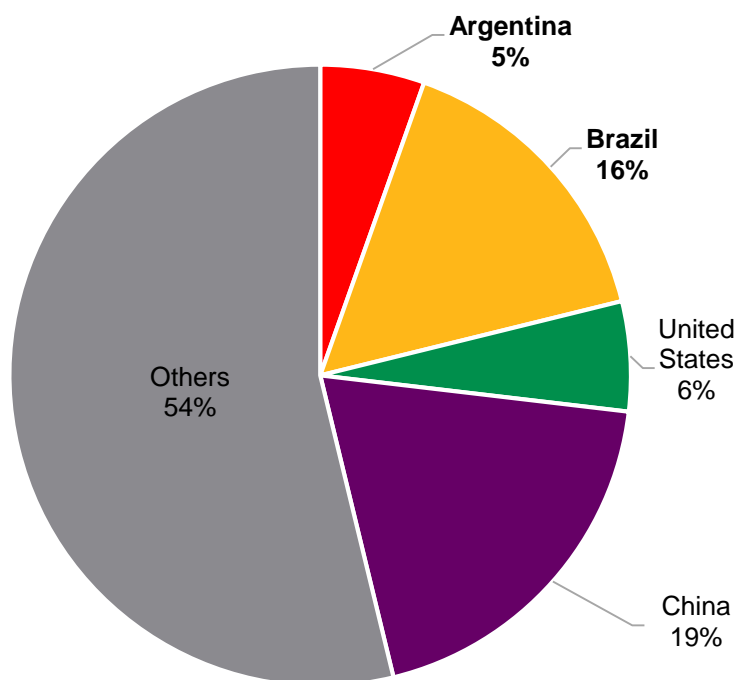
Sources: Central Bank of Uruguay (BCU); Central Bank of Brazil (BCB); National Institute of Statistics and Censuses (INDEC, Argentina).

# Reduced reliance on the region for export revenues and sources of FDI inflows



## Exports of Goods by Destination

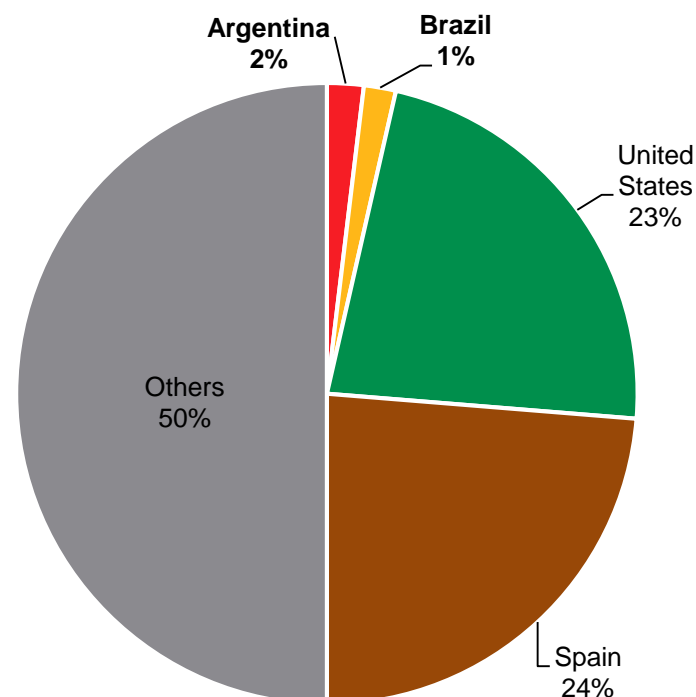
(Last 12 months to August 2018, as a share of total)



Source: Central Bank of Uruguay

## Foreign Direct Investment Inflows by Country of Origin<sup>1/</sup>

(As a share of total, 2017)<sup>2/</sup>



<sup>1/</sup> Includes equity contributions and profits reinvestments and excludes loans with related companies.

<sup>2/</sup> Only considers countries with positive inflows.

Source: Uruguay XXI with data from the Central Bank of Uruguay

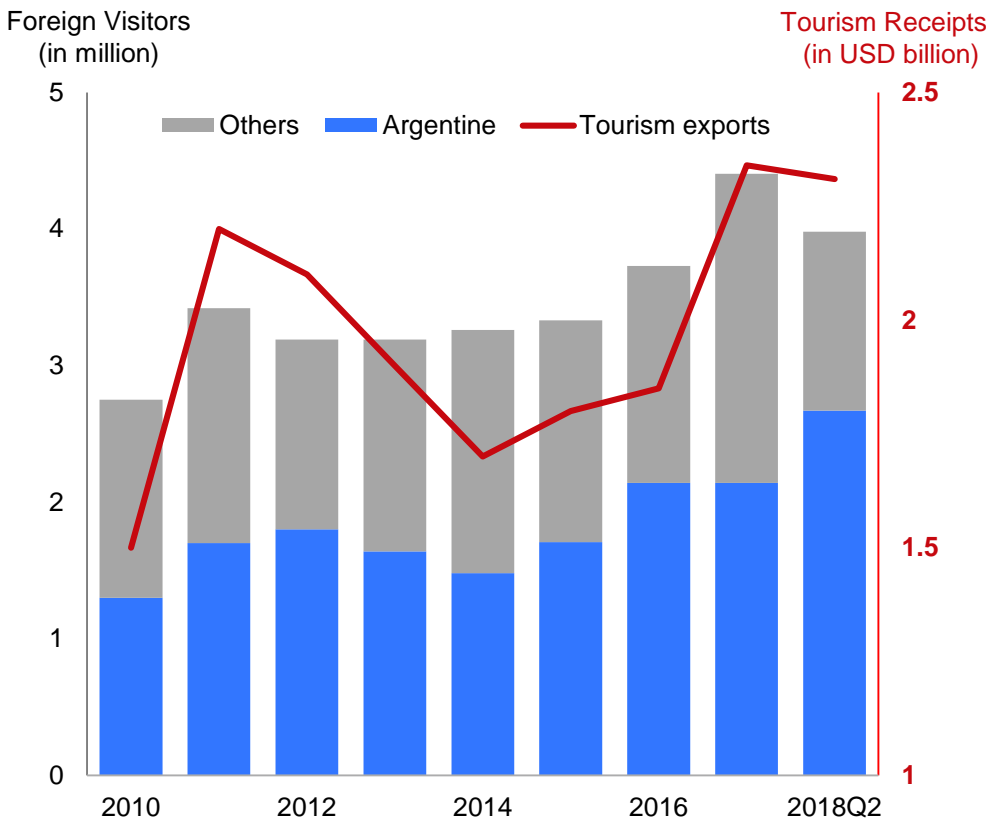


# Argentina remains the main source of inbound tourism, yet the weight of other services has increased recently



## Tourist Arrivals and Receipts

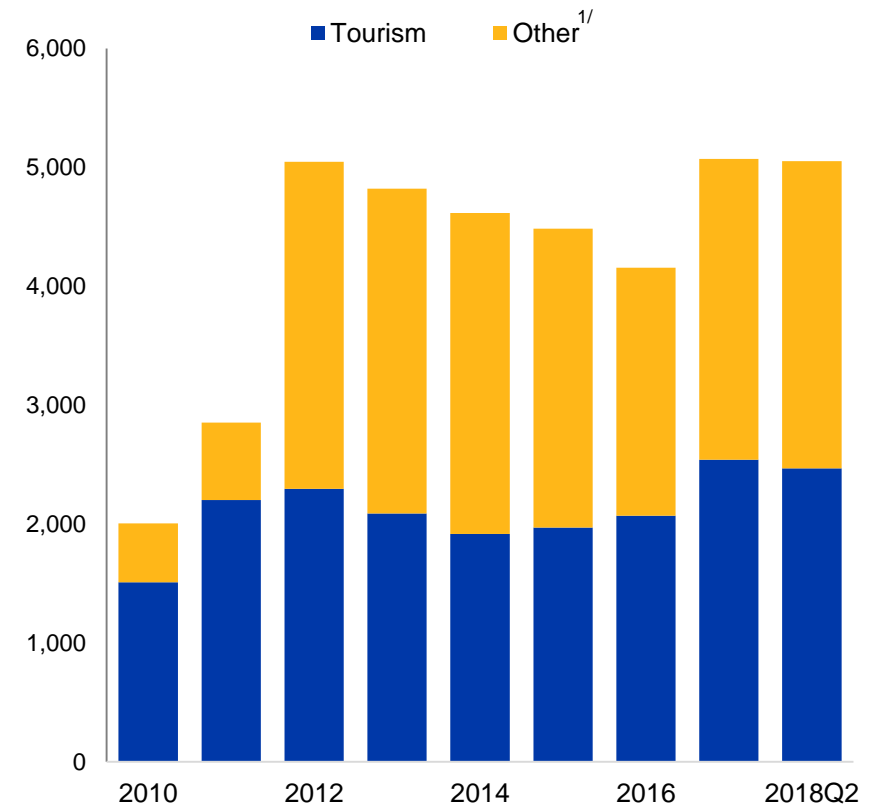
(Last 12 months)



Source: Ministry of Tourism

## Exports of Services

(Last 12 months, in USD millions)



<sup>1/</sup> Software, transport and logistics

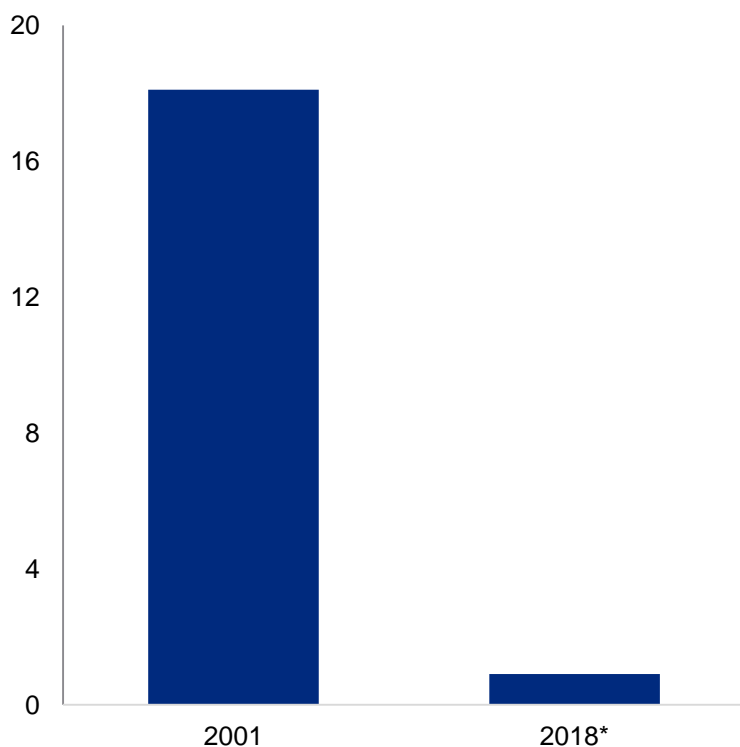
Source: Central Bank of Uruguay

# In addition, financial linkages with non-residents through the banking sector have diminished



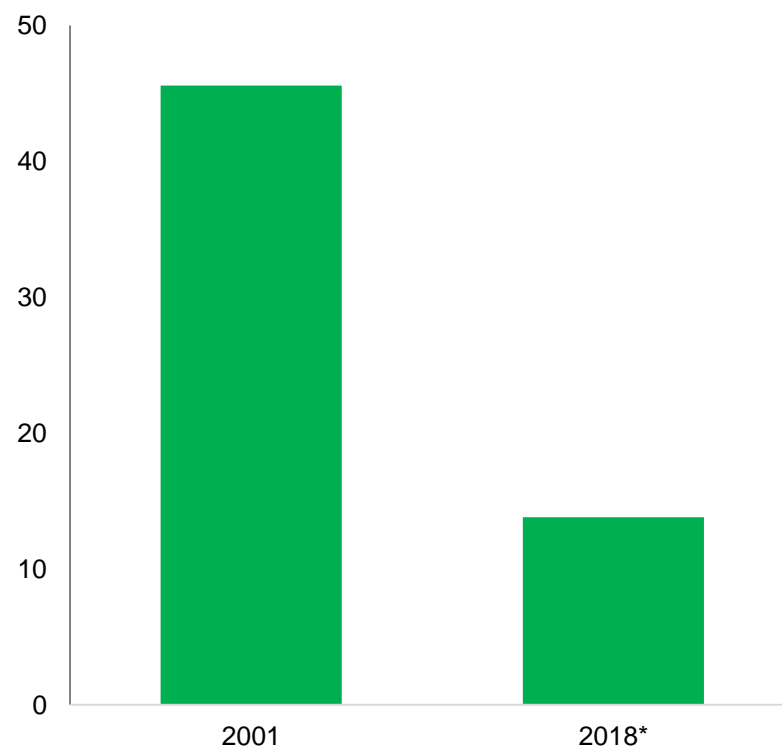
## Credit to Non-residents by Local Banking System

(% of total credit, end-period)



## Deposits by Non-residents in Local Banking System

(% of total deposits, end-period)



(\*) As of August

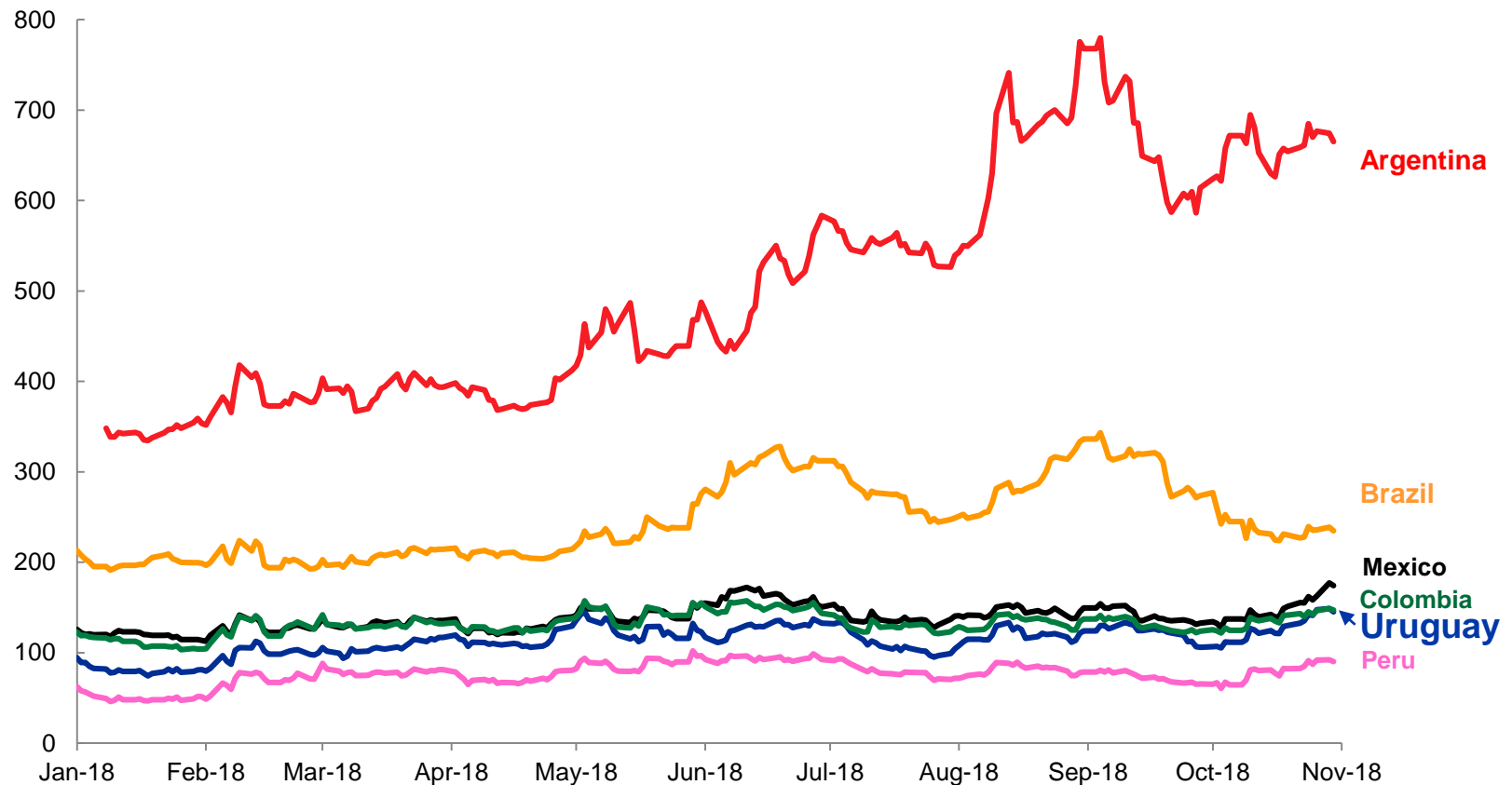
Source: Central Bank of Uruguay

# Sovereign credit spreads are indicative of the ongoing differentiation



## Sovereign Risk

(G-Spread in 10-Y dollar bonds, in bps)



Source: Bloomberg



Cerro de los Caracoles, Uruguay

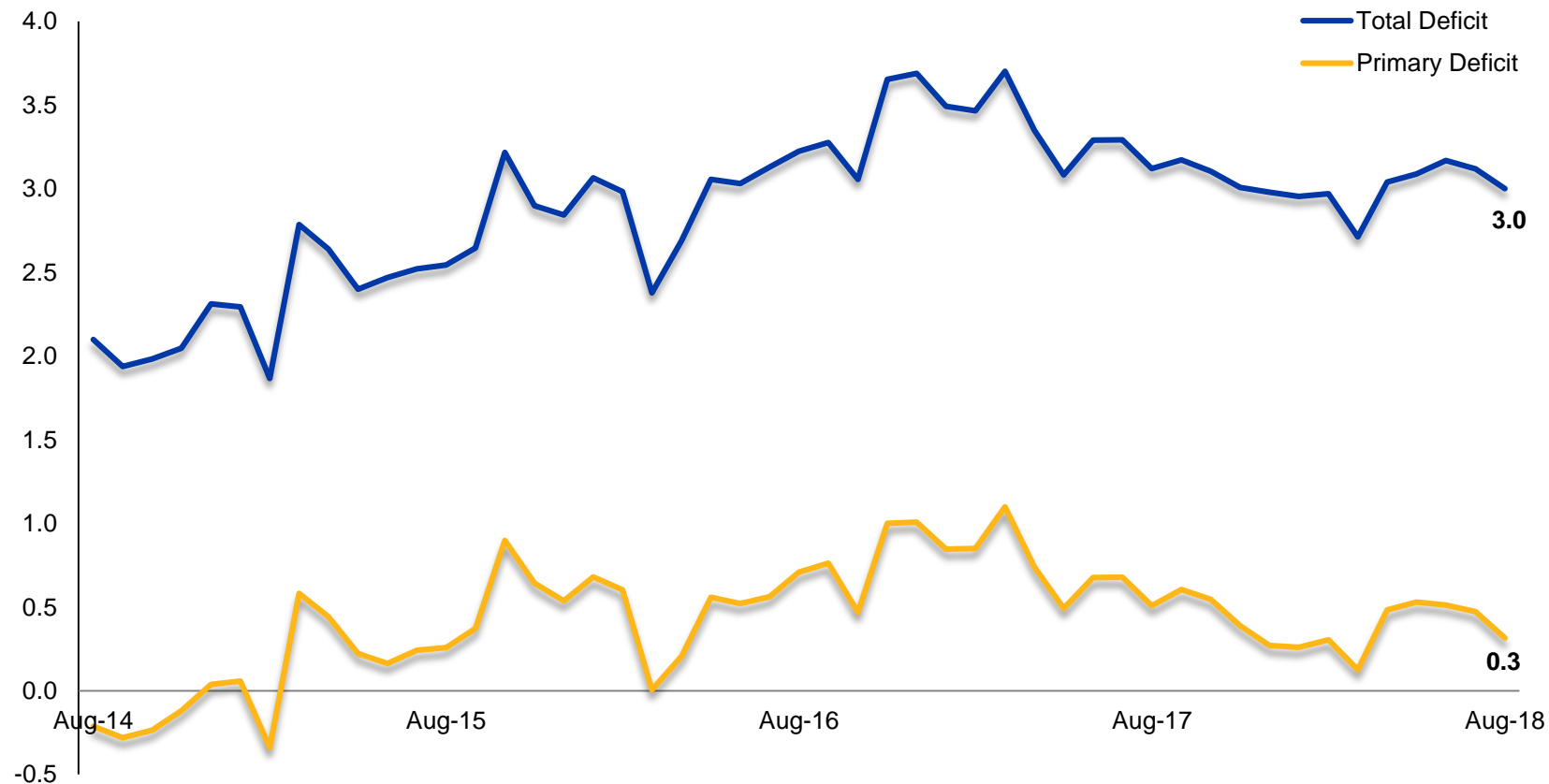
## **Fiscal Policy Outlook**

# Central Government deficit is gradually contained...



## Central Government deficit

(Last 12 months, in % of GDP)



Source: Ministry of Economy and Finance

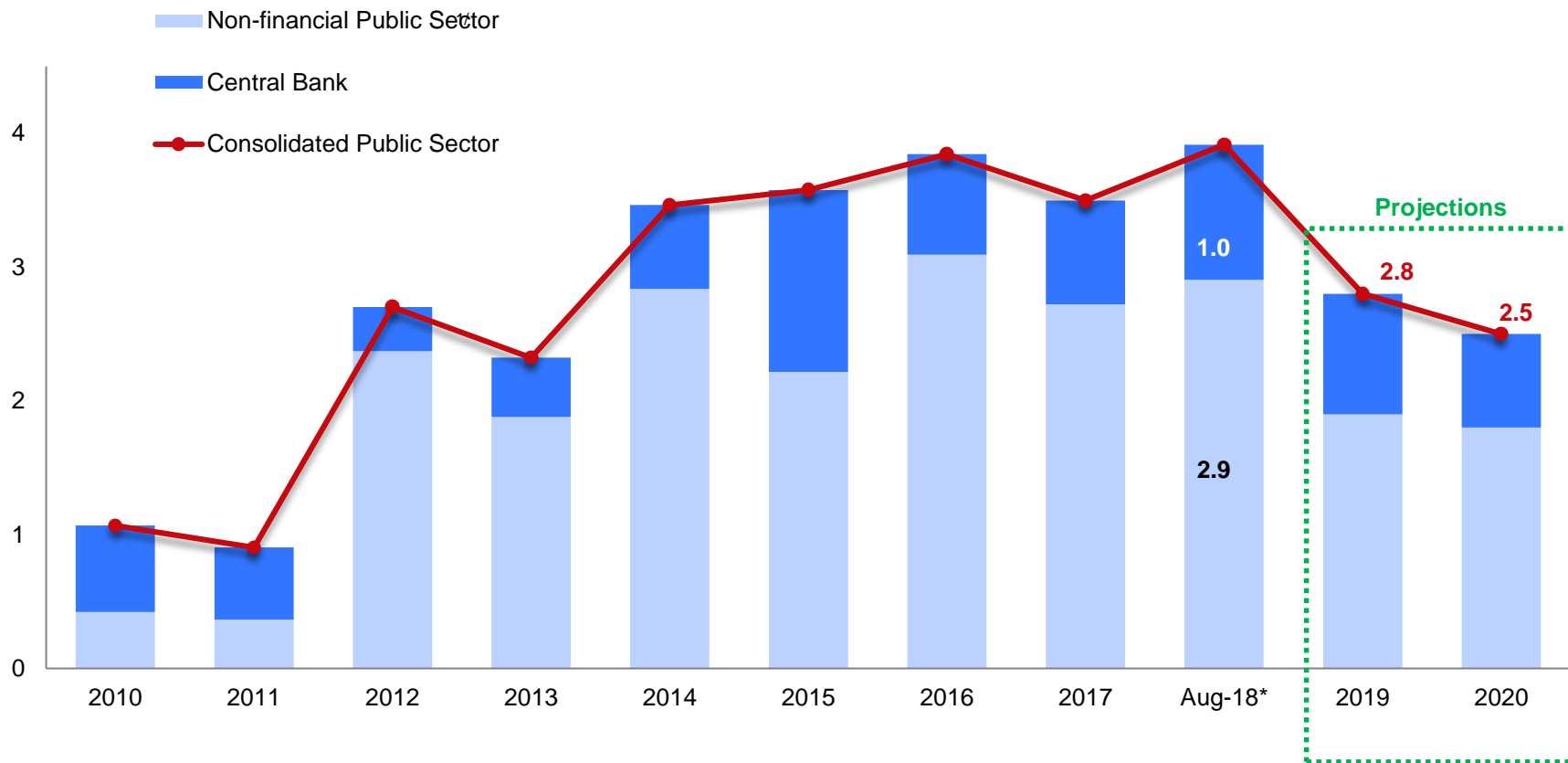


# ... and policy priority is to shore-up overall public finances



## Consolidated Public Sector deficit

(In % of GDP)



(\*) Last 12 months

<sup>1/</sup> Includes Public Enterprises

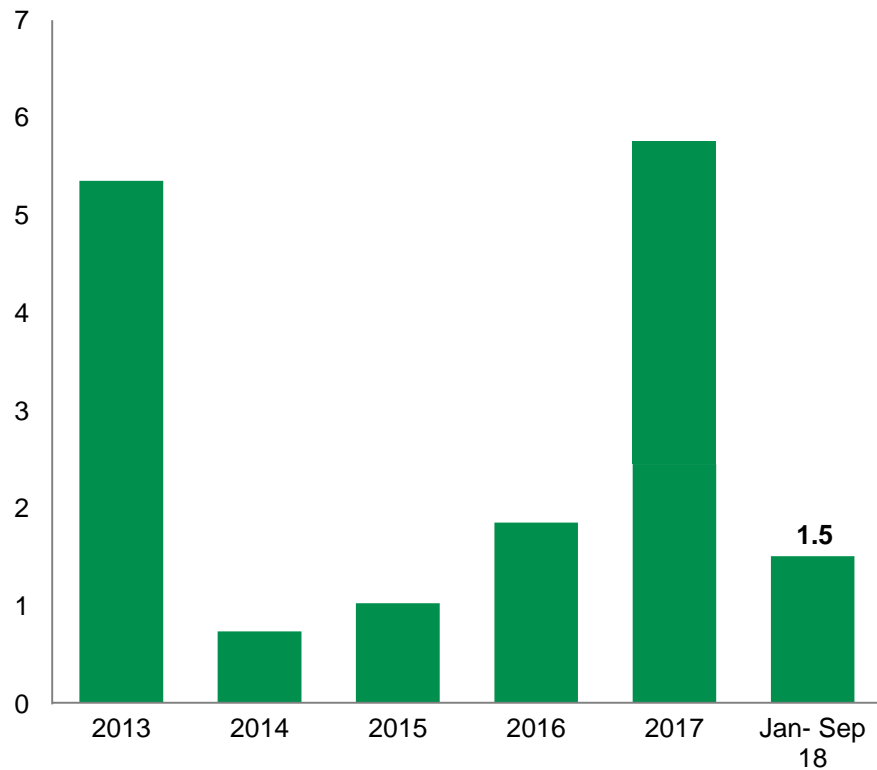
Source: Ministry of Economy and Finance

# Tax collection and social security contributions have moderated recently in real terms...



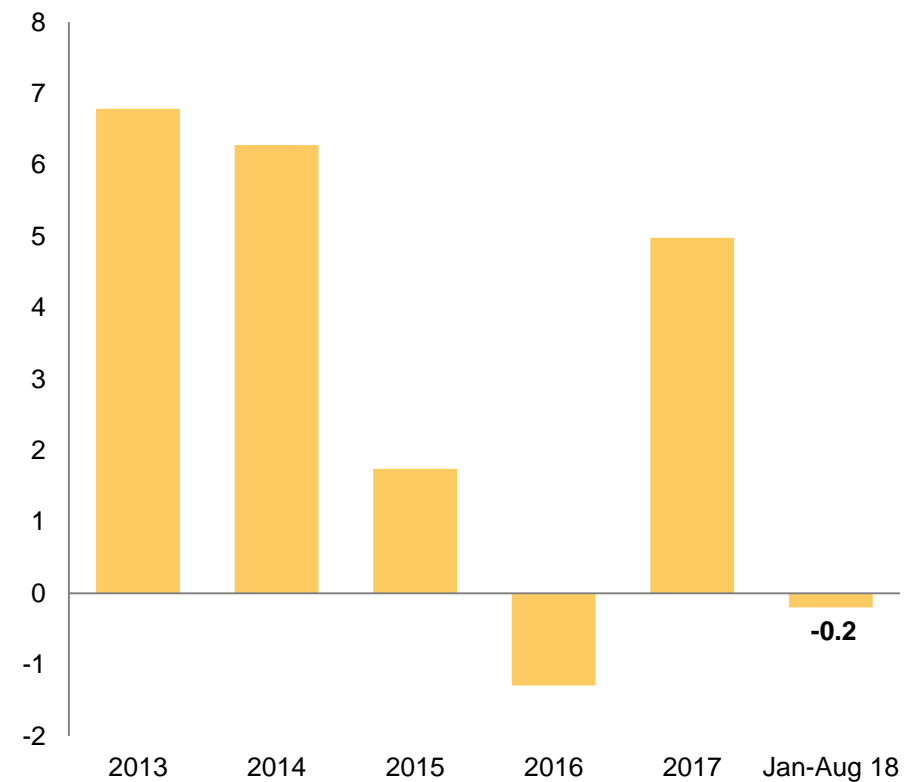
## Tax revenues

(Real annual change, in %)



## Social security contributions

(Real annual change, in %)



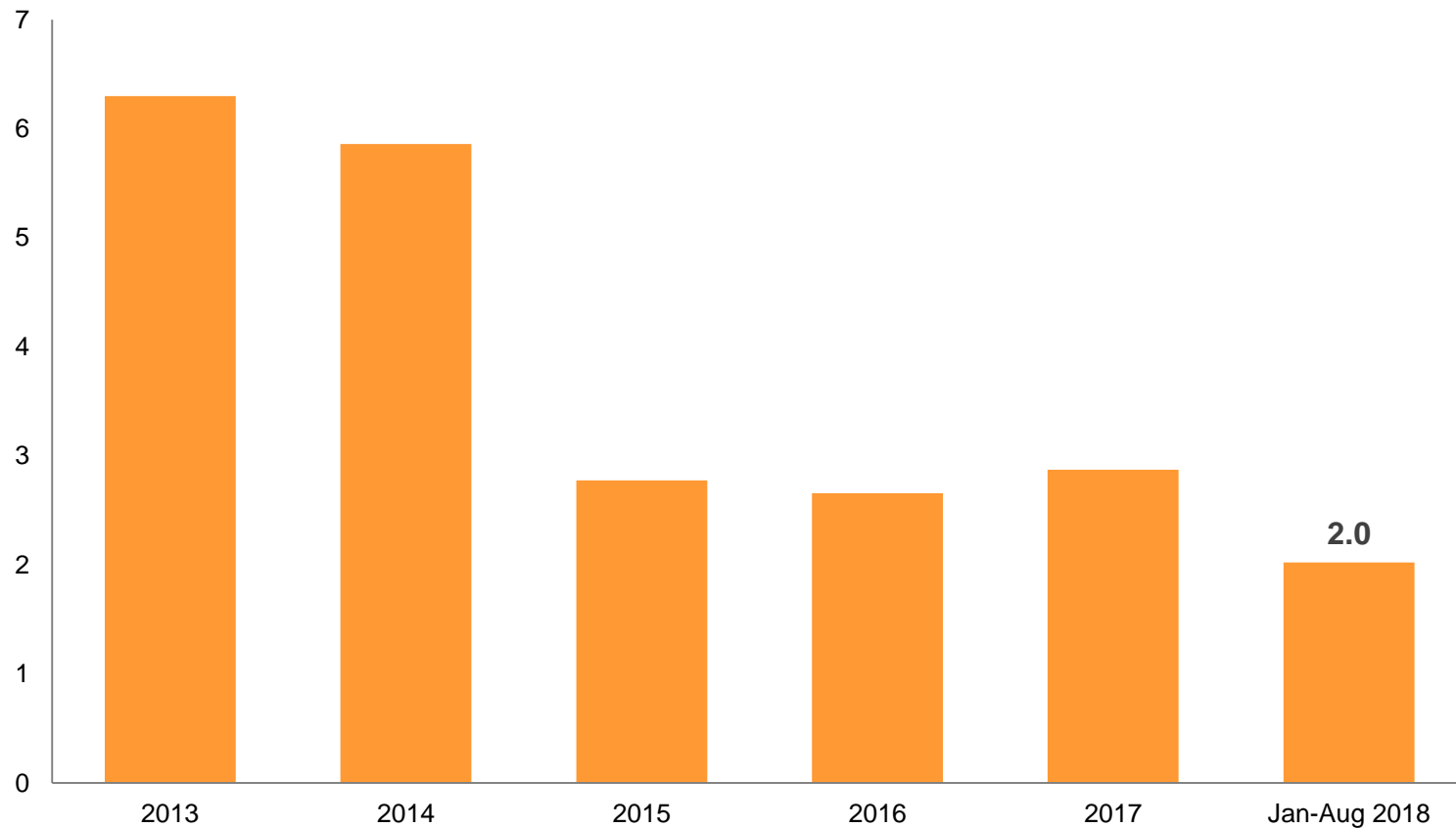
Source: Ministry of Economy and Finance

## ... while real expenditures are decelerating



### Central Government – current primary expenditure

(Real annual growth, in %)



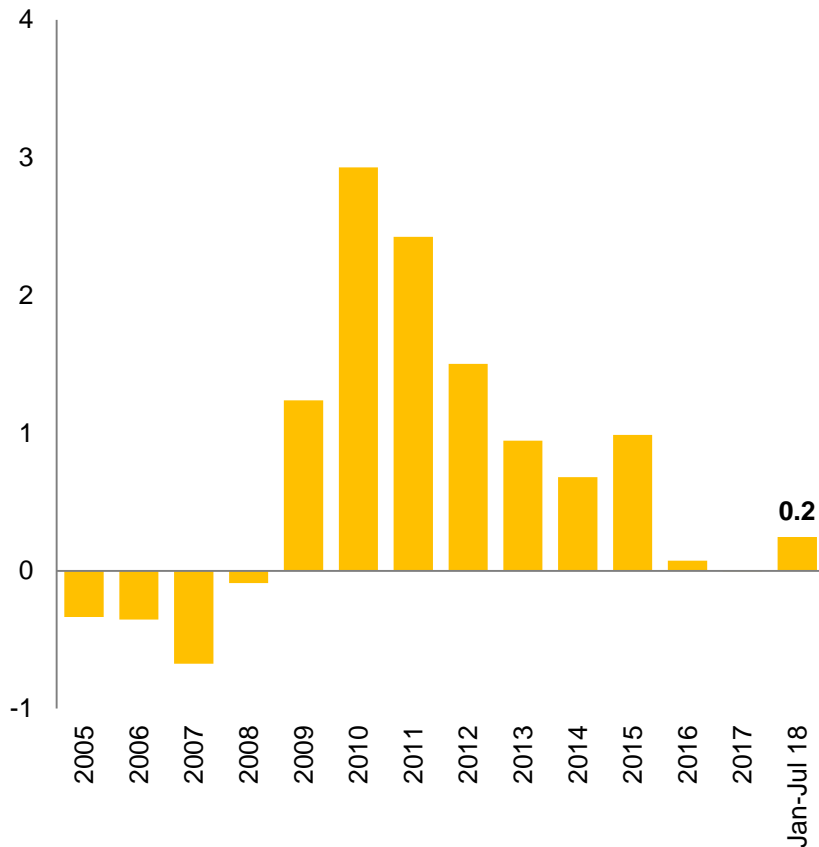
Source: Ministry of Economy and Finance

# Growth in number of retirees and associated pension expenditure has stabilized...



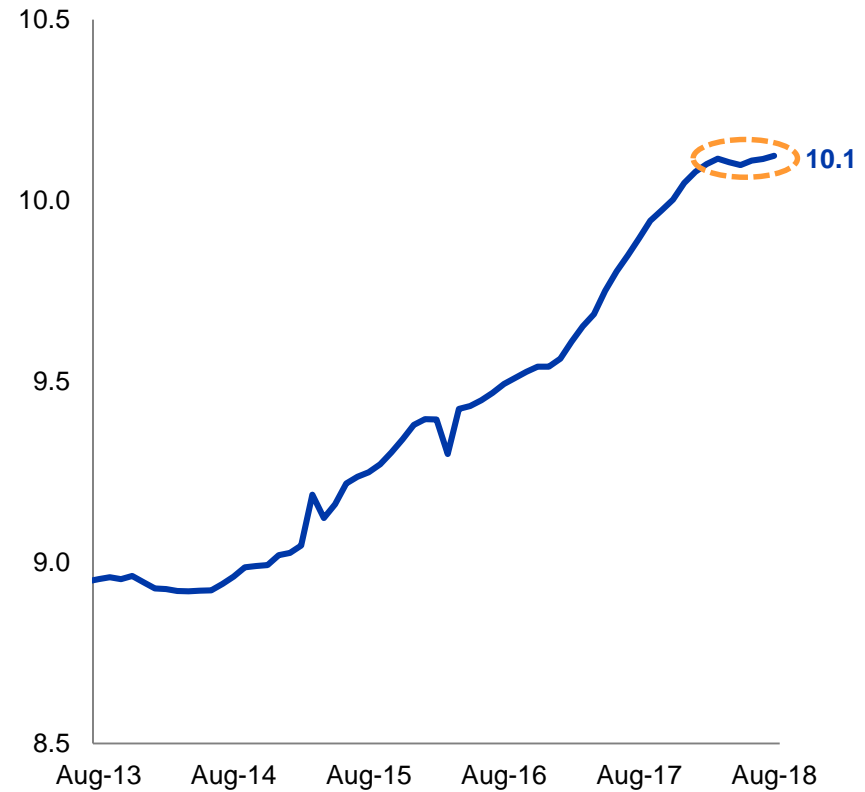
## Total number of pensioners

(Annual change, in %)



## Pension expenditures

(Last 12 months, in % of GDP)



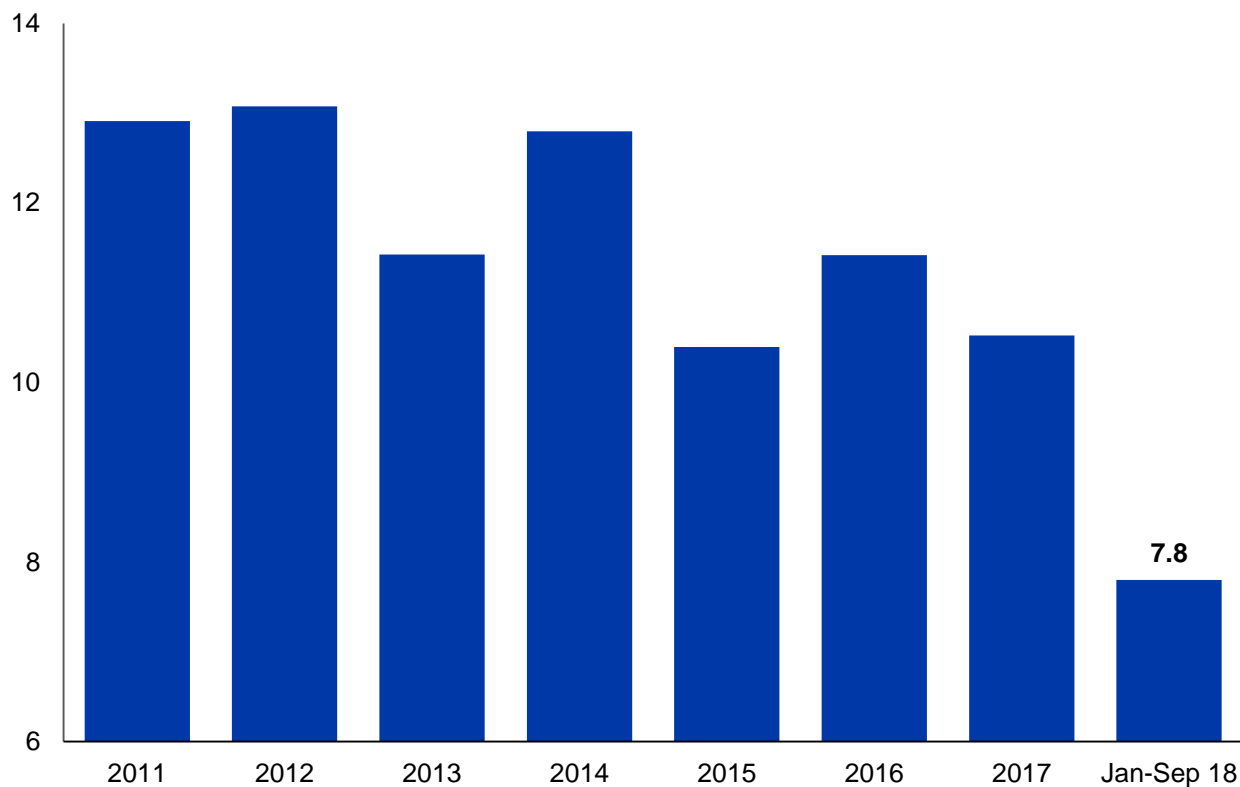
Source: Ministry of Economy and Finance

# ... and nominal wage deceleration will further reduce pressures on indexed pension expenditures next year



## Nominal Wages

(Annual change, in %)



Source: National Bureau of Statistics

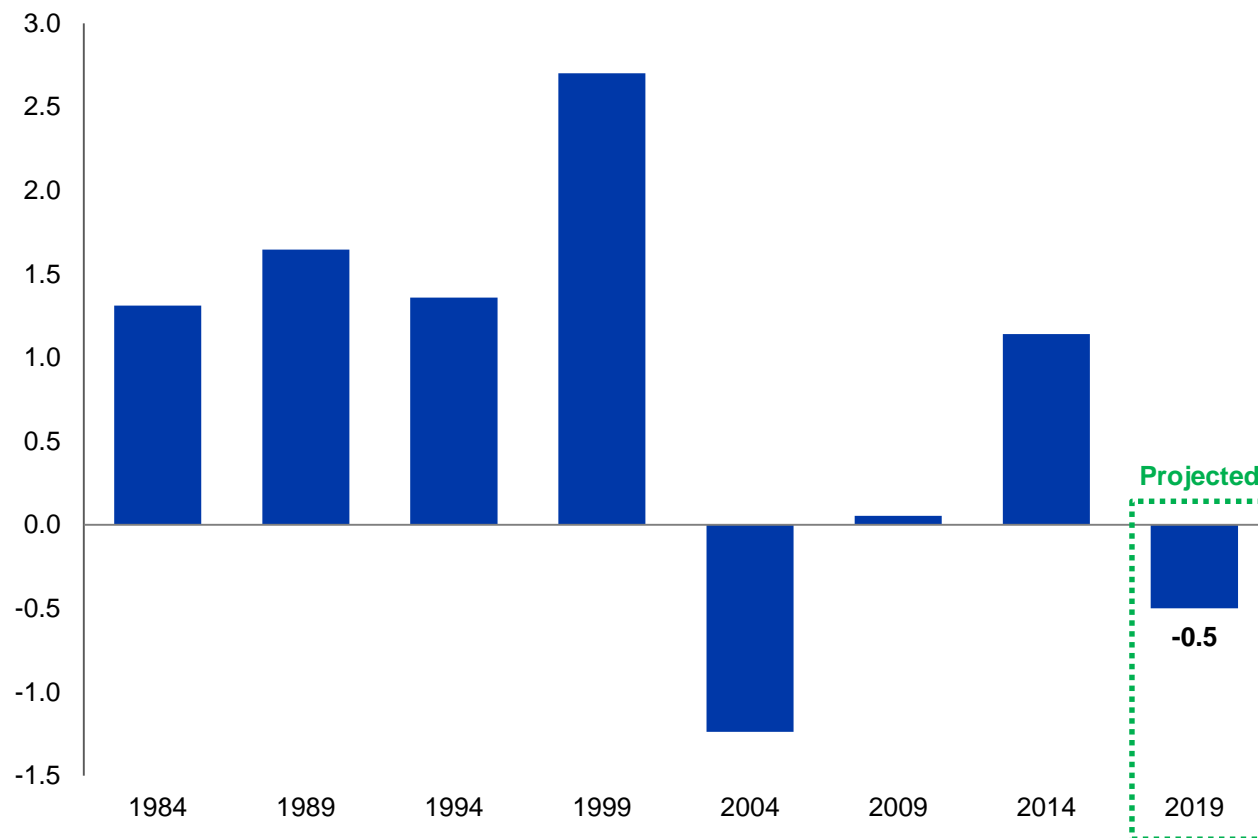


# Recent Budget Review Law was prudent



## Change in Fiscal Deficit on election years

(In % of GDP from previous year – Consolidated Public Sector)



Source: Ministry of Economy and Finance



Port of Montevideo

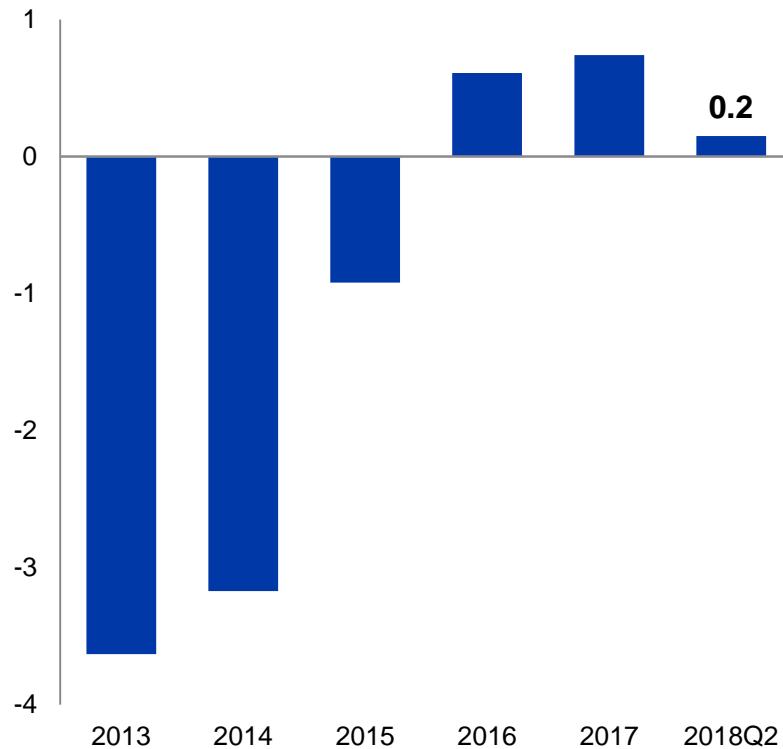
## Robust External Sector



# Improvement of external accounts

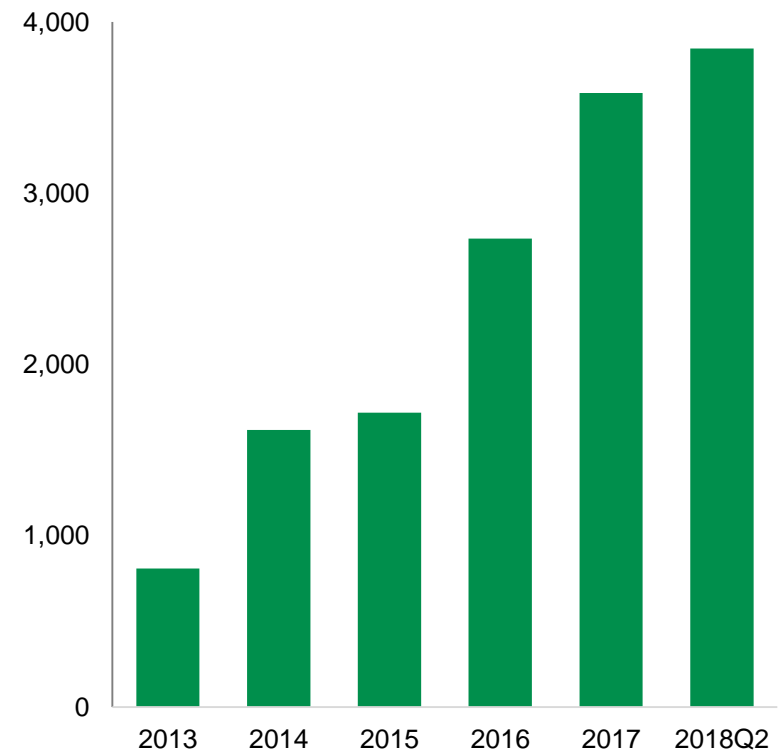
## Current Account Balance

(Last 12 months, in % of GDP)



## Trade Balance in Goods & Services

(Last 12 months, in USD million)



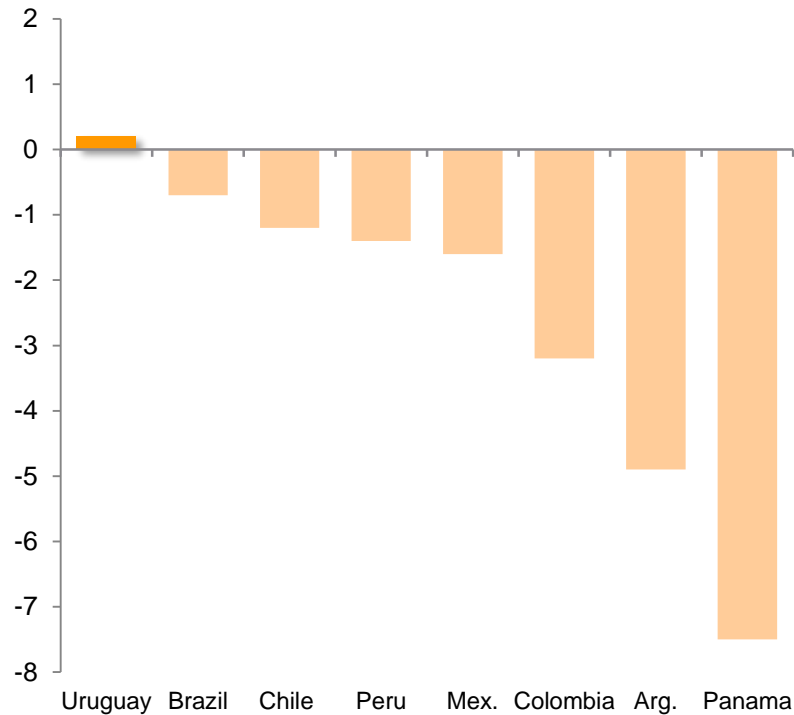
Source: Central Bank of Uruguay



# Solid external buffers

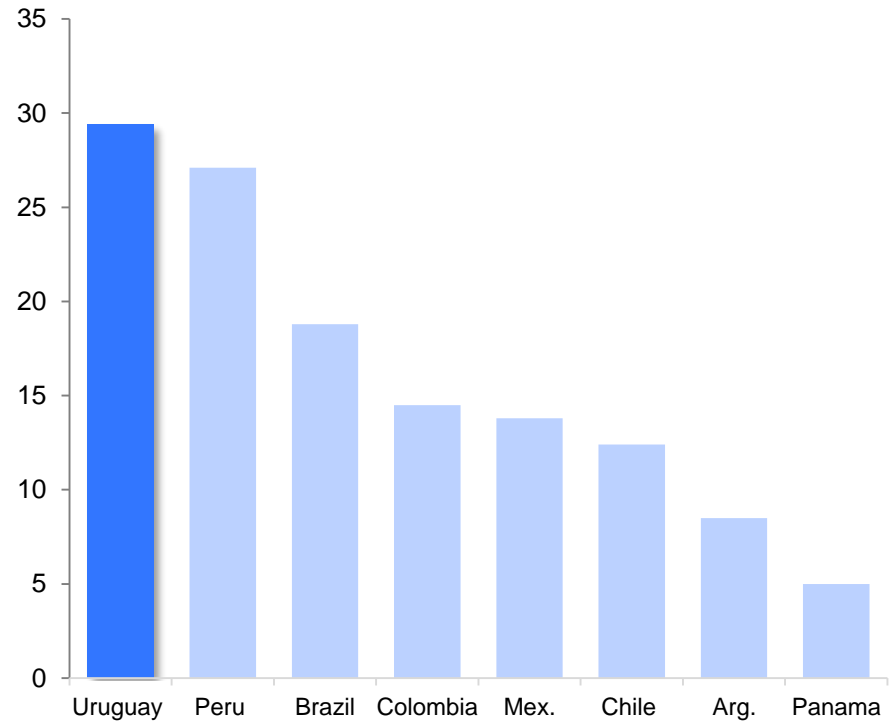
## Current Account Balance compared to LATAM

(Last 12 months to 2018Q2, in % of GDP)



## International Reserves compared to LATAM

(As of June 2018, in % of GDP)



**Source:** Central Bank of Uruguay; Central Bank of Mexico and National Bureau of Statistics and Geography of Mexico; National Bureau of Statistics and Censuses (INDEC) of Argentina; Central Bank of Brazil; Central Bank of Colombia; Central Reserve Bank of Peru; Central Bank of Chile; National Bureau of Statistics and Censuses of Panama.

# Nominal Exchange depreciation in line with other Emerging Markets



## Nominal Exchange Rate

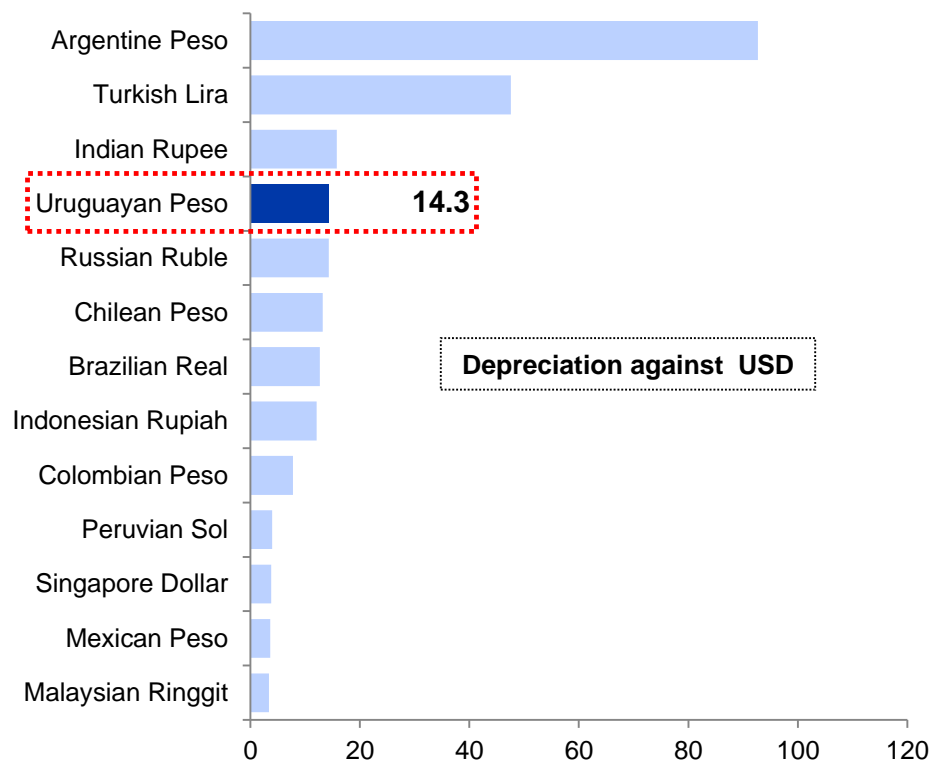
(pesos per USD; daily)



Source: Central Bank of Uruguay

## Emerging Market Currencies vs USD

(2018 YTD change as of 10/30, in %)



Depreciation against USD

Source: Bloomberg

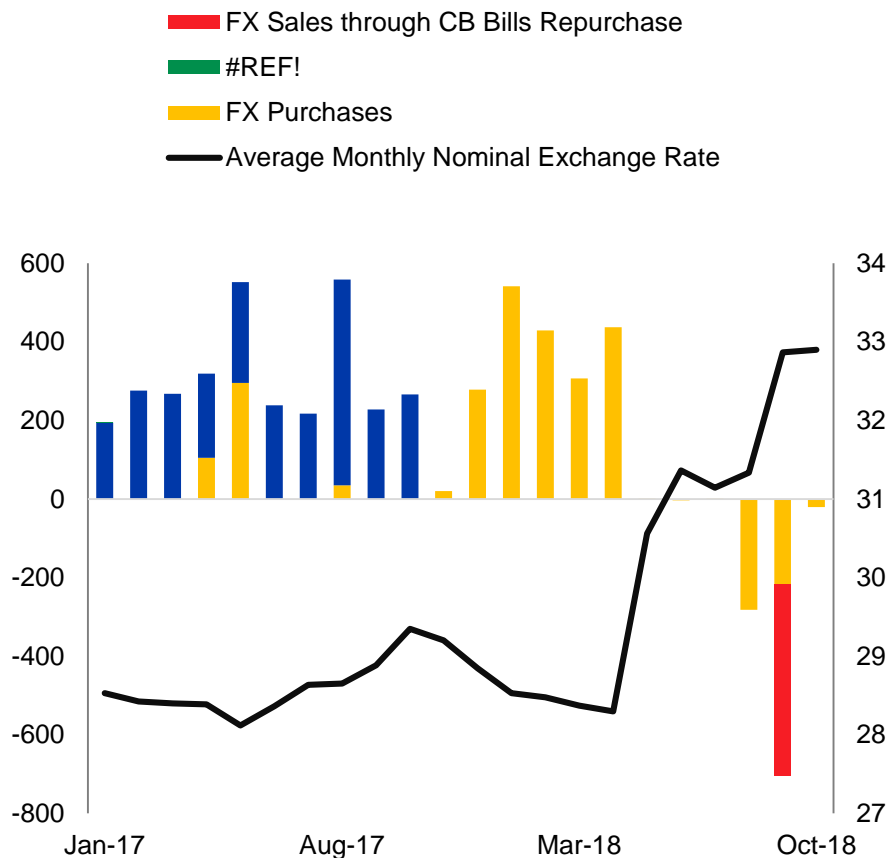


# Central Banks has intervened on both sides of the FX market to smooth out undue volatility



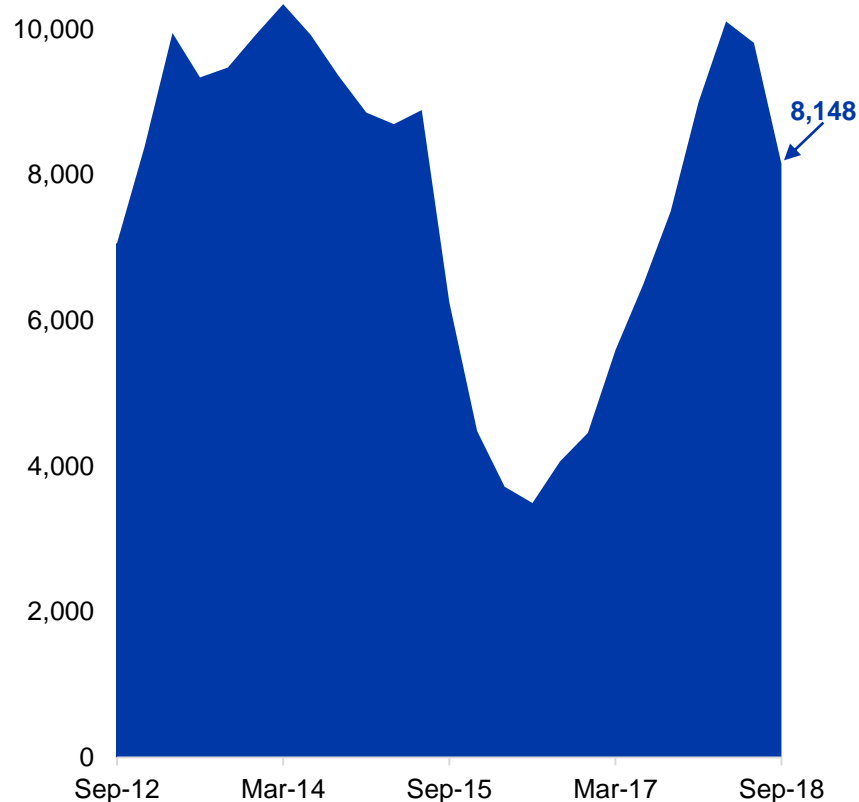
## Central Bank FX Intervention

(In USD million)



## Stock of Central Bank Bills

(In USD million)

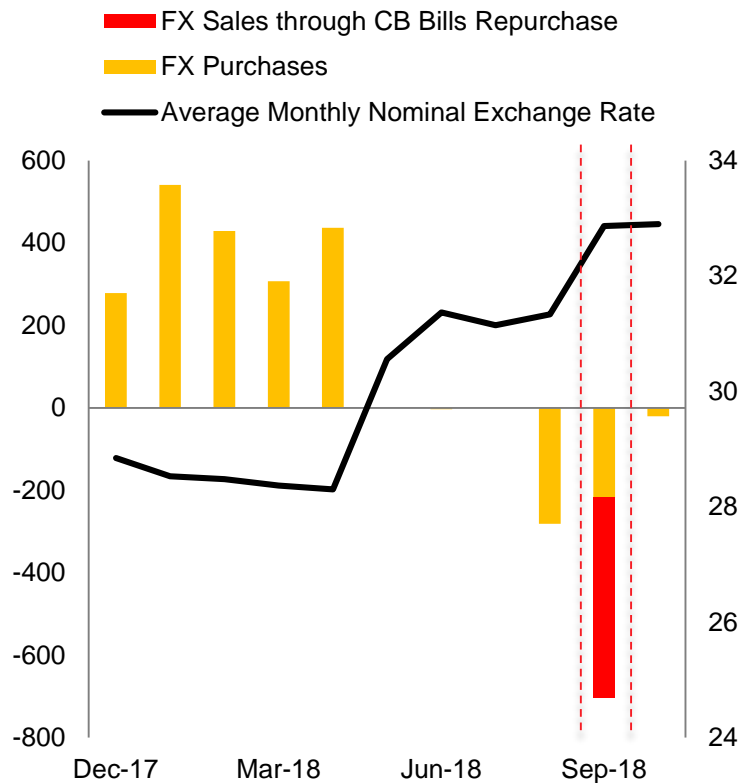


During the regional sell-off, the Central Bank (CB) sold dollars in exchange for local-currency CB bills, mostly tendered by Pension Funds (PF). This allowed PF to buy-up global nominal peso government bonds, allowing for an orderly unwinding of non-resident positions by increasing liquidity during financial stress



### Central Bank FX Intervention

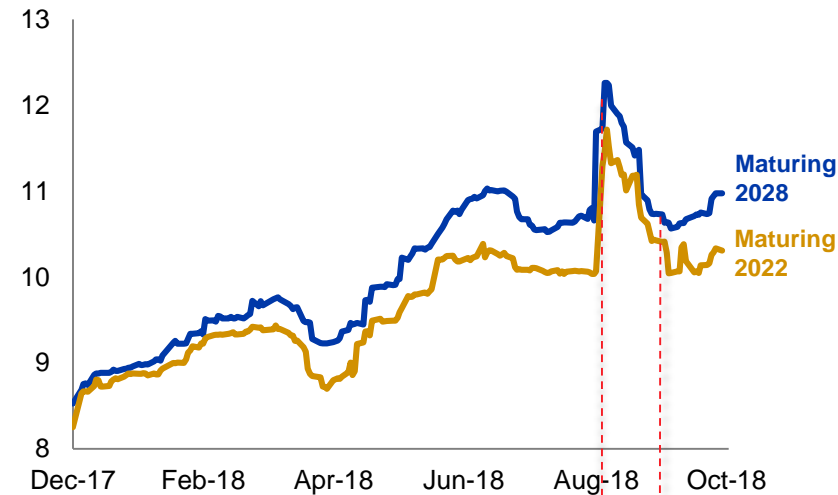
(In USD million)



Source: Central Bank of Uruguay

### Yield of Nominal Peso (UYU) Bonds

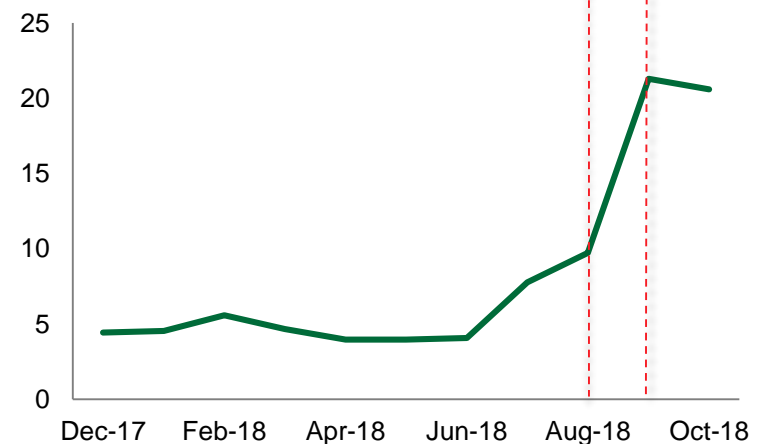
(In %)



CB Bills  
Repurchase  
implication  
→

### Residents' Holdings of UYU Bonds

(In % of total outstanding)



Source: Bloomberg  
(upper); Ministry of  
Economy and Finance  
(below)



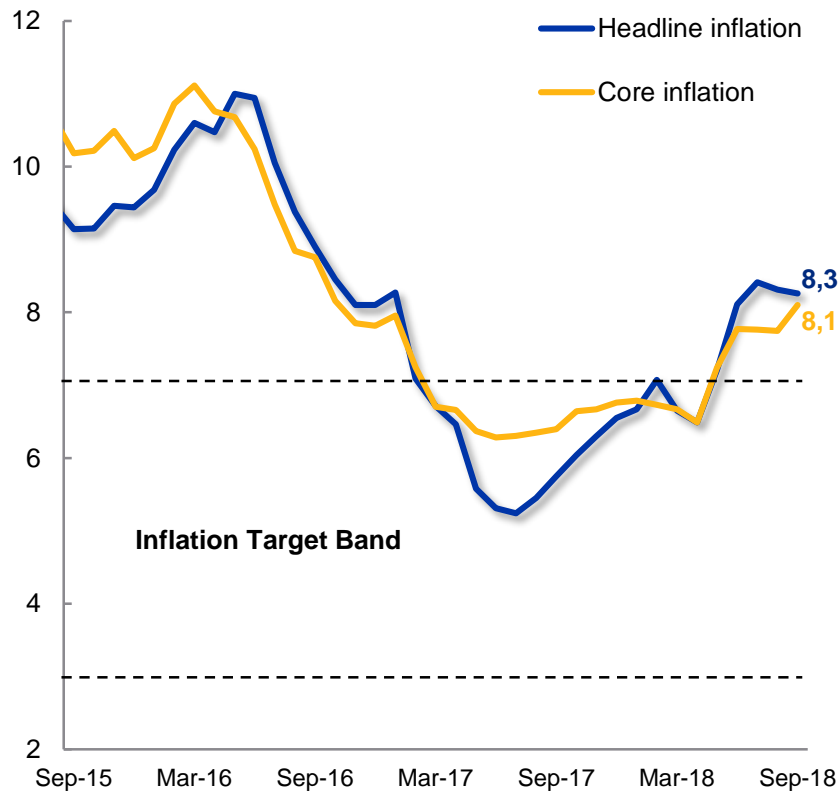
## **Inflation and Wage Developments**

# Inflation has hovered around the upper ceiling of inflation target band



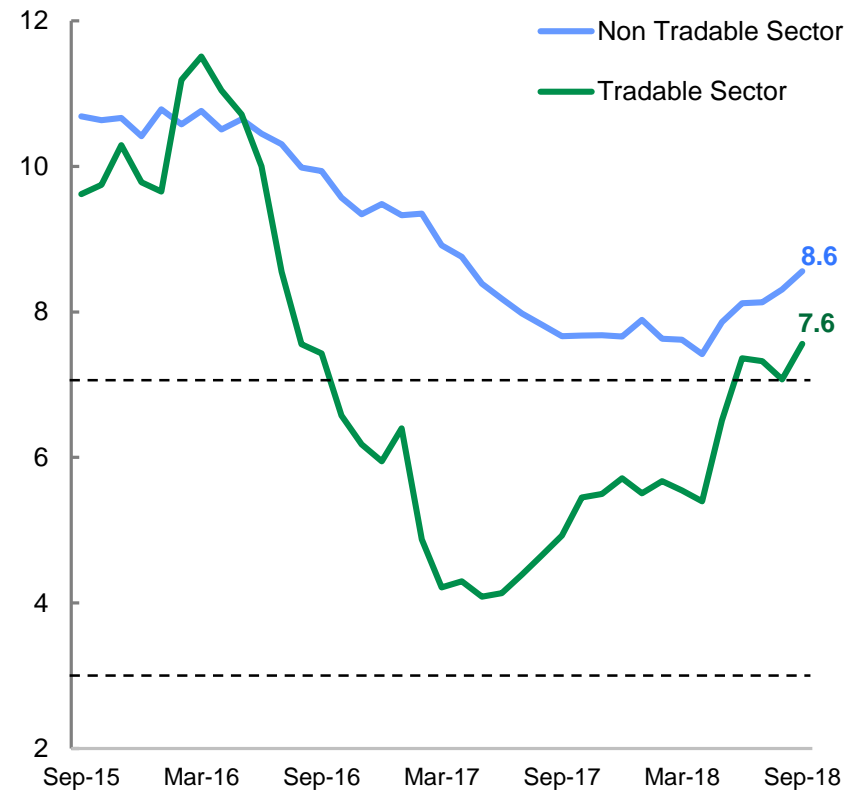
## Inflation

(Annual, in %)



## Tradable and Non-Tradable Inflation

(Annual, in %)



Source: National Bureau of Statistic & Central Bank of Uruguay

# Deceleration in nominal wage growth reflects wage-setting guidelines that reduced indexation



## Government's guidelines for 2018 wage negotiations

(Annual increases in nominal wages, in %)

### Economic sector's situation:

Year	Laggard	Intermediate	Dynamic
2018	6.5	7.5	8.5
2019	6.0	7.0	8.0
2020	5.0	6.0	7.0

- As of September, 23 out of 170 arrangements have been completed. Of these, 21 followed Government's Guidelines.
- Among these are the Construction and Health Sector, that together account for 21.6% of aggregate salaries.
- Regarding their classification, 17% were classified as Dynamic, 70% as Intermediate and 13% as part of the Laggard sector.

Source: Ministry of Economy and Finance and Ministry of Labour and Social Security



*bank*

**Solid Financial Sector**

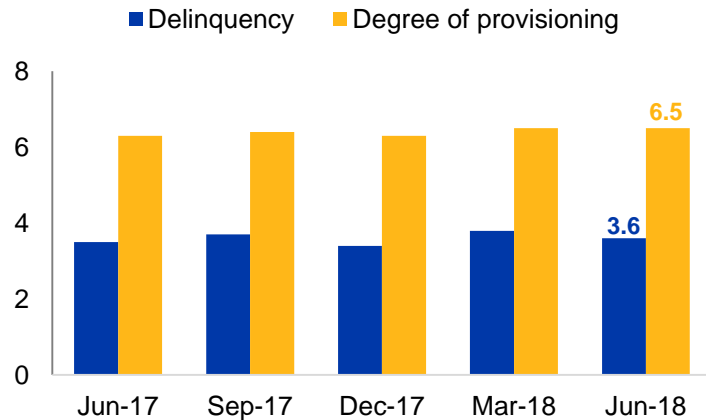


# Over and above, the financial system as a whole enjoys excellent health



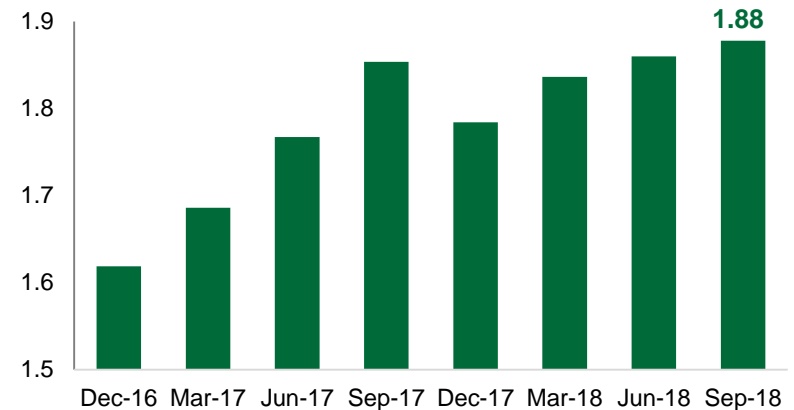
## Non-Performing Loans and Degree of Provisioning

(Local and Foreign currency, in %)



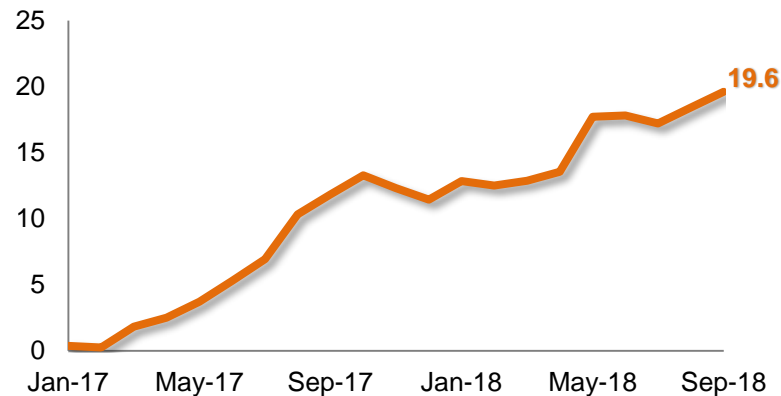
## Solvency Profile

(Number of times of the minimum regulatory capital)



## Return on Equity

(Last 12 months, in %)







Solís Theatre

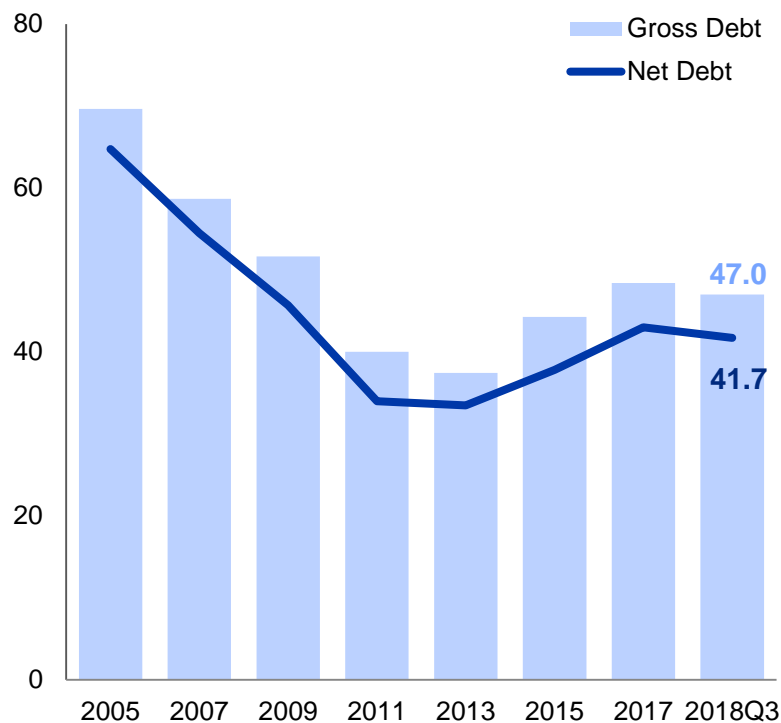
# Structure of Government Debt and Precautionary Pre-Funding

# Proactive debt management reduced FX exposure which mitigates higher volatility risks



## Central Government (CG) Debt

(In % of GDP, end-period)



## Currency and Maturity Composition of CG Debt

(End-period)



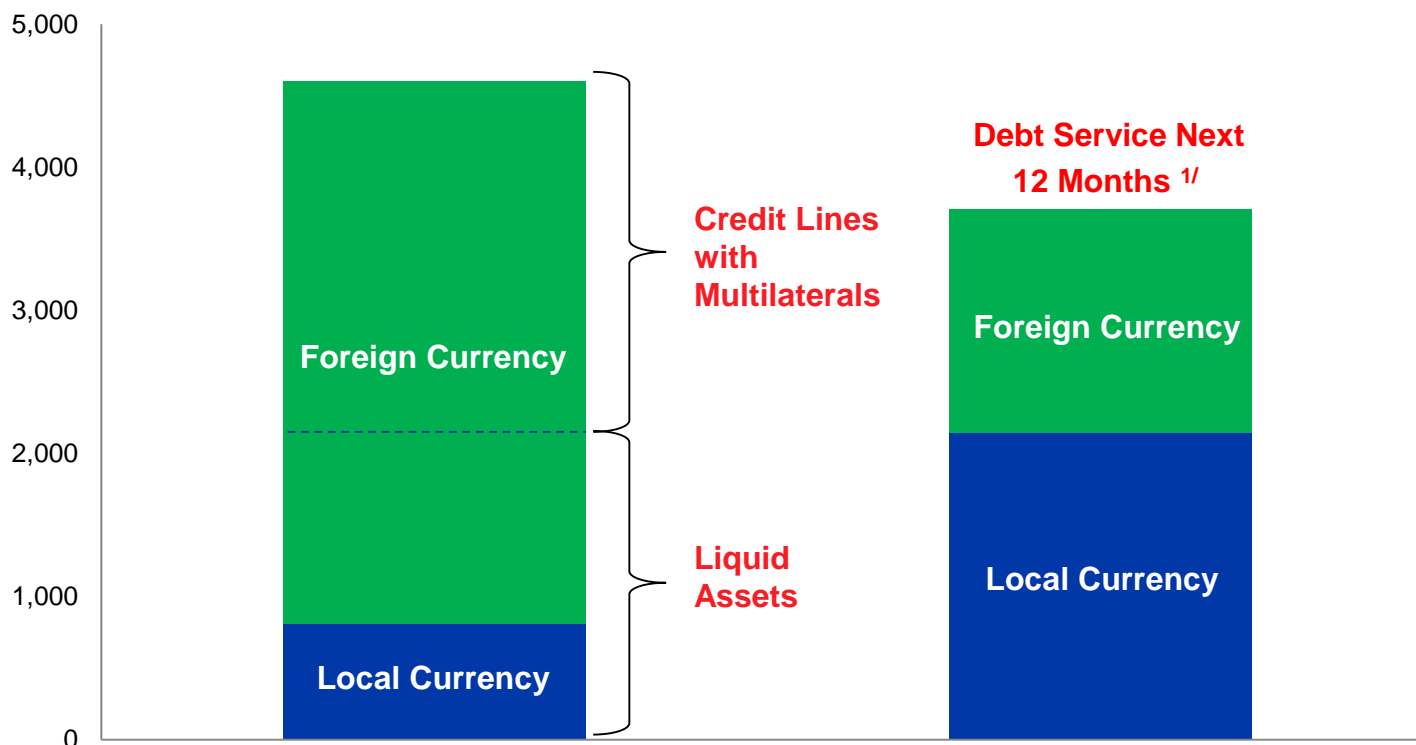
Source: Debt Management Unit, Ministry of Economy and Finance

# Pre-funding policy of Government limits roll-over and FX risks



## Government's Financial Buffers and Debt Service Obligations <sup>1/</sup>

(In USD million, as of September 2018)



<sup>1/</sup> Debt Service includes amortization plus interest payments

# Central Government's flow of funds



## Uses and Sources of Funds

(In USD million)

	2018(*)	2019(*)
<b>FINANCING NEEDS</b>	<b>3,352</b>	<b>3,012</b>
Interest Payments	1,640	1,647
Amortization (a)	1,658	1,580
Primary Deficit (b)	54	-215
<b>FUNDING SOURCES</b>	<b>3,352</b>	<b>3,143</b>
Multilateral Disbursements	360	350
Total Bond Issuance	2,700	2,950
Foreign market	1,750	•
Domestic market	950	•
Net Others	165	180
Use of Assets (c)	127	-467

(\*) Preliminary

(a) Includes repurchases and early bond redemptions for USD 217 million in 2018.

(b) Negative value indicates a primary surplus of the Central Government.

(c) Positive indicates a reduction in Central Government reserves.





Montevideo Port

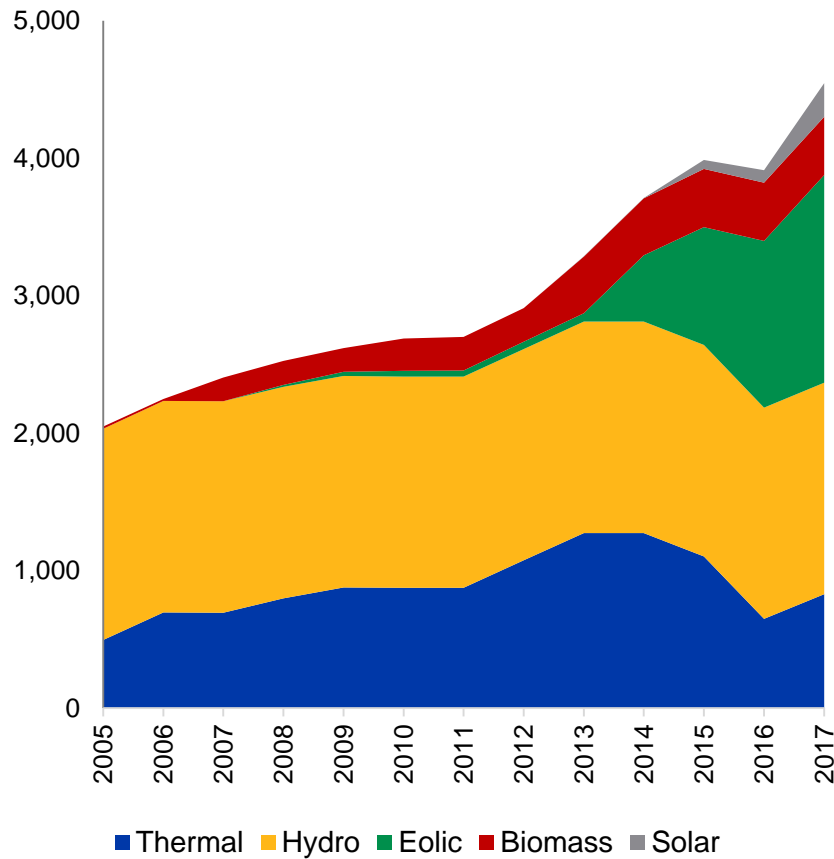
**Transformational infrastructure and energy policies underpin medium-term outlook**

# Uruguay is going green, diversifying its energy mix towards renewable sources and reducing fiscal risks



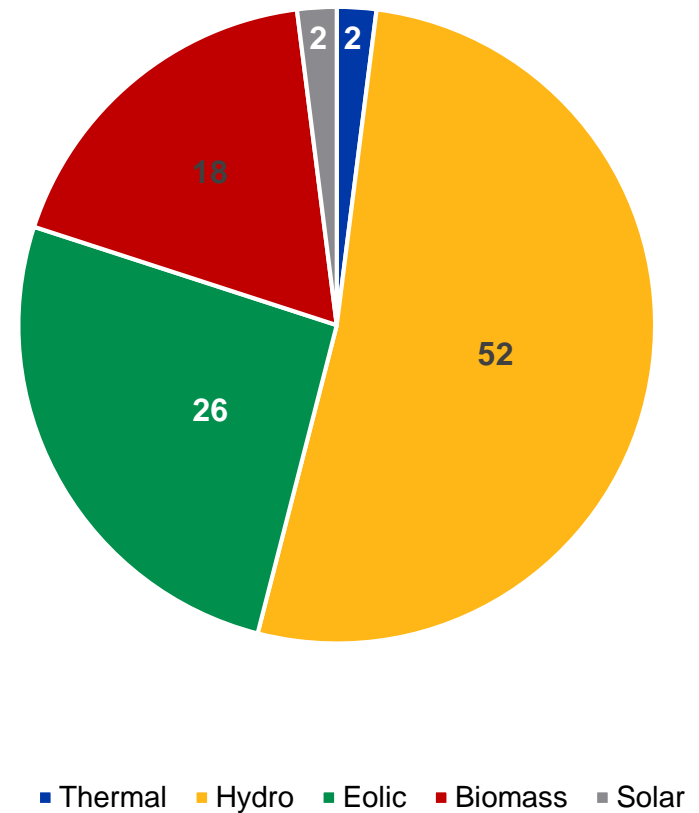
## Installed Capacity in MW

(According to generation source)



## Electricity Generation Matrix 2017

(By generation source, in % of total)



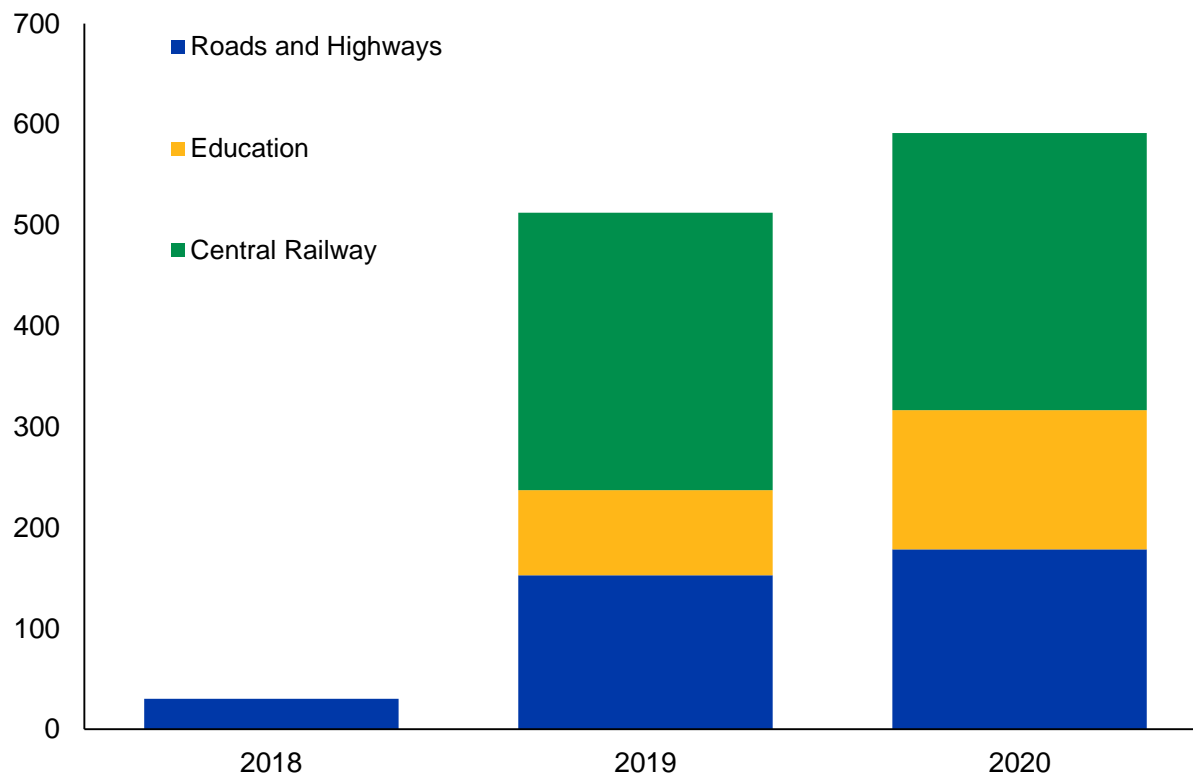
Source: Ministry of Industry, Energy and Mining

# Increasing investment as the PPP program matures



## Executed PPP investment and pipeline of projects

(In USD million)



Source: PPP Unit, Ministry of Economy and Finance



# Central Railway Project poised to start early 2019



- 273 km of railways between the port of Montevideo and the city of Paso de los Toros (located in the centre of the country).
- Planned investment: USD 825 million
- Employment to more than 1,000 people.
- Transportation of 4.5 million tons per year.

# Investment and infrastructure plans are key to establish foundations for long term economic growth



## Second UPM pulp mill will imply:

- Largest investment in Uruguay's history
- Estimated to lead to a permanent GDP increase of 2%

